THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular is for your information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities.

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, your stockbroker or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in CITIC 21CN Company Limited (the "Company"), you should at once hand this circular to the purchaser or transferee or the licensed securities dealer or registered institution in securities or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

CITIC 21CN
中信 21世紀

CITIC 21CN COMPANY LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 241)

SUBSCRIPTION OF NEW SHARES AND WHITEWASH WAIVER

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

中國銀河國際
CHINA GALAXY INTERNATIONAL

A letter from the Board is set out on pages 6 to 20 of this circular. A letter from the Independent Board Committee containing its advice to the Independent Shareholders is set out on page 21 of this circular. A letter from China Galaxy, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 43 of this circular.

A notice convening a special general meeting (the "**SGM**") of the Company to be held at Units 614–616, Level 6, Core D, Cyberport 3, 100 Cyberport Road, Hong Kong on Monday, 7 April 2014 at 10:30 a.m. is set out on pages 117 to 118 of this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying proxy form in accordance with the instructions printed thereon and deposit the same at the office of the Company's share registrar, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or adjournment thereof. Completion and return of the proxy form will not prevent you from attending and voting at the SGM if you so wish.

21 March 2014

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meaning:

"acting in concert"	has the meaning ascribed to this term under the Takeovers Code
"Affiliate"	in respect of any specified person, any other person directly or indirectly Controlling or Controlled by or under direct or indirect common Control with such specified person
"Alibaba Group"	a group of companies comprising Alibaba Holding and its Subsidiaries, details of which are set out in the section headed "Information on the Subscriber" of this circular
"Alibaba Holding"	Alibaba Group Holding Limited, a company incorporated in the Cayman Islands
"Announcement"	the announcement dated 23 January 2014 of the Company regarding, among other things, the Subscription Agreement and the Whitewash Waiver
"Articles"	the Company's articles of association from time to time
"Board"	the board of directors of the Company
"Business Day"	a day (other than a Saturday or Sunday or public holiday in Hong Kong and any day on which a tropical cyclone warning no. 8 or above or a "black" rain warning signal is hoisted in Hong Kong) on which commercial banks are open for business in the city in which the specified office of the registrar is located and in Hong Kong and the PRC
"China Galaxy" or "Independent Financial Adviser"	China Galaxy International Securities (Hong Kong) Co., Limited, a corporation licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription and the Whitewash Waiver
"CITIC 21CN Telecom"	CITIC 21CN Telecom Company Limited, an indirect wholly-owned Subsidiary of the Company, incorporated in Hong Kong
"Company"	CITIC 21CN Company Limited, a company incorporated in Bermuda, the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the Subscription in accordance with the terms and conditions of the Subscription Agreement
"Completion Date"	the date of Completion, which shall be the seventh Business Day after the Unconditional Date, or on such other date as the parties may agree

"Control"	in relation to an undertaking: (a) the power to direct the exercise of a majority of the voting rights capable of being exercised at a general meeting of that undertaking; (b) the right to appoint or remove a majority of the board of directors (or corresponding officers) of that undertaking; or (c) the right to exercise a dominant influence over that undertaking by virtue of provisions contained in its constitutional documents or under a control contract or otherwise; in each case, either directly or indirectly and Controlled and Controlling shall be construed accordingly
"Directors"	members of the board of directors of the Company
"Executive"	the Executive Director of the Corporate Finance Division of the SFC, or any delegate of the Executive Director
"Extended Longstop Date"	a new extended Longstop Date that the Subscriber may determine at any time up to five Business Days prior to the Longstop Date, provided that such date shall not be more than 60 days after the Longstop Date, which, as per notice of the Subscriber given to the Company on 20 March 2014, has been determined as 10 April 2014.
"Group"	the Company and each of its Subsidiaries from time to time, together with 中信國檢信息技術有限公司 (China Credit Information Technology Company Limited*), a company 50%-owned by the Company, incorporated in the PRC, 北京鴻聯九五信息產業有限公司 (Beijing Honglian 95 Information Industries Company Limited*), a PRC incorporated joint venture which is 49%-owned by the Company and 東方口岸科技有限公司 (Dongfang Customs Technology Company Limited*), a PRC incorporated joint venture which is 30%-owned by the Company
"Group Company"	a member of the Group from time to time
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent board committee, which comprises all the independent non-executive Directors, namely Dr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jianming and Dr. Long Junsheng, to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the Subscription and the Whitewash Waiver

"Independent Shareholders"	shareholders other than the Subscriber, its associates and the parties acting in concert with it and other Shareholders, including Ms. Chen and her associates (including Uni-Tech International Group Limited), who are interested or involved in the Subscription and the Whitewash Waiver
"Independent Third Party(ies)"	third party(ies) independent of the Company and connected persons (as defined in the Listing Rules) of the Company
"Innovare"	Innovare Tech Limited, a company incorporated under the laws of British Virgin Islands, which is an investment vehicle and a 100% controlled subsidiary of Yunfeng Fund II, L.P.
"Interim Results"	the unaudited consolidated results of the Group for the 6 months ended 30 September 2013 published on 6 December 2013
"Joy Heaven"	Joy Heaven Incorporated, a wholly-owned Subsidiary of the Company, incorporated in the British Virgin Islands
"Last Trading Day"	15 January 2014, being the last trading day before the entering into of the Subscription Agreement
"Latest Practicable Date"	18 March 2014 being the latest practicable date for ascertaining information contained in this circular prior to printing
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"Longstop Date"	31 March 2014
"Material Adverse Effect"	any event, circumstance or effect or any combination of them which is, or which could objectively reasonably be expected to be, materially adverse to (i) the business, operations, business results or financial condition of the Group taken as a whole or (ii) the ability of the Company to perform its obligations under the Subscription Agreement, excluding in any such case, any event, circumstance or effect resulting from the following or any combination of the following: (a) performance of obligations under, or compliance with, the terms and conditions of the Subscription Agreement; or (b) pandemics, earthquakes, hurricanes, tornadoes or other natural disasters, or fire, war, riot, terrorism or similar force majeure events, provided that any such events do not disproportionately and substantially affect the Group in any material respect
"Ms. Chen"	Chen Xiao Ying, who is an executive director of the Company

"Ms. Chen Shares"	the 784,937,030 Shares held by Uni-Tech International Group Limited (representing approximately 21.11% of the issued share capital of the Company) which is a wholly-owned subsidiary of 21 CN Corporation which, in turn, is a wholly-owned subsidiary of Pollon Internet Corporation, a company wholly-owned by Ms. Chen
"Parties"	the Company, the Subscriber and Ms. Chen
"PIATS"	Product Identification, Authentication, Tracking System
"PRC"	the People's Republic of China
"Relevant Period"	the period beginning six months prior to the date of the Announcement and up to the Latest Practicable Date
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held at Units 614–616, Level 6, Core D, Cyberport 3, 100 Cyberport Road, Hong Kong on Monday, 7 April 2014 at 10:30 a.m. consider, and if thought fit, pass the resolutions to approve, among other things, (i) the Subscription, and (ii) the Whitewash Waiver
"Share(s)"	ordinary shares with a par value of HK$0.01 each in the capital of the Company (which include ordinary shares of the Company listed on the Stock Exchange) or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscriber"	Perfect Advance Holding Limited, a company incorporated in the British Virgin Islands and an indirectly wholly-owned Subsidiary of Alibaba Holding
"Subscription"	the subscription for the Subscription Shares subject to the terms and conditions of the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 23 January 2014 and entered into between the Company, Ms. Chen and the Subscriber

"Subscription Price"	the share subscription price of HK$0.30 per Subscription Share
"Subscription Shares"	subject to the fulfilment of the conditions precedent and the terms of the Subscription Agreement, 4,423,175,008 newly issued Shares to be subscribed by the Subscriber at Completion
"Subsidiary"	includes, in relation to any person: (i) any company or business entity of which that person owns or controls (either directly or through one or more other subsidiaries) more than 50% of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or business entity; (ii) any company or business entity of which that person owns or controls (either directly or through one or more other subsidiaries) not more than 50% of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or business entity but effectively controls (either directly or through one or more other Subsidiaries) the management or the direction of business operations of such company or business entity; and (iii) any company or business entity which at any time has its accounts consolidated with those of that person or which, under Hong Kong law or any other applicable law, regulations or the Hong Kong Financial Reporting Standards or such other applicable generally accepted accounting principles from time to time, should have its accounts consolidated with those of that person
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers (as amended and supplemented from time to time)
"Unconditional Date"	the date on which all the conditions to completion have been satisfied (or waived) in accordance with the Subscription Agreement
"Whitewash Waiver"	a waiver from the Executive pursuant to Note 1 on the Dispensations from Rule 26 of the Takeovers Code in respect of the obligations of the Subscriber to make a mandatory general offer for all of the Shares not already owned or agreed to be acquired by the Subscriber or parties acting in concert with it which would, if the Subscription proceeds, otherwise arise as a result of the issue of the Subscription Shares to the Subscriber upon Completion
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

* *For identification purpose only*

CITIC 21CN
中信 21世紀

CITIC 21CN COMPANY LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 241)

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

Independent non-executive Directors:
Dr. Hui Ho Ming, Herbert, JP
Mr. Zhang Jianming
Dr. Long Junsheng

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal Place of Business:
Units 614-616, Level 6
Core D, Cyberport 3
100 Cyberport Road
Hong Kong

21 March 2014

To the Shareholders

Dear Sir or Madam,

SUBSCRIPTION OF NEW SHARES
AND
WHITEWASH WAIVER

INTRODUCTION

On 23 January 2014, the Company announced that it had entered into the Subscription Agreement, pursuant to which the Subscriber agreed to subscribe in cash and the Company agreed to allot and issue 4,423,175,008 Subscription Shares at the Subscription Price of HK$0.30 per Subscription Share, subject to the terms and conditions of the Subscription Agreement.

The purpose of this circular is to provide you with, among other things, (i) further information regarding the Subscription and the Whitewash Waiver, (ii) the recommendations of the Independent Board Committee to the Independent Shareholders in relation to the Subscription and the Whitewash Waiver, (iii) the letter of advice from China Galaxy to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Subscription and the Whitewash Waiver, and (iv) the notice of the SGM.

THE SUBSCRIPTION AGREEMENT

Parties

Issuer:	CITIC 21CN COMPANY LIMITED, a company incorporated in Bermuda with limited liability, the issued Shares of which are listed on the Stock Exchange
Subscriber:	PERFECT ADVANCE HOLDING LIMITED, a company incorporated in the British Virgin Islands with limited liability
Ms. Chen:	CHEN XIAO YING, an executive director of the Company

The Subscription

Pursuant to the Subscription Agreement, the Subscriber has conditionally agreed to subscribe for 4,423,175,008 Subscription Shares.

The Subscription Price is HK$0.30 per Subscription Share. The aggregate consideration for the Subscription, being HK$1,326,952,502, shall be payable by the Subscriber in cash on Completion.

Number of Subscription Shares

Pursuant to the Subscription Agreement, 4,423,175,008 Subscription Shares will be allotted and issued to the Subscriber. The Subscription Shares represent approximately 118.95% of the issued share capital of the Company as at the Latest Practicable Date and approximately 54.33% of the issued share capital of the Company as enlarged by the allotment and issue of such Subscription Shares.

Subscription Price

The Subscription Price of HK$0.30 per Subscription Share represents:

(i) a discount of approximately 28.57% to the closing price of HK$0.420 per Share as quoted on the Stock Exchange on 23 July 2013, being the day six months prior to the date of the Announcement;

(ii) a discount of approximately 63.86% to the closing price of HK$0.830 per Share as quoted on the Stock Exchange on 15 January 2014, being the Last Trading Day;

(iii) a discount of approximately 94.39% to the closing price of HK$5.350 per Share as quoted on the Stock Exchange on 18 March 2014, being the Latest Practicable Date;

(iv) a discount of approximately 61.83% to the average closing price of approximately HK$0.786 per Share as quoted on the Stock Exchange for the last five consecutive trading days immediately prior to the entering into of the Subscription Agreement;

(v) a discount of approximately 61.24% to the average closing price of approximately HK$0.774 per Share as quoted on the Stock Exchange for the last ten consecutive trading days immediately prior to the entering into of the Subscription Agreement; and

(vi) a premium of approximately 218.81% to the unaudited consolidated net asset value attributable to the Shareholders per Share of approximately HK$0.0941 per Share as at 30 September 2013, being the date of the latest Interim Results, without taking into account the Subscription.

The Subscription Price and the total number of Subscription Shares (and the total subscription amount) were arrived at after arm's length negotiations among the Company and the Subscriber whereby (i) the Subscription Price was arrived at with reference to the unaudited consolidated net asset value attributable to the Shareholders per Share of approximately HK$0.0941 per Share as at 30 September 2013 (representing approximately 31.37% of the Subscription Price) as well as the strategic value and industry and operational expertise of the Subscriber and its Affiliates, the liquidity, and the financial performance of the Company, and (ii) based on the Subscription Price so agreed, the total number of Subscription Shares was arrived at with reference to the intended shareholding of the Subscriber upon Completion, taking into account, among other factors, that, upon Completion, the Subscription Shares should represent more than 50% of the total issued share capital of the Company (as enlarged by the issue of the Subscription Shares), the Ms. Chen Shares should represent not significantly less than 10% of the total issued share capital of the Company (as enlarged by the issue of the Subscription Shares), and the Subscription should not cause the Company to breach the minimum 25% public float requirement under the Listing Rules. The Directors (including the Independent Board Committee after taking the advice of the Independent Financial Adviser) consider that the terms of the Subscription are fair and reasonable and on normal commercial terms and the entering into of the Subscription Agreement is in the interests of the Shareholders as a whole.

Ranking of the Subscription Shares

The Subscription Shares, when allotted and issued, will rank *pari passu* in all respects among themselves and with the Shares in issue as at the date of allotment and issue of the Subscription Shares, including the right to receive all future dividends and distributions which may be declared, made or paid by the Company on or after the date of allotment and issue of the Subscription Shares.

Mandate to issue the Subscription Shares

The Subscription Shares will be allotted and issued pursuant to a specific mandate proposed to be sought from the Shareholders at the SGM.

Conditions of the Subscription

Completion is conditional upon satisfaction (or waiver) of the following conditions precedent:

(a) The Company shall have obtained all necessary approvals for the Subscription as required under the Articles, applicable laws and the Listing Rules, including:

  (i) the passing by the requisite majority of Shareholders or Independent Shareholders (as appropriate) at the SGM of all resolutions required under relevant laws and regulations, including pursuant to the Listing Rules and the Takeovers Code, in respect of, among other things, the specific mandate for the allotment and issue of the Subscription Shares and the Whitewash Waiver as well as the election of the Subscriber's nominees as executive Directors of the Company, effective upon Completion; and

  (ii) the granting of the approval for the listing of, and permission to deal in the Subscription Shares by the Listing Committee of the Stock Exchange.

(b) The Subscriber shall have completed its due diligence of the Group to its satisfaction within 45 Business Days after the date of the Subscription Agreement (or such later date as determined by the Subscriber at its sole discretion).

(c) All executive Directors of the Company who are in office as of the date of the Subscription Agreement except for Ms. Chen shall have resigned from their positions as Directors with effect from the Completion Date.

(d) CITIC 21CN Telecom, an indirectly wholly-owned Subsidiary of the Company, shall have become directly wholly-owned by Joy Heaven, a wholly-owned Subsidiary of the Company, as an internal corporate restructuring step of the Group to streamline the corporate structure of the Group.

(e) There shall not have been a Material Adverse Effect on the Group Companies prior to the Completion Date.

(f) There shall not have been an injunction, interim or otherwise, having been granted in respect of the Company which would prohibit the Company from entering into and performing its obligations under the Subscription Agreement.

(g) The Executive shall have granted the Whitewash Waiver to the Subscriber and parties acting in concert with it, any condition attached to the Whitewash Waiver being granted shall have been satisfied, and the Whitewash Waiver shall not have been revoked or withdrawn.

(h) The customary warranties given by the Company including, without limitation, the warranties regarding the due incorporation of the Group Companies, the Company's power and authority to enter into the Subscription Agreement, capital structure of the Company, compliance with laws and regulations by the Group and absence of undisclosed liabilities and obligations, shall continue to be true, accurate and complete in all material respects as of the Completion Date.

(i) The customary warranties given by the Subscriber including, without limitation, the warranties regarding the due incorporation of the Subscriber, its power and authority to enter into the Subscription Agreement and its relationship with the Company and its connected person, shall continue to be true, accurate and complete in all material respects as of the Completion Date.

The Subscriber may at any time by notice in writing to the other parties waive any of the conditions set out in (b)–(e) and (h) above. The Company may at any time by notice in writing to the other parties waive the condition set out in (i) above. The conditions set out in (a), (f) and (g) are not waivable by either party. Hence, among other things, if the Whitewash Waiver is not granted by the Executive or approved by the Independent Shareholders at the SGM, the Subscription will not proceed.

As at the Latest Practicable Date, the condition set out in (d) above has been fulfilled.

As of the Latest Practicable Date, the Company does not intend to waive the condition set out in (i) above.

Completion of the Subscription

Completion will take place on the seventh Business Day following the Unconditional Date, or on such other date as the parties may agree.

If the conditions precedent set out above have not been satisfied or waived on or before the Longstop Date, the Subscriber may either (i) terminate the Subscription Agreement with immediate effect, by written notice to the other parties five Business Days after the Longstop Date; or (ii) at any time up to five Business Days prior to the Longstop Date, at its sole discretion, extend the Longstop Date to any period not more than 60 days after the Longstop Date by written notice to the other parties. If the conditions precedent set out above have not been satisfied or waived by such Extended Longstop Date, then the Subscription Agreement (other than certain provisions designated as surviving provisions) shall automatically terminate.

The Subscriber also has the right to terminate the Subscription Agreement, notwithstanding the above, if condition (b) above is not satisfied to its satisfaction within 45 Business Days after the date of the Subscription Agreement (or such later date as determined by the Subscriber in writing at its sole discretion) by notice in writing to the other parties (to be given within 10 Business Days following the 45th Business Day after the date of the Subscription Agreement or following the later date determined by the Subscriber).

On 20 March 2014, the Subscriber has notified the Company that the Longstop Date shall be extended to 10 April 2014 and the deadline to satisfy condition (b) above shall be extended by 8 Business Days.

In the event of termination of the Subscription Agreement, the parties shall be released and discharged from their respective obligations under the Subscription Agreement (without prejudice to the rights and/or obligations of any party in respect of any prior breach).

Ms. Chen's Lock-up Undertaking

Pursuant to the Subscription Agreement, Ms. Chen has undertaken to the Subscriber that, for a period of three years following Completion, she shall not, and she shall procure her Affiliates not to (without the prior consent of the Subscriber), directly or indirectly:

(a) offer, pledge, sell, contract to sell, sell any option or contract or purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend or otherwise transfer or dispose of, the Ms. Chen Shares; or

(b) enter into a swap or other arrangement that would have (i) the same economic consequences as subparagraph (a) above or (ii) the effect of transferring to another party any of the economic benefits of ownership of the Ms. Chen Shares, for the purpose of hedging her or any of her Affiliate's economic or beneficial ownership in, or holdings of, the Ms. Chen Shares.

In addition, Ms. Chen has provided customary warranties and indemnities to the Subscriber under the Subscription Agreement including, without limitation, joint warranties with the Company regarding the due incorporation of the Group Companies, capital structure of the Company, compliance with laws and regulations by the Group and absence of undisclosed liabilities and obligations. As a security for her obligations under the Subscription Agreement, which include, without limitation, liability for breach of the warranties and indemnities described above, Ms. Chen has also undertaken to provide, on Completion, to the Subscriber a share charge over the Ms. Chen Shares for a period of 18 months from Completion.

Directors' Confirmation

The Directors are of the view that the Subscription Agreement does not (i) create any contractual rights or obligations between the Company and Ms. Chen which can be enforced against each other, and (ii) give the Company or Ms. Chen the right to claim against each other for any loss, liability, damages, costs or expenses suffered or incurred, directly or indirectly, as a result of or in connection with any breach of the Subscription Agreement.

OPTIONS, DERIVATIVES, WARRANTS AND OTHER SECURITIES CONVERTIBLE INTO THE SHARES

As at the Latest Practicable Date, the Company has 31,000,000 outstanding share options (exercisable into a total of 31,000,000 new Shares) at the exercise price of HK$3.175 per option, respectively. Save as disclosed above, the Company has no other outstanding warrants, options or securities convertible into Shares as at the Latest Practicable Date.

HIGHEST AND LOWEST SHARE PRICE

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK$7.370 on both 10 March 2014 and 11 March 2014 and HK$0.400 on 30 September 2013, respectively.

SUBSCRIBER'S DEALING AND INTEREST IN THE COMPANY'S SECURITIES

Save for the entering into of the Subscription Agreement, none of the Subscriber, its ultimate beneficial owners and parties acting in concert with any of them has dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into the Shares during the Relevant Period. As at the Latest Practicable Date, the Subscriber, its ultimate beneficial owners and parties acting in concert with any of them do not hold any Shares or other securities of the Company.

INFORMATION ON THE SUBSCRIBER

The Subscriber is a company incorporated in the British Virgin Islands and a (indirectly) wholly-owned subsidiary of Alibaba Holding, which is the controlling shareholder and ultimate beneficial owner of the Subscriber. Substantial shareholders (as defined in the Takeovers Code) of Alibaba Holding are SoftBank Corp., a company listed on the Tokyo Stock Exchange, and Yahoo! Inc. which (directly or indirectly) hold approximately 36% and 24%, respectively, of the shares in Alibaba Holding. Alibaba Group is a family of Internet-based businesses with a mission to make it easy for anyone to buy or sell goods and services anywhere in the world. Since its inception, it has developed leading businesses in consumer e-commerce, online payment, business-to-business marketplaces and cloud computing which include:

- **Taobao, a popular consumer-to-consumer online shopping platform**: Taobao Marketplace had around 760 million product listings as at March 2013;

- **Tmall.com, an open business-to-consumer online shopping platform**: As at March 2013, more than 70,000 international and Chinese brands have established retail storefronts on Tmall.com, and among those brands are UNIQLO, L'Oréal, adidas, P&G, Unilever, Gap, Ray-Ban, Nike and Levi's;

- **Alibaba.com, a global e-commerce platform for small businesses**: The platform, which now serves millions of buyers and suppliers from more than 240 countries and regions, showcases products ranging from raw materials to finished goods in more than 40 industry categories;

- **Alipay, a third-party online payment platform in China**: On 11 November 2013, Alipay set a record for the highest number of single day transactions, processing 171.3 million payments during the 24-hour period; and

- **Aliyun, a developer of platforms for cloud computing and data management**: It is committed to building the platform of choice for sharing data and offering data-centric cloud computing services, which includes data mining, data processing and data storage.

For the year ended 31 March 2013, the combined gross merchandise volume of Taobao Marketplace and Tmall.com exceeded RMB1 trillion.

Alibaba Group has expanded into new areas such as mobile applications, mobile operating system and Internet TV. The group is focused on fostering the development of an open, collaborative and prosperous e-commerce ecosystem that benefits consumers, merchants and economic development. Alibaba Group currently employs more than 20,000 people around the world and has more than 70 offices in Greater China, Singapore, India, the United Kingdom and the United States.

It is contemplated that, after the SGM but prior to Completion, Innovare, an investment vehicle and 100% controlled subsidiary of Yunfeng Fund II, L.P., will invest in the Subscriber and provide funding to the Subscriber. Yunfeng Fund II, L.P. is a Cayman Islands exempted limited partnership that primarily focuses on investments in the telecommunications, technology and media, consumer and retail and healthcare industries. Yunfeng Investment II, L.P. is the general partner of Yunfeng Fund II, L.P. As a result, it is expected that, on Completion, the Subscriber will be (indirectly or directly) owned as to 70.21% by Alibaba Group and as to 29.79% by Innovare.

It is contemplated that, subject to Innovare's investment into the Subscriber prior to Completion, the memorandum and articles of association of the Subscriber and the shareholders agreement to be entered into among the Subscriber and its shareholders will provide for certain provisions (as described below) pursuant to which the Subscriber shall hold 29.79% (or 1,317,570,045) of the Shares held by the Subscriber upon Completion for Innovare. Such 1,317,570,045 Shares (representing approximately 16.18% of the total issued share capital of the Company as enlarged by the Subscription) represent 29.79% of the Subscription Shares and as such are contemplated to equal the contemplated proportion of the shareholding of Innovare in the Subscriber. The contemplated subscription amount payable by Innovare to the Subscriber as consideration for the shares in the Subscriber to be issued to Innovare before Completion (representing the 29.79% share in the issued share capital of the Subscriber that Innovare is contemplated to hold on Completion) equals the aggregate amount of the Subscription Price payable by the Subscriber for such 1,317,570,045 Shares.

It is contemplated that the provisions of the memorandum and articles of association of the Subscriber and/or the shareholders agreement to be entered into among the Subscriber and its shareholders will provide for the following: Any voting rights attached to such 1,317,570,045 Shares held by the Subscriber for Innovare shall be voted by the Subscriber only as instructed by Innovare. Innovare will have a right to acquire (all but not part of) such 1,317,570,045 Shares in so far as Innovare will have a right to require, at any time following the expiry of nine months following Completion, the redemption by the Subscriber of all (but not part) of the shares held by Innovare in the Subscriber, in exchange for the transfer of such 1,317,570,045 Shares to Innovare (or its affiliates). Prior to the exercise of such redemption right by Innovare, the Subscriber will hold the 1,317,570,045 Shares for Innovare and be prohibited from disposing of such 1,317,570,045 Shares. Following the exercise of such redemption right and the acquisition of such 1,317,570,045 Shares by Innovare (or its affiliate), any disposal or transfer of such 1,317,570,045 Shares to a third party shall be subject to a right of first refusal in favour of the Subscriber.

In anticipation of, and consideration for, the contemplated investment by Innovare in the Subscriber as described above, the Subscriber has nominated Mr. Yu Feng, the founder and chairman, and a representative, of Yunfeng Fund II, L.P., for election as one of the Directors to be elected at the SGM, and Mr. Yu Feng has on 13 March 2014 been appointed as a director of the Subscriber to replace Ms. Wu Wei.

The contemplated investment by Innovare in the Subscriber is a contemplated arrangement among the Subscriber, its shareholder and Innovare to which the Company is not a party. Therefore, Completion is not subject to the condition precedent of such investment being completed before Completion.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, each of (i) the Subscriber, (ii) the ultimate beneficial owner of the Subscriber and (iii) Innovare is a party independent of the Company and the connected persons (as defined under the Listing Rules) of the Company.

As at the Latest Practicable Date, save for the Subscription, (i) the Subscriber and parties acting in concert with it (including Innovare and Yunfeng Fund II L.P.) do not hold, control or have direction over any outstanding options, warrants, or any securities that are convertible into Shares or any derivatives in respect of securities in the Company, or hold any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company; (ii) the Subscriber and parties acting in concert with it did not borrow or lend any relevant securities (as defined in Note 4 to Rule 22 of the Takeovers Code) in the Company; (iii) there is no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code (whether by way of option, indemnity or otherwise) which exist between the Subscriber, or the parties acting in concert with it or other associates of the Subscriber and any other persons; (iv) there is no agreement or arrangement to which the Subscriber or any party acting in concert with it is a party which relates to circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription and the Whitewash Waiver; and (v) none of the Subscriber or any party acting in concert with it have received any irrevocable commitment to vote for or against the Subscription or the Whitewash Waiver.

Except for the entering into of the Subscription Agreement, none of the Subscriber and parties acting in concert with it, including Innovare and Yunfeng Fund II, L.P., has dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into Shares, during the Relevant Period.

FUTURE DEVELOPMENT OF THE GROUP

The principal activities of the Group comprise, among other things, the provision of PIATS. PIATS utilises an electronic barcode monitoring system to provide product tracking, recall and enforcement information services to relevant authorities in the PRC and allow users such as end consumers to verify product information and origins. In return, the Group collects an annual subscription fee from its customers (being manufactures, distributors and retailers) for utilizing the PIATS platform. The PIATS barcodes are first attached onto the products by the manufacturers. As the products are distributed through the various distribution channels to the retailers, all the parties involved (i.e., the manufacturers, distributors and retailers) will scan the PIATS barcodes at each stage. When the products are sold to the end consumers, the PIATS barcodes will be scanned at the point-of-sale. Through this electronic barcode monitoring system, PIATS allows for better tracking and control of the production, distribution and sale of products. With the support of the relevant PRC authorities such as China Food and Drug Administration ("**CFDA**"), the application of PIATS is increasingly adopted by the drugs industry as the main electronic monitoring platform.

PIATS is the only electronic monitoring system for drug products available in the PRC and the performance and contribution of the Group's PIATS business had become increasingly important to the overall business and financial performance of the Group. However, due to the lack of resources and expertise in the past few years, the Group had focused its efforts only in the development of PIATS for electronic monitoring and tracking of drug products. Currently, its revenue stream is limited to subscription fees received from drug manufacturers, distributors and retailers for subscribing to PIATS.

Going forward, the Group believes that the demand for electronic monitoring, tracking and authentication system of products will increase and the use of sophisticated data management platform will extend to all areas at pharmaceutical and healthcare institutions. To leverage on this industry trend, the Group plans to expand the application of PIATS to provide integrated product tracking and data processing and management solutions, including pioneering cloud-based information management and sharing platform for healthcare enterprises, for an expanded customer base in the entire healthcare sector, including hospitals, community health centers and pharmacies (the "**PIATS Value-Added Services**"). In doing so, the Group is planning to enhance the PIATS infrastructure, develop a data standard for pharmaceutical and healthcare products and provide value-added services to integrate data processing and management systems of customers to the enhanced PIATS infrastructure.

In the fourth quarter of 2013, the Company began to prepare for the launching of the Group's PIATS Value-Added Services to existing and new PIATS customers. The Company is also exploring ways to further monetize its considerable customer base by utilizing the PIATS Value-Added Services. The Company believes that the provision of the PIATS Value-Added Services will generate significant increase in traffic and data size of the PIATS in the near future. To maintain a stable and sophisticated system to cater for real-time access to the PIATS by the customers, the Group would need substantial technology input on cloud computing or other data processing solutions for processing big data.

FUTURE INTENTION OF THE SUBSCRIBER REGARDING THE GROUP

The Subscriber intends to continue the existing business of the Group and to leverage on the experience and expertise of the Subscriber (and its Affiliates) to diversify the Group's business. Building on Alibaba Group's experience and service offerings in the areas of big data, cloud computing, data processing, data analysis and E-business platforms, the intention is for the Group to further develop and expand its domestic drug PIATS platform as well as to develop a data standard for medical and health care products. The intention is to increase the coverage and utilization of the Group's drug PIATS platform within the PRC aiming to reach nationwide coverage in the long-term which can promote product safety in the drugs and healthcare industries. The Subscriber believes that Alibaba Group will be able to assist the Group in enhancing its ability to analyse, process and utilize its drug PIATS platform so as to enable the Group to provide comprehensive PIATS Value-Added Services to the customers including manufacturers, distributors and retailers and to improve transparency in the utilization of drug related data in the Chinese medical and healthcare sector.

This strategy may involve the possible injection of certain complimentary businesses by the Subscriber (or its Affiliates) into the Company, or other forms of cooperation between the Group and the Subscriber (or its Affiliates). As at the Latest Practicable Date, no definitive proposals, terms or timetable have been determined for any such possible future transaction or arrangement and, at this stage, the Company and the Subscriber have only held exploratory discussions. No definitive agreements for any such possible future transactions or arrangements have been entered into. The Company will comply with all applicable requirements of the Listing Rules and/or the Takeovers Code as and when appropriate. Other than as set forth above, the Subscriber has no intention to make any major changes to the business or employment of the employees of the Group or redeploy the fixed assets of the Group.

REASONS FOR THE SUBSCRIPTION

The Directors are of the view that the Subscription represents a valuable opportunity for the Group to bring in a controlling shareholder which has extensive experience, strong expertise and a wide business network in the industry. The Directors consider that entering into the Subscription Agreement represents a good opportunity to (i) raise a substantial amount of additional funds for the Company; (ii) improve the financial position and liquidity of the Group; and (iii) provide the Company with the financial flexibility necessary for the Group's future business development and the capability to capture any prospective investment opportunity as and when it arises. The Directors are confident that the Subscriber will bring in additional resources and investment opportunities to the Company which are beneficial to the Company and the Shareholders as a whole. The Directors (including the Independent Board Committee after taking the advice of Independent Financial Adviser) are therefore of the view that the Subscription is in the interest of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The gross proceeds from the Share Subscription will, if Completion occurs, amount to HK$1,326,952,502. The net proceeds, after taken into account the estimated expenses in relation to the Share Subscription, will be approximately HK$1,324.0 million, representing a net subscription price of approximately HK$0.299 per Subscription Share. It is expected that such proceeds will be utilized by the Group to fund the Group's future expansion and diversification, primarily in relation to the expansion of the Group's drug PIATS platform and development of the Group's PIATS Value-Added Services (including for recruitment and training, investment in software and hardware and the development and expansion of the Group's sales channels in support of such expansion and development plans), and/or potential acquisition opportunities. As at the Latest Practicable Date, no definitive proposals, terms or timetable have been determined for any such possible future transaction or arrangement and, at this stage, the Company and the Subscriber have only held exploratory discussions.

CHANGES IN SHAREHOLDING STRUCTURE

As at the Latest Practicable Date, the relevant securities of the Company comprise (i) 3,718,469,631 ordinary shares of HK$0.01 each and (ii) share options entitling the holders thereof to subscribe for 31,000,000 Shares. The Company has no other outstanding securities convertible or exchangeable into the Shares. The following table illustrates the shareholding structure of the Company as at the Latest Practicable Date and immediately following Completion (assuming there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to Completion):

Name	**Shareholding as at the Latest Practicable Date and immediately before the Completion**		**Shareholding immediately after the Completion**	
	Number of Shares held	%	*Number of Shares held*	%
CITIC Group Corporation *(Note 1)*	807,998,000	21.73	807,998,000	9.92
Uni-Tech International Group Limited *(Note 2)*	784,937,030	21.11	784,937,030	9.64
The Subscriber and parties acting in concert with it *(Note 3)*	0	0	4,423,175,008	54.33
Other Public Shareholders	2,125,534,601	57.16	2,125,534,601	26.11
TOTAL	3,718,469,631	100.00	8,141,644,639	100

Notes:

(1) Road Shine Developments Limited, Goldreward.com Ltd. and Perfect Deed Co. Ltd. hold 600,000,000 shares, 163,818,000 shares and 44,180,000 shares, respectively, all of which are controlled by CITIC Group Corporation (previously known as "CITIC Group"), a state-owned investment company established in the PRC.

(2) Uni-Tech International Group Limited is wholly-owned by 21CN Corporation. 21CN Corporation is owned as to 100% by Pollon Internet Corporation, which is wholly-owned by Ms. Chen.

(3) Please refer to the paragraph headed "Information on the Subscriber" in this letter.

NO FUND RAISING EXERCISE FOR THE PAST 12 MONTHS

Save for the Share Subscription, the Company did not undertake any equity fund raising exercise in the past 12 months immediately prior to the Latest Practicable Date.

APPLICATION FOR LISTING

An application was made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares.

WHITEWASH WAIVER

Immediately after Completion, the Subscriber (together with parties acting in concert with it) will in aggregate be interested in 4,423,175,008 Shares, representing approximately 118.95% of the issued share capital of the Company as at the Latest Practicable Date and approximately 54.33% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares). Under Rule 26.1 of the Takeovers Code, the Subscriber would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it and any parties acting in concert with it, unless the Whitewash Waiver is obtained from the Executive. In this regard, the Subscriber has made an application to the Executive for the Whitewash Waiver in respect of the issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, is subject to, among other things, approval by the Independent Shareholders at the SGM by way of poll. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent Shareholders on a vote by way of poll at the SGM.

If the Whitewash Waiver is approved by the Independent Shareholders, the aggregate shareholding of the Subscriber and parties acting in concert with it in the Company will exceed 50%. The Subscriber and parties acting in concert with it may further increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

The SGM will be held to consider, and if thought fit, pass the resolutions to approve, among other things, (i) the Subscription, (ii) the Whitewash Waiver, and (iii) election of Directors. The resolution in respect of the Whitewash Waiver will be taken by way of poll.

The Directors and the Subscriber confirm that there are no (i) arrangements (whether by way of option, indemnity or otherwise) in relation to the Shares and which might be material to the Subscription Agreement and/or the Whitewash Waiver, and (ii) agreements or arrangements to which the Subscriber is party which relate to the circumstances in which it may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription Agreement (other than those listed in the section headed "Conditions of the Subscription") and/or the Whitewash Waiver.

APPOINTMENT OF DIRECTORS

The Board has proposed the Subscriber's five nominees, namely Mr. WANG Jian, Mr. ZHANG Yong, Mr. CHEN Jun, Mr. CHIA Pun Kok and Mr. YU Feng, as the candidates for election as Directors at the SGM. As further agreed by the parties subsequent to the Subscription Agreement, Mr. ZHANG Yong, Mr. CHEN Jun, Mr. CHIA Pun Kok and Mr. YU Feng are proposed to be appointed as non-executive directors and Mr. WANG Jian as the executive director. If the above candidates are approved by the Shareholders at the SGM, their appointment as Directors will take effect from Completion. An announcement will be made upon appointment of those directors in compliance with the Listing Rules.

The biographical details of the above candidates are set out below:

Mr. WANG Jian

Mr. WANG Jian, aged 51, holds a bachelor's degree in psychology and a Ph.D. degree in engineering from Hangzhou University (now integrated into Zhejiang University). Mr. Wang is currently the chief technology officer of Alibaba Group. From September 2009 to September 2013, Mr. Wang was the president of Alibaba Cloud Computing. Before joining Alibaba Group, Mr. Wang was assistant managing director at Microsoft Research Asia, where he had served since 1999. Prior to that, he worked at Zhejiang University in Hangzhou, China as a professor and as head of the psychology department. Mr. Wang is a committee member of the China Computer Federation (CCF).

Mr. Wang has not entered into any service contract with the Company and he is subject to retirement by rotation and re-election in accordance with the articles of association of the Company. The director 's fee of Mr. Wang as an executive Director is to be determined by the Board with reference to his experience and prevailing market levels for director's fees for executive directors. As at the Latest Practicable Date, Mr. Wang has no interest in the Shares within the meaning of the SFO. Save as disclosed above, Mr. Wang has not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling Shareholders of the Company. Mr. Wang confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of the Shareholders.

Mr. ZHANG Yong

Mr. ZHANG Yong, aged 42, holds a bachelor's degree in finance from Shanghai University of Finance and Economics. Mr. Zhang is currently the chief operating officer of Alibaba Group. Prior to his current position, Mr. Zhang has held several senior positions within Alibaba Group including chief financial officer of Taobao after joining in August 2007 and general manager of Tmall.com (then Taobao Mall) after the platform was founded in 2008. Mr. Zhang was appointed president of Tmall.com in June 2011, after Tmall.com became independent from Taobao, and served as senior vice president of Alibaba Group from January 2013 until taking up his current role in September 2013. From August 2005 to August 2007, Mr. Zhang served as chief financial officer of Shanda Interactive Entertainment Limited, an online game developer and operator listed on NASDAQ. From 2002 to 2005, Mr. Zhang was senior manager of PricewaterhouseCoopers' Audit and Business Advisory Division in Shanghai. Prior to that, he worked in the Shanghai office of Arthur Andersen for seven years. Mr. Zhang is also a member of the Chinese Institute of Certified Public Accountants.

Mr. Zhang has not entered into any service contract with the Company and he is subject to retirement by rotation and re-election in accordance with the articles of association of the Company. The director's fee of Mr. Zhang as a non-executive Director is to be determined by the Board with reference to his experience and prevailing market levels for director's fees for non-executive directors. As at the Latest Practicable Date, Mr. Zhang has no interest in the Shares within the meaning of the SFO. Save as disclosed above, Mr. Zhang has not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling Shareholders of the Company. Mr. Zhang confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of the Shareholders.

Mr. CHEN Jun

Mr. CHEN Jun, aged 40, is currently a vice president of Alibaba Group. Mr. Chen has been involved in many direct investments by Alibaba Group in e-retail, logistics, travel, and software & solution companies. Mr. Chen has more than 18 years of experience in strategy management, strategic market development, and business and financial advisory services. Prior to joining Alibaba Group, Mr. Chen worked for SAP, a Fortune 500 high-tech software company. Mr. Chen received an EMBA degree from INSEAD in France in 2005.

Mr. Chen has not entered into any service contract with the Company and he is subject to retirement by rotation and re-election in accordance with the articles of association of the Company. The director's fee of Mr. Chen as a non-executive Director is to be determined by the Board with reference to his experience and prevailing market levels for director's fees for non-executive directors. As at the Latest Practicable Date, Mr. Chen has no interest in the Shares within the meaning of the SFO. Save as disclosed above, Mr. Chen has not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling Shareholders of the Company. Mr. Chen confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of the Shareholders.

Mr. CHIA Pun Kok

Mr. Chia, aged 48, holds an EMBA degree from Tsinghua University, an EMBA from INSEAD, a bachelor's degree in business in computing from University of Southern Queensland, and a graduate diploma in information system from University of New South Wales. Mr. Chia is currently vice president of business intelligence department and head of data committee at Alibaba Group after joining in August 2010. Prior to that, Mr. Chia held CPO (chief products officer) at DHgate.com, a B2B (business-to-business) e-commerce website connecting China-based small and medium enterprises with buyers overseas, from August 2006 to July 2010. Prior to that, Mr. Chia held senior positions at well-known enterprises including eBay, Microsoft and HSBC.

Mr. Chia has not entered into any service contract with the Company and he is subject to retirement by rotation and re-election in accordance with the articles of association of the Company. The director's fee of Mr. Chia as a non-executive Director is to be determined by the Board with reference to his experience and prevailing market levels for director's fees for non-executive directors. As at the Latest Practicable Date, Mr. Chia has no interest in the Shares within the meaning of the SFO. Save as disclosed above, Mr. Chia has not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling Shareholders of the Company. Mr. Chia confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of the Shareholders.

Mr. YU Feng

Mr. YU Feng, aged 50, received an EMBA degree from China Europe International Business School in 2001 and a Master of Arts degree in philosophy from Fudan University in 1991. Mr. YU is the founder and chairman of Yunfeng Fund which was launched by Mr. Yu together with other entrepreneurs in 2010. From 2006 to 2008, Mr. Yu served as co-chairman of Focus Media Holding Limited. From 2003 until 2006, Mr. Yu was chairman and chief executive officer of Target Media Holdings Limited.

Mr. Yu has not entered into any service contract with the Company and he is subject to retirement by rotation and re-election in accordance with the articles of association of the Company. The director's fee of Mr. Yu as a non-executive Director is to be determined by the Board with reference to his experience and prevailing market levels for director's fees for non-executive directors. As at the Latest Practicable Date, Mr. Yu, as a shareholder of Yunfeng Investment II, L.P. is deemed (and, upon Completion, will be deemed) interested in the Subscription Shares (within the meaning of the SFO). Other than the above, Mr. Yu has no interest in the Shares within the meaning of the SFO. Save as disclosed above, Mr. Yu has not held any other directorships in any public listed companies in the past three years and, is not connected with any Directors, senior management or substantial or controlling Shareholders of the Company. Mr. Yu confirmed that there is no other information to be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules and there are no matters that need to be brought to the attention of the Shareholders.

THE SGM

A notice convening the SGM to be held at Units 614–616, Level 6, Core D, Cyberport 3, 100 Cyberport Road, Hong Kong on Monday, 7 April 2014 at 10:30 a.m. is set out on pages 117 to 118 of this circular. The voting in relation to the Subscription and the Whitewash Waiver at the SGM will be conducted by way of a poll whereby the Subscriber and each of its associates and other Shareholders who are interested or involved in the Subscription and the Whitewash Waiver shall abstain from voting on the relevant ordinary resolutions to be proposed at the SGM to approve the Subscription and the Whitewash Waiver. The Subscriber and parties acting in concert with it do not currently hold any Shares and accordingly will not vote on any of the resolutions at the SGM. Ms. Chen, who is a party to the Subscription Agreement, and each of her associates, including Uni-Tech International Group Limited, who were interested in 784,937,030 Shares in aggregate representing 21.11% of the issued Shares of the Company in aggregate, as of the Latest Practicable Date, will abstain from voting on the relevant ordinary resolutions to be proposed at the SGM to approve the Subscription and the Whitewash Waiver.

Whether or not you are able to attend the SGM, you are requested to complete and return the accompanying proxy form in accordance with the instructions printed thereon and deposit the same at the office of the Company's share registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the SGM or adjournment thereof. Completion and return of the proxy form will not prevent you from attending and voting at the SGM if you so wish.

PROCEDURE FOR DEMANDING A POLL

Pursuant to article 70 of the articles of association of the Company, a resolution put to the vote of the SGM shall be decided on a show of hands unless before, or on the declaration of the result of, the show of hands a poll is duly demanded. Subject to the provisions of the Companies Ordinance, a poll may be demanded:

(a) by the chairman of the SGM; or

(b) by at least three Shareholders present in person or by a duly authorized corporate representative or by proxy for the time being entitled to vote at the SGM; or

(c) by any Shareholder or Shareholders present in person or by a duly authorized corporate representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the SGM; or

(d) by any Shareholder or Shareholders present in person or by a duly authorized corporate representative or by proxy and holding shares in the Company conferring a right to vote at the SGM being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

In addition, pursuant to the Listing Rules, if the chairman of the SGM and/or Directors individually or collectively hold(s) proxies in respect of Shares holding 5% or more of the total voting rights of the Company at the SGM and if the votes cast at the SGM on a show of hands are in the opposite manner to that instructed in those proxies, then the chairman shall demand a poll. However, if it is apparent from the proxies held that a vote taken on a poll will not reverse the vote taken on a show of hands, then the chairman shall not be required to demand a poll.

RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders regarding the Subscription and the Whitewash Waiver. The Independent Board Committee comprises the three independent non-executive Directors, namely Dr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jianming and Dr. Long Junsheng, all of whom are not directly or indirectly interested or involved in the Subscription and the Whitewash Waiver.

China Galaxy has been appointed as Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription and Whitewash Waiver. The Independent Board Committee has approved the appointment of China Galaxy.

Your attention is drawn to (i) the letter from the Independent Board Committee which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the resolutions to approve the Subscription and the Whitewash Waiver, and (ii) the letter from China Galaxy which contains its advice to the Independent Board Committee and the Independent Shareholders regarding the terms of the Subscription and the Whitewash Waiver.

The Board (including the Independent Board Committee after taking the advice of the Independent Financial Adviser) considers that (i) the issue and allotment of 4,423,175,008 Subscription Shares (constituting approximately 54.33% of the share capital of the Company, as enlarged by the Subscription Shares) to the Subscriber, subject to and in accordance with, the terms and conditions of the Subscription Agreement; (ii) the Whitewash Waiver, and (iii) the appointment of the Subscriber's five nominees to the Board are in the interests of the Company and the Shareholders as a whole, and recommends that the Shareholders vote in favour of the resolutions relating to the foregoing matters at the SGM. Ms. Chen, a Director and a party to the Subscription Agreement, was not counted in the quorum of the meeting of the Board when matters relating to the Subscription Agreement were considered and did not take part in the voting of the resolution in respect of the Subscription Agreement at such meeting.

ADDITIONAL INFORMATION

Your attention is also drawn to the information set out in the appendices to this circular.

Yours faithfully
For and on behalf of the Board
CITIC 21CN Company Limited
Chen Xiao Ying
Executive Vice-Chairman

CITIC 21CN
中信 21世紀

CITIC 21CN COMPANY LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 241)

21 March 2014

To the Independent Shareholders

Dear Sir or Madam,

SUBSCRIPTION OF NEW SHARES AND WHITEWASH WAIVER

We refer to the circular dated 21 March 2014 (the "**Circular**") of CITIC 21CN Company Limited, of which this letter forms part. Capitalized terms used in the Circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to advise you in connection with the Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board in the Circular.

We wish to draw your attention to the letter from the Board, as set out on pages 6 to 20 of the Circular, and the letter from China Galaxy, as set out on pages 22 to 43 of the Circular. Having considered the terms of the Subscription Agreement, the Whitewash Waiver and the advice given by China Galaxy and the principal factors and reasons taken into consideration by it in arriving at its advice, we are of the opinion that the Subscription and the Whitewash Waiver are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole as far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolutions to be proposed at the SGM to approve, among other things, the Subscription and the Whitewash Waiver.

Yours faithfully,
For and on Behalf of the Independent Board Committee of
CITIC 21CN Company Limited

Dr. Hui Ho Ming, Herbert, JP **Mr. Zhang Jianming** **Dr. Long Junsheng**
Independent non-executive Directors

The following is the full text of the letter from China Galaxy International Securities (Hong Kong) Co., Limited which sets out its advice to the Independent Board Committee and the Independent Shareholders for inclusion in this circular.

Room 3501–3507, 35/F
Cosco Tower, Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

21 March 2014

*To: The Independent Board Committee and
the Independent Shareholders of CITIC 21CN Company Limited*

Dear Sirs,

(1) SUBSCRIPTION OF NEW SHARES; AND (2) WHITEWASH WAIVER

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Subscription and the Whitewash Waiver, details of which are set out in the letter from the Board (the "Letter from the Board") contained in the circular of the Company (the "Circular") to the Shareholders dated 21 March 2014, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 23 January 2014, the Company entered into the Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe in cash for an aggregate of 4,423,175,008 Subscription Shares at the Subscription Price of HK$0.30 per Subscription Share, subject to the terms and conditions of the Subscription Agreement. The issue of the Subscription Shares will be subject to the terms and conditions of the Subscription Agreement and a specific mandate to be approved by the Independent Shareholders at the SGM by ordinary resolution.

Immediately after Completion, the Subscriber (together with parties acting in concert with it) will in aggregate be interested in 4,423,175,008 Shares, representing approximately 118.95% of the issued share capital of the Company as at the Latest Practicable Date and approximately 54.33% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares). Under Rule 26.1 of the Takeovers Code, the Subscriber would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it and parties acting in concert with it unless the Whitewash Waiver is obtained from the Executive. In this regard, the Subscriber has made an application to the Executive for the Whitewash Waiver in respect of the allotment and issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, will be subject to, among other things, approval by the Independent Shareholders at the SGM by way of a poll.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising Dr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jian Ming and Dr. Long Junsheng (all being independent non-executive Directors) has been established to advise the Independent Shareholders as to whether (i) the Subscription and the Whitewash Waiver are fair and reasonable, on normal commercial terms and are in the interests of the Company and the Shareholders as a whole as far as the Independent Shareholders are concerned, and (ii) the Independent Shareholders should vote in favour of the relevant resolutions to approve the Subscription and the Whitewash Waiver at the SGM.

We, China Galaxy, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect. Our appointment as the independent financial adviser has been approved by the Independent Board Committee.

BASIS OF OUR OPINION AND RECOMMENDATION

In arriving at our recommendation, we have relied on the statements, information and representations contained or referred to in the Circular and provided to us by the Directors and the management of the Company. We have assumed that such statements, information and representations are true and accurate at the time they were made and will continue to be accurate as at the date of the despatch of the Circular. We have no reason to doubt the truth, accuracy and completeness of such statements, information and representations.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular (other than the information relating to the Subscriber) and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in the Circular (other than those expressed by the Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and representations made to us untrue, inaccurate or misleading. We consider that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Directors and the management of the Company, nor have we conducted an independent investigation into the business and affairs or the prospects of the Company, the Group or any of their respective associates.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of China Galaxy is to ensure that such information has been correctly extracted from the relevant sources.

BACKGROUND OF THE SUBSCRIPTION

1. Information on the Group

1.1 Business overview of the Group

The Group is an integrated information and content service provider. The principal activities of the Group comprise the provision of (i) Product Identification, Authentication and Tracking System ("PIATS"), (ii) telecommunication and information value-added services, and (iii) system integration and software development.

The Group conducts its key PIATS business through (i) CITIC 21CN (China) Technology Company Limited 中信21世紀（中國）科技有限公司 ("CITIC 21CN Technology") (a wholly owned subsidiary of the Company) for products in the drugs industry, and (ii) China Credit Information Technology Company Limited 中信國檢信息技術有限公司 ("CCIT") (a 50% non-wholly owned subsidiary of the Group) for products in other consumer products industries. PIATS utilizes an electronic barcode monitoring system to provide product tracking, recall and enforcement information services to relevant authorities in the PRC and allow users such as end consumers to verify product information and origins. In return, the Group collects an annual subscription fee from its customers (being manufactures, distributors and retailers) for utilizing the PIATS platform. The PIATS barcodes are first attached onto the products by the manufacturers. As the products are distributed through the various distribution channels to the retailers, all the parties involved (i.e., the manufacturers, distributors and retailers) will scan the PIATS barcodes at each stage. When the products are sold to the end consumers, the PIATS barcodes will be scanned at the point-of-sale. Through this electronic barcode monitoring system, PIATS allows for better tracking and control of the production, distribution and sale of products. With the support of the relevant PRC authorities such as China Food and Drug Administration ("CFDA"), the application of PIATS is increasingly adopted by the drugs industry as the main electronic monitoring platform.

The Group also provides telecommunications/information value-added services through Beijing Honglian 95 Information Industries Company Limited ("HL95") (a PRC incorporated joint venture which is 49%-owned by the Group), and system integration and software development services through Guangdong Grand Cycle Technology Company Limited (a wholly-owned subsidiary of the Company).

1.2 Financial results and position of the Group

	For the six months ended 30 September 2013 HK$'000 (unaudited)	For the year ended 31 March 2013 HK$'000 (audited)	For the year ended 31 March 2012 HK$'000 (audited)	For the year ended 31 March 2011 HK$'000 (audited)
Revenue				
– HL95's telecommunications/ information value-added services	–	473,648	470,671	365,319
– PIATS business	13,286	12,816	9,741	3,880
– Others	1,606	3,421	1,251	2,933
Total	14,892	489,885	481,663	372,132
Net loss attributable to owners of the Company	14,619	41,344	7,735	26,350
EBITDA *(note)*				
– HL95's telecommunications/ information value-added services	n/a	20,160	17,437	14,091
– PIATS business	n/a	(15,058)	(3,288)	(2,753)
– Others	n/a	(15,405)	20,869	1,197
Total	n/a	(10,303)	35,018	12,535
Net cash from / (used in) operating activities	(56,098)	4,249	10,147	(31,676)
Less: movements in working capital	n/a	(8,194)	(23,972)	27,715
Operating cash flows before movements in working capital	n/a	(3,945)	(13,825)	(3,961)

	As at 30 September 2013 HK$'000 (unaudited)	As at 31 March 2013 HK$'000 (audited)	As at 31 March 2012 HK$'000 (audited)	As at 31 March 2011 HK$'000 (audited)
Total assets	380,222	457,463	537,520	565,785
Total liabilities	104,466	170,072	138,551	163,369
Net assets attributable to owners of the Company	350,032	361,817	398,960	402,406
Bank balances and cash	90,704	123,885	133,813	160,335

Note: EBITDA represented earnings before interest, taxation, depreciation, amortization and non-cash impairment loss recognized

Substantially all the Group's revenues for the three years ended 31 March 2011, 2012 and 2013 were attributable to HL95. The Group's revenue increased steadily from HK$372.1 million for the year ended 31 March 2011 to HK$481.7 million for the year ended 31 March 2012 and HK$489.9 million for the year ended 31 March 2013. However, due to application of the new and revised Hong Kong financial reporting standards which were adopted by the Group for the period beginning 1 April 2013, revenue attributable to HL95 was accounted for using the equity method instead of the original proportionate consolidation method, and as a result, the Group's revenue for the six months ended 30 September 2013 was only HK$14.9 million.

Revenue from the PIATS business had improved significantly from HK$3.9 million for the year ended 31 March 2011 to HK$9.7 million for the year ended 31 March 2012 and HK$12.8 million for the year ended 31 March 2013. For the six months ended 30 September 2013, almost the entire revenue of the Group was contributed by the PIATS business and revenue from the PIATS business amounted to HK$13.3 million, surpassing that for the year ended 31 March 2013. During the three years ended 31 March 2013 and the six months ended 30 September 2013, the Group's revenue from the PIATS business comprised substantially the PIATS subscription fees.

The Group recorded a net loss in each of the three years ended 31 March 2013. Net loss attributable to the owners of the Company decreased from HK$26.4 million for the year ended 31 March 2011 to HK$7.7 million for the year ended 31 March 2012, and subsequently increased significantly to approximately HK$41.3 million for the year ended 31 March 2013.

The Group generated positive EBITDAs of HK$12.5 million and HK$35.0 million for the years ended 31 March 2011 and 2012, respectively and negative EBITDA of HK$10.3 million for the year ended 31 March 2013. For the years ended 31 March 2011, 2012 and 2013, HL95 contributed HK$14.1 million, HK$17.4 million and HK$20.2 million to the Group's EBITDA, respectively. Since the Group only has a 49% interest in HL95 and cannot control the dividend plan of HL95, the cashflows or EBITDA generated by HL95 cannot be directly utilized by the Group until HL95 declared and paid dividends to the Group. As advised by the management of the Company, HL95 had never declared and paid any dividend to the Group after the Group acquired the 49% interest in HL95 in 2004. Therefore, it will be more appropriate to exclude HL95's EBITDA to assess the Group's ability to service debt. After excluding HL95's EBITDA, the Group has not generated any positive EBITDA for the recent financial years/periods except for the year ended 31 March 2012 (i.e., when the Group recorded a positive EBITDA of HK$17.6 million due to a one-off reversal of accrued interest and related expenses in connection with the arbitration and litigation of approximately HK$26.3 million in relation to a dispute of the settlement arrangement of licence and service agreement with Oracle (China) Software Systems Co., Ltd.. For details of the arbitration and litigation, please refer to Note 16 of the Interim Report for the six months ended 30 September 2013 and Note 39 of the Annual Report for the year ended 31 March 2013 in Appendix I "Financial Information of the Group" of the Circular). If the Group did not take such one-off gain into account, it would have recorded a negative EBITDA of HK$8.7 million.

The Group's net assets attributable to the owners of the Company and cash balances had been on a declining trend for the three years ended 31 March 2013 and the six months ended 30 September 2013. The Group's net assets attributable to the owners of the Company declined substantially from HK$402.4 million as at 31 March 2011 to HK$350.0 million as at 30 September 2013. The Group's cash balance declined substantially from HK$160.3 million as at 31 March 2011 to HK$90.7 million as at 30 September 2013.

2. Information on the Subscriber and its intention regarding the Group

The Subscriber is a company incorporated in the British Virgin Islands and an indirectly wholly-owned subsidiary of Alibaba Holding. Alibaba Group is a family of Internet based businesses with a mission to make it easy for anyone to buy or sell goods and services anywhere in the world. Since its inception, it has developed leading businesses in consumer e-commerce, online payment, business-to-business marketplaces and cloud computing and has expanded into new areas such as mobile applications, mobile operating system and Internet TV. The group is focused on fostering the development of an open, collaborative and prosperous e-commerce ecosystem that benefits consumers, merchants and economic development.

It is contemplated that, after the SGM but prior to Completion, Innovare will invest in the Subscriber and provide funding to the Subscriber. Innovare is an investment vehicle and 100% controlled subsidiary of Yunfeng Fund II, L.P.. Yunfeng Fund II, L.P. is a Cayman Islands exempted limited partnership that primarily focuses on investments in the telecommunications, technology and media, consumer and retail and healthcare industries. Yunfeng Investment II, L.P. is the general partner of Yunfeng Fund II, L.P. As a result, it is expected that, on Completion, the Subscriber will be (indirectly or directly) owned as to 70.21% by Alibaba Group and as to 29.79% by Innovare. It is contemplated that, subject to Innovare's investment into the Subscriber prior to Completion, the memorandum and articles of association of the Subscriber and the shareholders agreement to be entered into among the Subscriber and its shareholders, will provide for certain provisions (as described below) pursuant to which the Subscriber shall hold 29.79% (or 1,317,570,045) of the Shares held by the Subscriber upon Completion for Innovare. Such 1,317,570,045 Shares (representing approximately 16.18% of the total issued share capital of the Company as enlarged by the Subscription) represent 29.79% of the Subscription Shares and as such are contemplated to equal the contemplated proportion of the shareholding of Innovare in the Subscriber. The contemplated subscription amount payable by Innovare to the Subscriber as consideration for the shares in the Subscriber to be issued to Innovare before Completion (representing the 29.79% share in the issued share capital of the Subscriber that Innovare is contemplated to hold on Completion) equals the aggregate amount of the Subscription Price payable by the Subscriber for such 1,317,570,045 Shares.

It is contemplated that the provisions of the memorandum and articles of association of the Subscriber and/or the shareholders agreement to be entered into among the Subscriber and its shareholders, will provide for the following: Any voting rights attached to such 1,317,570,045 Shares so held by the Subscriber for Innovare shall be voted by the Subscriber only as instructed by Innovare. Innovare will have a right to acquire (all but not part of) such 1,317,570,045 Shares in so far as Innovare will have a right to require, at any time following the expiry of nine months following Completion, the redemption of all (but not part) of the shares held by Innovare in the Subscriber, in exchange for the transfer of such 1,317,570,045 Shares to Innovare (or its affiliate). Prior to the exercise of such redemption right by Innovare, the Subscriber will hold the 1,317,570,045 Shares for Innovare and be prohibited from disposing of such 1,317,570,045 Shares. Following the exercise of such redemption right and the acquisition of such 1,317,570,045 Shares by Innovare (or its affiliate), any disposal or transfer of such 1,317,570,045 Shares to a third party shall be subject to a right of first refusal in favour of the Subscriber.

As disclosed in the Letter from the Board, the Subscriber intends to continue the existing business of the Group and to leverage on the experience and expertise of the Subscriber (and its Affiliates) to diversify the Group's business. Building on Alibaba Group's experience and service offerings in the areas of big data, cloud computing, data processing, data analysis and E-business platforms, the intention is for the Group to further develop and expand its domestic drug PIATS platform as well as to develop a data standard for medical and health care products. This may involve the possible injection of certain complimentary businesses by the Subscriber (or its Affiliates) into the Company, or other forms of cooperation between the Group and the Subscriber (or its Affiliates). The intention is to increase the coverage and utilization of the Group's drug PIATS platform within the PRC aiming to reach nationwide coverage in the long-term. The Subscriber believes that Alibaba Group will be able to assist the Group in enhancing its ability to analyse, process and utilize its drug PIATS platform so as to enable the Group to provide comprehensive drug information related services and to improve transparency in the utilization of drug related data in the Chinese medical and healthcare sector. Independent Shareholders should however note that as stated in the Letter from the Board, no definitive proposals, terms or timetable have been determined for any such possible future transaction or arrangement and, at this stage, the Company and the Subscriber have only held exploratory discussions. No agreements for any such possible future transactions or arrangements have been entered into.

3. The Subscription

3.1 Background of the Subscription

On 23 January 2014, the Company entered into the Subscription Agreement pursuant to which the Company has conditionally agreed to allot and issue to the Subscriber, and the Subscriber has conditionally agreed to subscribe in cash for an aggregate of 4,423,175,008 Subscription Shares at the Subscription Price of HK$0.30 per Subscription Share.

3.2 Reasons for the Subscription

The Directors are of the view that the Subscription represents a valuable opportunity for the Group to bring in a controlling shareholder which has extensive experience, strong expertise and a wide business network in the e-commerce industry. The Directors consider that entering into the Subscription Agreement represents a good opportunity to (i) raise a substantial amount of additional funds for the Company; (ii) improve the financial position and liquidity of the Group, and (iii) provide the Company with the financial flexibility necessary for the Group's future business development and the capability to capture any prospective investment opportunity as and when it arises. The Directors are confident that the Subscriber will bring in additional resources and investment opportunities to the Company which are beneficial to the Company and the Shareholders as a whole.

3.3 Use of Proceeds

The gross proceeds from the Share Subscription will, if Completion occurs, amount to HK$1,326,952,502. The net proceeds, after taken into account the estimated expenses in relation to the Share Subscription, will be approximately HK$1,324.0 million, representing a net subscription price of approximately HK$0.299 per Subscription Share. It is expected that such proceeds will be utilized by the Group to fund the Group's future expansion and diversification, primarily in relation to the expansion of the Group's drug PIATS platform and development of the Group's PIATS Value-Added Services (including for recruitment and training, investment in software and hardware and the development and expansion of the Group's sales channels in support of such expansion and development plans), and/or potential acquisition opportunities.

3.4 Subscription Price and Subscription Shares

As stated in the Letter from the Board, the Subscription Price and the total number of Subscription Shares (and the total subscription amount) were arrived at after arm's length negotiations among the Company and the Subscriber whereby (i) the Subscription Price was arrived at with reference to the unaudited consolidated net asset value attributable to the Shareholders per Share of approximately HK$0.0941 per Share as at 30 September 2013 (representing approximately 31.37% of the Subscription Price) as well as the strategic value and industry and operational expertise of the Subscriber and its Affiliates, the liquidity, and the financial performance of the Company and (ii) based on the Subscription Price so agreed, the total number of Subscription Shares was arrived at with reference to the intended shareholding of the Subscriber upon Completion, taking into account, among other factors, that, upon Completion, the Subscription Shares should represent more than 50% of the total issued share capital of the Company (as enlarged by the issue of the Subscription Shares), the Ms. Chen Shares should represent not significantly less than 10% of the total issued share capital of the Company (as enlarged by the issue of the Subscription Shares), and the Subscription should not cause the Company to breach the minimum 25% public float requirement under the Listing Rules.

The Subscription Price of HK$0.30 represents:

i. a discount of approximately 28.57% to the closing price of HK$0.420 per Share as quoted on the Stock Exchange on 23 July 2013, being the day six months prior to the date of the Announcement;

ii. a discount of approximately 63.86% to the closing price of HK$0.830 per Share as quoted on the Stock Exchange on 15 January 2014, being the Last Trading Day;

iii. a discount of approximately 61.83% to the average of the closing price per Share of approximately HK$0.786 for the last five trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

iv. a discount of approximately 61.24% to the average of the closing price per Share of approximately HK$0.774 for the last 10 trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

v. a discount of approximately 51.22% to the average of the closing price per Share of approximately HK$0.615 for the last 30 trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

vi. a discount of approximately 42.53 % to the average of the closing price per Share of approximately HK$0.522 for the last 90 trading days as quoted on the Stock Exchange up to and including the Last Trading Day;

vii. a discount of approximately 94.39% to the closing price of HK$5.350 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and

viii. a premium of approximately 218.81% over the Group's unaudited consolidated net asset value attributable to the owners of the Company per Share as at 30 September 2013 of approximately HK$0.0941 (based on a total of 3,717,869,631 Shares as at 30 September 2013 and the Group's unaudited consolidated net asset value attributable to the owners of the Company of approximately HK$350,032,000 as at 30 September 2013).

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice in respect of the terms of the Subscription and the Whitewash Waiver, we have considered the following principal factors and reasons:

A. Share Price Performance and Trading Volume Analysis

In general, the price and market capitalisation performance of the shares correlates directly to the generation of shareholders' value, whilst liquidity is important to shareholders as it affects the ability of the shareholders to trade the shares without materially affecting the asset's price. In considering how the equity market perceives the Subscription and the impact of the Subscription on shareholders' value, we have evaluated the share price performance and trading volume before and after the release of the Announcement. We have set out our analysis as follows:

A.1 Surge in Share price and market capitalisation

As demonstrated in Chart 1, from 16 January 2013 to 15 January 2014 (being the Last Trading Day) (the "Pre-Announcement Period"), the Shares traded at a price ranging from HK$0.40 to HK$0.90 (of which the market capitalisation ranged between HK$1,487.15 million and HK$3,346.08 million). The average closing price per Share during the Pre-Announcement Period was approximately HK$0.48 (representing an average market capitalisation of approximately HK$1,784.58 million). We consider a 12- month period up to and including the Last Trading Day to be representative and meaningful as it covers different market conditions and sentiments prior to the Announcement while being still recent enough to be relevant to existing Shareholders.

On 24 January 2014, being the first trading day after the Announcement, the closing price per Share was HK$3.92 as quoted on the Stock Exchange, representing an increase of approximately 716.67% as compared to the average closing price of HK$0.48 during the Pre-Announcement Period, and the market capitalisation was HK$14,574.05 million. From 24 January 2014 to the Latest Practicable Date (the "Post-Announcement Period"), the Shares traded at a price ranging from HK$2.45 to HK$7.37, with an average closing price of HK$4.38, representing an increase of approximately 812.50% as compared to the average closing price of HK$0.48 during the Pre-Announcement Period. The average market capitalisation was approximately HK$16,284.27 million during the Post-Announcement Period, representing an increase of approximately 812.50% as compared to the average market capitalisation of HK$1,784.58 million during the Pre-Announcement Period. Given that there was no other significant announcement made by the Company during the Post-Announcement Period, we are of the view that the surge in Share price and market capitalisation was primarily attributable to market anticipation of the Subscription (i.e., Alibaba Group, together with Yunfeng Fund II, L.P., subscribing for a majority stake in the Company) to be able to go through.

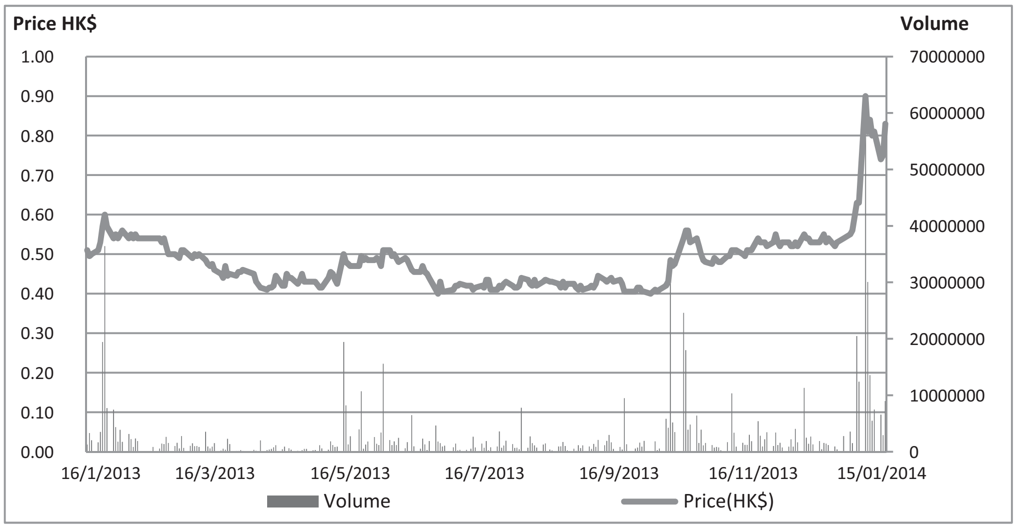
A.2 Significant increase in trading volume of the Shares

In terms of trading volume, the daily trading volume ranged from 20,000 to 59,016,000 Shares during the Pre-Announcement Period, and the average daily trading volume was approximately 2,974,507 Shares. On 24 January 2014, being the first trading day after the Announcement, the daily trading volume increased to 734,088,128 Shares, representing approximately 19.74% of the total number of issued Shares. The average daily trading volume increased to 102,340,736 Shares during the Post-Announcement Period, which represented an increase of 3,340.59% compared to that during the Pre-Announcement Period.

We are therefore of the view that the liquidity of the Shares as measured by the average daily trading volume has significantly improved since the release of the Announcement.

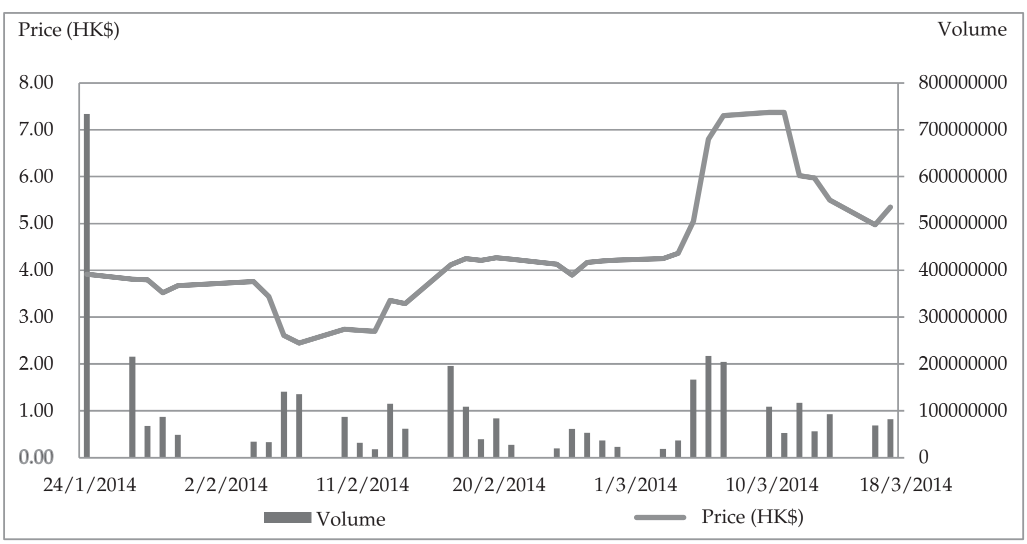
The following charts set out the trading price performance and trading volume of the Shares during the Pre-Announcement Period and the Post-Announcement Period (together the "Review Period"):

Chart 1: Trading price performance and trading volume during the Pre-Announcement Period



Source: *Bloomberg*

Chart 2: Trading price performance and trading volume during the Post-Announcement Period



Source: *Bloomberg*

B. Historical Business and Financial Performance of the Group

As set out in the section headed "Information on the Group" above, the overall business and financial performance of the Group had been deteriorating in recent years, while the performance and contribution of the Group's PIATS business had become increasingly important to the overall business and financial performance of the Group.

B.1 Significant decrease in revenue during the six months ended 30 September 2013

Revenue of the Group decreased significantly from HK$489.9 million for the year ended 31 March 2013 to only approximately HK$14.9 million for the six months ended 30 September 2013. The decrease was due to the results of HL95 not being accounted for using the proportionate consolidation method and being accounted for using the equity method of accounting commencing from the period ended 30 September 2013. Before such change in accounting policy, HL95 used to be the major revenue stream of the Group. The Group's revenue attributable by HL95 amounted to approximately HK$473.6 million, representing 96.7% of the Group's revenue for the year ended 31 March 2013. In contrast, almost the entire revenue of the Group for the six months ended 30 September 2013 was contributed by the PIATS business.

B.2 Continuing losses incurred during recent financial years/periods

The Group recorded a continuing net loss in recent financial years/periods. Net loss attributable to the owners of the Company for the year ended 31 March 2013 increased substantially to approximately HK$41.3 million, representing an increase of 434.5% over the prior year (2012: HK$7.7 million).

C. Financial health of the Group

As a result of continuing losses incurred by the Group in recent years/period, we noted that the Group's financial health had been worsening.

C.1 Negative operating cash flow and negative EBITDA

The Group incurred a net cash outflow from operating activities of approximately HK$56.1 million for the six months ended 30 September 2013. The Group incurred negative operating cashflows before movement in working capital for the three years ended 31 March 2013.

Given that the Group only has a 49% equity interest in HL95 and cannot fully dictate its dividend plan, the cashflows or EBITDA generated by HL95 cannot be utilized by the Group until HL95 declares and pays dividends. However, HL95 has never paid any dividend to the Group after the Group acquired the 49% interest in HL95 in 2004. If excluding HL95's EBITDA, the Group had not been able to generate any positive EBITDA for the recent financial years except for the year ended 31 March 2012. The positive EBITDA of the Group of HK$17.6 million after excluding HL95's EBITDA for the year ended 31 March 2012 was due to a one-off reversal of accrued interest and related expenses in connection with the arbitration and litigation of approximately HK$26.3 million in relation to a dispute of the settlement arrangement of licence and service agreement with Oracle (China) Software Systems Co., Ltd., which was not cash generated from the operation. For details of the arbitration and litigation, please refer to Note 16 of the Interim Report for the six months ended 30 September 2013 and Note 39 of the Annual Report for the year ended 31 March 2013 in Appendix I "Financial Information of the Group" of the Circular. If taking out the effect from such one-off gain, the Group would have recorded a negative EBITDA of HK$8.7 million after excluding HL95's EBITDA for the year ended 31 March 2012.

C.2 Depleting bank balances and cash

Bank balances and cash of the Group had persistently decreased over the past financial years/periods from approximately HK$160.3 million as at 31 March 2011 to approximately HK$90.7 million as at 30 September 2013, primarily as a result of continual net cash outflow arising from the net losses of the Group incurred for the recent financial years/periods and the lack of new financing. The issue of the US$70,000,000 zero coupon convertible bonds in December 2005 (the "Convertible Bonds") was the last fund raising exercise the Group had conducted until the Subscription.

C.3 Decreasing net asset value attributable to the owners of the Company

As a result of ongoing losses incurred by the Group, net asset value attributable to the owners of the Company had decreased from approximately HK$402.4 million as at 31 March 2011 to approximately HK$350.0 million as at 30 September 2013.

Given the deteriorating financial health of the Group, we are of the view that the net proceeds in relation to the Subscription, which is expected to be approximately HK$1,324.0 million, would significantly improve the financial strength and cashflows of the Group to cater for its development of existing business, in particular the PIATS business and to pursue new business opportunities.

D. Positive financial impact of the Subscription

D.1 Positive cash flow impact

As at 30 September 2013, the aggregate balance of bank balances and cash was approximately HK$90.7 million. Upon Completion, the liquidity and cash position of the Group will significantly improve as the net proceeds from the Subscription is approximately HK$1,324.0 million. Accordingly, the Subscription would bring a positive impact on the cash position and net current assets of the Group.

D.2 Positive net asset value impact

As at 30 September 2013, the Group's consolidated net asset value attributable to the owners of the Company was approximately HK$350.0 million and its consolidated net asset value attributable to the owners of the Company per Share was approximately HK$0.094. Based on the estimated net proceeds from the Subscription of approximately HK$1,324.0 million, the Group's consolidated net asset value attributable to the owners of the Company would increase to approximately HK$1,674.0 million and its net asset value attributable to the owners of the Company per Share would increase to HK$0.206 as a result of the Subscription.

Based on the above, we consider that the Subscription will bring an overall positive effect to the Group's financial position.

E. Alternative methods to raise funds

We have also evaluated other alternative fund raising methods for the Group to raise substantial amount of financing, and are of the view that the Subscription is a relatively more suitable financing method in light of the following key considerations:

E.1 Inability to obtain debt financing

It is noted that commercial banks typically consider the level of EBITDA generated by the potential borrower in assessing whether or not to grant a loan since the level of EBITDA determines the potential borrower's ability to repay and service the loan.

The Group generated positive EBITDAs of HK$12.5 million and HK$35.0 million for the two years ended 31 March 2011 and 2012 respectively and negative EBITDA of HK$10.3 million for the year ended 31 March 2013. For the years ended 31 March 2011, 2012 and 2013, HL95 contributed HK$14.1 million, HK$17.4 million and HK$20.2 million to the Group's EBITDA respectively. Since the Group only has a 49% interest in HL95 and cannot control the dividend plan of HL95, the cashflows or EBITDA generated by HL95 cannot be directly utilized by the Group until HL95 declared and paid dividends to the Group. As advised by the management of the Company, HL95 had never declared and paid any dividend to the Group after the Group acquired the 49% interest in HL95 in 2004. Therefore, it will be more appropriate to exclude HL95's EBITDA to assess the Group's ability to service debt. After excluding HL95's EBITDA, it has not generated any positive EBITDA for the recent financial years/periods except for the year ended 31 March 2012 (i.e., when the Group recorded a positive EBITDA of HK$17.6 million due to a one-off reversal of accrued interest and related expenses in connection with arbitration and litigation of approximately HK$26.3 million in relation to a dispute of the settlement arrangement of licence and service agreement with Oracle (China) Software Systems Co., Ltd.. For details of the arbitration and litigation, please refer to Note 16 of the Interim Report for the six months ended 30 September 2013 and Note 39 of the Annual Report for the year ended 31 March 2013 in Appendix I "Financial Information of the Group" of the Circular). If the Group did not take such one-off gain into account, it would have recorded a negative EBITDA of HK$8.7 million.

In addition, commercial banks will normally require collateral as security for the loan. However, the Group does not have typical collaterals such as land ownerships or properties to provide to banks as collateral, and as a reference, net book value of the Group's fixed assets at 30 September 2013 amounted to only approximately HK$5.7 million.

Therefore, we consider that the Group is in a relatively weak position to secure debt financing.

E.2 Interest payments will impose additional financial burden to the Group

Given the relatively weak and deteriorating financial health of the Group, we consider that debt financing, if any, would result in substantial interest expenses being incurred and hence, impose additional financial burden to the Group's future cash flows and profitability.

E.3 Low share price and trading volume impairs ability to raise equity financing

As mentioned above, the average price and average trading volume of the Shares for the Pre-Announcement Period was only HK$0.48 per Share and approximately 2,974,507 Shares, respectively.

(i) Share or convertible bond placement: Given the thin liquidity of the Shares and the weak financial position of the Group before the Announcement, the Group considers it to be challenging to find a placing agent and/or underwriter to conduct a share or convertible bond placement to raise funds. Even if the Group could engage a placing agent and/or underwriter to carry out such a placement, it would have been difficult to raise any substantial amount of funds given the low Share price before the Announcement. In addition, any share or convertible bond placement would have a significant dilutive effect on the existing Shareholders.

(ii) Rights issue or open offer: In relation to the viability of a rights issue or an open offer, we consider that even though these would allow the Shareholders a chance to maintain their respective pro-rata shareholdings and strengthen the capital base of the Group, such fund raising exercises would require the Group to procure an underwriter. Due to the thin liquidity of the Shares, the weak financial position of the Group and the relatively longer time to carry out rights issue or open offer as compared with placing and/or subscription of new Shares, the Group considers it to be relatively difficult to find an underwriter to conduct a rights issue or an open offer.

We therefore consider that the Group has limited options or ability to raise financing through conventional debt or equity fund raising and that we are also of the view that it is due to the abovementioned reasons that the Group had not conducted any fund raising since the issue of the Convertible Bonds in 2005.

F. Development potential of the PIATS business

Despite the weak historical financial and business performance of the Group as a whole, we have noted increasing revenue and subscription from the Group's PIATS business and a growing number of PIATS customers, especially in the PRC drugs and healthcare industries. Revenue from the PIATS business had improved significantly from HK$3.9 million for the year ended 31 March 2011 to HK$9.7 million for the year ended 31 March 2012 and HK$12.8 million for the year ended 31 March 2013. For the six months ended 30 September 2013, revenue from the PIATS business amounted to HK$13.3 million, surpassing that for the year ended 31 March 2013. As advised by the Company, the number of PIATS customers increased significantly from approximately 6,400 as at 31 March 2011 to approximately 259,000 as at 31 December 2013.

Apart from the improving PIATS business, we have noted the following positive recent developments for PIATS in the PRC drugs and healthcare industries:

F.1 New services offering

We noted in the circular of the Company dated 13 January 2014 that since the fourth quarter of 2013, CCIT had begun preparing for the launch of its new PIATS Value-Added Services (as defined and detailed in section headed "Potential cooperation and synergy with the Alibaba Group" below). Such services can be applied to customers who have or need to subscribe to PIATS for electronic monitoring and can be extended to the whole value chain of production, distribution and sale of products in various industries including the drugs and healthcare industries. We are of the view that such new services offering represent an opportunity for the Group to diversify its revenue streams to the Group apart from the collection of PIATS subscription fee.

F.2 Significant market potential

Given that the Group perceives drug and healthcare industries as the most important sector for its PIATS business, we are of the view that favourable regulatory environment (as detailed in the section "Favourable regulatory environment" below) presents a significant market potential for the Group.

According to the Ministry of Finance in the PRC, there were approximately 950,900 pharmaceutical and healthcare institutions as at 31 March 2013, and according to the Group, the number of pharmaceutical and healthcare institutions that had subscribed for the Group's PIATS were approximately 259,000 as at 31 December 2013. As such, we consider there to be significant room for future subscription of PIATS by pharmaceutical and healthcare institutions.

According to CFDA or formerly State Food and Administration ("SFDA") in the PRC, there were approximately 7,000 drug manufacturers as at 31 December 2013, and according to the Company, approximately 3,500 drug manufacturers have subscribed for PIATS as at 31 December 2013. As such, approximately half of the drug manufacturers in the PRC are using PIATS and there is potential to get more drug manufacturers to use PIATS.

F.3 Favourable regulatory environment

We have also noted recent regulatory trends and policies that would be favourable to the development of PIATS in the PRC drugs and healthcare industries, some of which are set out below:

(a) The five-year drug supervision plan published by CFDA in March 2013, requires electronic monitoring and tracking of all drugs prescribed by doctors by 2015 by using electronic monitoring system;

(b) The noticed issued by CFDA in May 2013 states that all imported drugs using domestic packaging must comply with electronic monitoring requirements by the end of November 2013, and all other imported drugs must comply with the same by the end of March 2014;

(c) The revised Good Manufacturing Practice (the "GMP") published by SFDA in March 2011 requires manufacturers of drug products to comply with the revised practice by 31 December 2015 which requires the incorporation of electronic monitoring and tracking to their drug production operations; and

(d) The revised Good Supply Practice (the "GSP") published by CFDA in June 2013 calls for drug-selling enterprises to incorporate electronic monitoring and tracking to their operations. The application of electronic monitoring is therefore expected to expand to a broader range of drug-selling enterprises, including hospitals, community health service centers, pharmacies etc.

Therefore, we concur with the Directors' view that the drug PIATS business possesses market potential and the Subscription would raise a substantial amount of additional funds which is necessary for further development of its drug PIATS business.

G. Potential cooperation and synergy with the Alibaba Group

We noted that the Subscriber intends to continue further developing the PIATS business of the Group and considers that the Group can leverage on the experience and expertise of the Subscriber to further develop its other existing business, particularly the Company's data management and quality tracking solutions business. Alibaba Group is one of the world's leading and renowned industry players in consumer e-commerce, online payment, business-to-business marketplaces and cloud computing which include:

- **Taobao, a popular consumer-to-consumer online shopping platform**: Taobao Marketplace had around 760 million product listings as at March 2013;

- **Tmall.com, an open business-to-consumer online shopping platform**: As at March 2013, more than 70,000 international and Chinese brands have established retail storefronts on Tmall.com, and among those brands are UNIQLO, L'Oréal, adidas, P&G, Unilever, Gap, Ray-Ban, Nike and Levi's;

- **Alibaba.com, a global e-commerce platform for small businesses**: The platform, which now serves millions of buyers and suppliers from more than 240 countries and regions, showcases products ranging from raw materials to finished goods in more than 40 industry categories;

- **Alipay, a third-party online payment platform in China**: On November 11, 2013, Alipay set a record for the highest number of single day transactions, processing 171.3 million payments during the 24-hour period; and

- **Aliyun, a developer of platforms for cloud computing and data management**: It is committed to building the platform of choice for sharing data and offering data-centric cloud computing services, which includes data mining, data processing and data storage.

For the year ended 31 March 2013, the combined gross merchandise volume of Taobao Marketplace and Tmall.com exceeded RMB1 trillion.

According to the Company, PIATS is the only electronic monitoring system for drug products available in the PRC. However, due to the lack of resources and expertise in the past few years, the Group focused its efforts in the development of PIATS for electronic monitoring and tracking of drug products. Currently, its revenue stream is also limited to subscription fees received from drug manufacturers, distributors and retailers for subscribing to PIATS.

Going forward, the Group believes that the demand for electronic monitoring, tracking and authentication system of products will increase and the use of sophisticated data management platform will extend to all areas at pharmaceutical and healthcare institutions. To leverage on this industry trend, the Group plans to expand the application of PIATS to provide integrated product tracking and data processing and management solutions, including pioneering cloud-based information management and sharing platform for healthcare enterprises, for an expanded customer base in the entire healthcare sector, including hospitals, community health centers and pharmacies (the "PIATS Value-Added Services"). In doing so, the Group is planning to enhance the PIATS infrastructure, develop a data standard for pharmaceutical and healthcare products and provide value-added services to integrate data processing and management systems of customers to the enhanced PIATS infrastructure.

In the fourth quarter of 2013, the Company began to prepare for launching of the Group's PIATS Value-Added Services to the existing and new PIATS customers. The Company is also exploring ways to further monetize its considerable customer base by utilizing the PIATS Value-Added Services.

The Company believes that the provision of the PIATS Value-Added Services will generate significant increase in traffic and data size of the PIATS in the near future. To maintain a stable and sophisticated system to cater for real-time access to the PIATS by the customers, the Group would need substantial technology input on cloud computing or other data processing solutions for processing big data.

In light of the above, the Group intends to leverage on the experience and advanced technology possessed by Alibaba Group in the areas at big data, cloud computing, data processing, data analysis and e-business, to further increase the coverage and publicity of PIATS, especially in the drugs and healthcare industries. Through potential strategic cooperation with Alibaba Group, the Company believes that PIATS can also act as an electronic monitoring system to (i) promote product safety in the drugs and healthcare industries which provide nationwide product tracking, recall and enforcement information to the government authorities for regulatory purposes and develop a data standard for pharmaceutical and healthcare products, and (ii) provide PIATS Value-Added Services to the customers including manufacturers, distributors and retailers, and to improve transparency in the utilization of drug related data in the Chinese medical and healthcare sectors.

Given the expertise and leading position of Alibaba Group in areas such as e-commerce, data mining and cloud computing, we are of the view that the Group, especially for its drug PIATS business that has a substantial customer base where it can further explore ways to monetize, is in a good position to benefit from any future business cooperation and/or technological transfers between Alibaba Group and the Group.

H. Fairness and reasonableness of the Subscription Price

H.1 Historical market price and trading volume of the Shares

During the Pre-Announcement Period, we note that the Shares traded at a price ranging from HK$0.40 to HK$0.90, with an average closing price of HK$0.48 and an average daily trading volume of the Shares of approximately 2,974,507 Shares.

The price of the Shares surged significantly following the release of the Announcement. The closing Share price as quoted on the Stock Exchange on 24 January 2014 (the first trading day after releasing the Announcement) was HK$3.92 per Share, which represented a significant increase of 372.3% when compared to the closing price of HK$0.83 per Share on the Last Trading Day.

During the Pre-Announcement Period, the daily trading volume of the Shares as a percentage of the total number of Shares in issue as at the Last Trading Day ranged from approximately 0.000538% to 1.587%, while the daily trading volume of the Shares as a percentage of the total number of Shares held by the public Shareholders as at the Last Trading Day ranged from approximately 0.000941% to 2.777%. During the Post-Announcement Period, the daily trading volume of the Shares as a percentage of the total number of Shares in issue as at the Last Trading Day ranged from approximately 0.491% to 19.745%, while the daily trading volume of the Shares as a percentage of the total number of Shares held by the public Shareholders as at the Last Trading Day ranged from approximately 0.859% to 34.546%. Based on the above, it is evident that the trading volume of the Shares had increased substantially since the posting of the Announcement.

Independent Shareholders should note that the recent surge in price and trading volume of the Shares since the Announcement is likely to be largely related to the market expectation that the Subscription would be completed. Should the Subscription not complete, the Shares may not be able to sustain the present price level and trading volume level.

H.2 Comparable transactions

The Subscriber did not own, control or direct any Shares as at the Latest Practicable Date. Upon Completion, the Subscriber will hold the Subscription Shares, representing 54.33% of the enlarged issued share capital of the Company (assuming that there is no change in the issued share capital of the Company other than the issue of Subscription Shares since the Latest Practicable Date and up to the date of Completion), and will become the controlling Shareholder of the Company. The Subscription would also result in a change in control of the Company.

Set out in the table below are the recent subscriptions involving, among other things, issue of new securities by the companies whose shares are listed on the Stock Exchange (except for the issue of new securities which form part of the resumption proposal of long suspended listed companies) (the "Comparable Companies") to a subscriber resulting in the subscriber, who did not hold any shares of such companies prior to such subscription, holding more than 30% of the voting rights of such companies and leading to a change in control of such companies upon completion of the respective subscriptions, and were announced and completed since 1 January 2012 and up to the Latest Practicable Date (the "Comparable Transactions"). We consider such review period to be reasonable and meaningful for identifying the Comparable Transactions because it represents a time span for identifying sufficient samples for comparable analysis purpose.

The selected Comparable Transactions is an exhaustive list of relevant comparable transactions based on the above criteria. We understand the circumstances around Comparable Transactions may differ from those around the Subscription and the subscription prices of the Comparable Transactions were determined based on a number of factors, including but not limited to, the respective historical and prevailing market price of the shares of the Comparable Companies, the liquidity and the financial position of the Comparable Companies and therefore may vary on a case-by-case basis. Our analysis on the Comparable Transactions focuses on the respective subscription prices against the prevailing market prices of Comparable Companies' shares, but not the underlying asset values of such companies. As our analysis covers a relatively long review period of more than 26 months and given the similar nature of the Comparable Transactions (all being subscriptions that were expected to result in a change in control), we consider our analysis of taking into account the Comparable Transactions without limiting to companies that are engaged in the same principal business as the Group to be fair and reasonable and such analysis to be useful for Shareholders' information.

Set out below are the premiums and discounts implied by the Comparable Transactions when compared with the prevailing closing prices of the shares of the Comparable Companies and dilution effect on public shareholders of the Comparable Transactions:

		Stock Subscription		Closing share price as at					Implied premium/(discount) over/to closing price as at						Dilution effect on Public Shareholders		
Date of Announcement	Company Name	Code	Price	Last trading day	5 day average	10 day average	30 day average	90 day average	Last trading day	5 day average	10 day average	30 day average	90 day average	Premium/(discount) to NAV per share	Shareholding of public before subscription	Shareholding of public upon completion of subscription	Diluted by
			(HK$)	*(HK$)*	*(HK$)*	*(HK$)*	*(HK$)*	*(HK$)*	*(%)*	*(%)*	*(%)*	*(%)*	*(%)*	*(%)*	*(%)*	*(%)*	*(%)*
3-Apr-12	Fountain Set (Holdings) Ltd.	420	1.25	0.94	0.956	0.975	1.018	1.02	33.0	30.8	28.2	22.8	22.5	(65.0)	56.7	37.4	19.3
24-Aug-12	Hoifu Energy Group Ltd.	7	0.25	0.43	0.42	0.414	0.33	0.322	(41.9)	(40.5)	(39.5)	(24.2)	(22.4)	(10.7)	50.0	21.8	28.1
8-Oct-12	North Asia Resources Holdings Ltd.	61	0.17	0.27	0.28	0.262	0.265	0.31	(37)	(39.3)	(35.1)	(35.8)	(45.2)	(36.3)	69.4	49.4	20.0
17-Oct-12	King Stone Energy Group Limited	663	0.45	0.48	0.491	0.507	0.432	0.433	(6.2)	(8.4)	(11.2)	4.17	3.9	(61.8)	80.5	38.5	42.0
4-Dec-12	Asia Coal Limited	835	0.024	0.134	0.14	0.135	0.14	0.104	(82.5)	(83.2)	(82.6)	(83.2)	(76.9)	N/A(negative NAV)	53.1	13.3	39.8
8-May-13	SPG Land (Holdings) Limited	337	1.9	3.82	3.39	3.082	2.922	2.611	(50.3)	(44.0)	(38.4)	(35.0)	(27.2)	(62.5)	26.1	11.3	14.8
26-Jun-13	New Focus Auto Tech Holdings Limited	360	0.3	0.51	0.56	0.548	0.54	0.67	(41.2)	(46.4)	(45.3)	(44.4)	(55.2)	(47.8)	28.1	5.9	22.2
10-Oct-13	China New Town Development Company Limited	1278	0.27	0.5	0.49	0.46	0.37	0.33	(46)	(44.8)	(41.0)	(27.5)	(18.2)	(63.4)	66.8	30.5	36.3
20-Nov-13	Buildmore International Limited	108	1	2.22	2.18	2.233	2.082	2.052	(55)	(54.1)	(55.2)	(52)	(51.3)	N/A(negative NAV)	59.0	25.0	34.0
						Max			33.0	30.8	28.2	22.8	22.5	(10.7)			42.0
						Min			(82.5)	(83.2)	(82.6)	(83.2)	(76.9)	(65.0)			14.8
						Average			(36.3)	(36.7)	(35.6)	(30.6)	(30.0)	(49.6)			28.49
The Company		241	0.3	0.83	0.786	0.774	0.615	0.522	(63.86)	(61.83)	(61.24)	(51.2)	(42.5)	218.7	57.16	26.11	31.05

As shown in the table above, the subscriptions prices of the Comparable Transactions represent (i) an average of approximately 36.3% discount to the closing prices of the Comparable Companies as at their respective last trading days with a range from approximately 82.5% discount to approximately 33.0% premium over the closing prices of the Comparable Companies as at their respective last trading days; (ii) an average of 36.7% discount to the average closing prices of the Comparable Companies during the last five trading days up to and including their respective last trading days with a range from approximately 83.2% discount to approximately 30.8% premium over the average closing prices of the Comparable Companies during the last five trading days up to and including their respective last trading days; (iii) an average of 35.6% discount to the average closing prices of the Comparable Companies during the last ten trading days up to and including their respective last trading days with a range from approximately 82.6% discount to approximately 28.2% premium over the average closing prices of the Comparable Companies during the last ten trading days up to and including their respective last trading days; and (iv) an average of 49.6% discount to the net asset value per share attributable to owners (NAV) of the Comparable Companies.

The Subscription Price represents (i) a discount of approximately 63.86% to the closing price of the Shares as quoted on the Stock Exchange on the Last Trading Day, which is higher than the average discount of approximately 36.3%, but within range of the Comparable Transactions; (ii) a discount of approximately 61.83% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last five trading days up to and including the Last Trading Day, which is higher than the average discount of the Comparable Transactions of approximately 36.7%, but within range of the Comparable Transactions; (iii) a discount of approximately 61.24% to the average of the closing prices of the Shares as quoted on the Stock Exchange for the last ten trading days up to and including the Last Trading Day, which is higher than the average discount of the Comparable Transactions of approximately 35.6%, but within range of the Comparable Transactions; and (iv) a premium of approximately 218.7% over the Group's unaudited consolidated net asset value attributable to the owners of the Company per Share as at 30 September 2013, which is significantly higher than the average discount of 49.6% for the Comparable Companies and is also significantly above the range of discount to NAV of 10.7% to 65.0% for the Comparable Companies.

Conclusion

Having considered the above, in particular (i) the very significant premium over the Group's NAV; (ii) the discounts of the Subscription Price to the various closing price benchmarks are within the range of the Comparable Transactions; and (iii) the risk that should the Subscription not complete, the Shares may not be able to sustain the present price level and trading volume level, we are of the view that the Subscription Price is fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

I. Dilutive effect of the Subscription

Independent Shareholders should however note that as illustrated in the section headed "Changes in Shareholding Structure" in the Letter from the Board, after Completion (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares since the date of the Subscription Agreement and up to Completion), the shareholding of existing public Shareholders would decrease from approximately 57.16% as at the Latest Practicable Date to approximately 26.11% on a fully-diluted basis.

Although there will be dilutive effects to the shareholding interests of the existing public Shareholders as a result of the Subscription, having considered the following:

i. the Subscription represents a valuable opportunity for the Group to bring in a highly reputable controlling shareholder which has extensive experience, strong expertise and a wide business network in the e-commerce and cloud computing industry. It is expected that the Subscriber can provide valuable support to the Group's development of its business, especially in accelerating the roll-out and development of its existing drug PIATS business in the PRC;

ii. the proceeds from the Subscription could potentially provide a substantial amount of additional funds for the Company and improve the financial position and liquidity to cope with the capital expenditure and working capital required for the continued development of the Group's business, especially the PIATS business;

iii. as discussed above, we are of the view that the Subscription Price is fair and reasonable so far as the Company and the Shareholders as a whole as far as the Independent Shareholders are concerned especially after considering the significant premium of the Subscription Price over the consolidated NAV of the Group as at 30 September 2013;

iv. the average closing Share price as quoted on the Stock Exchange during the Post-Announcement Period was HK$4.38 per Share, which represented a significant increase of 427.71% when compared to the closing price per Share on the Last Trading Day; and

v. the average daily trading volume of the Shares during the Post-Announcement Period was 102,340,736, which represented a significant increase of 3,340.59% when compared to the average daily trading volume of 2,974,507 Shares during the Pre-Announcement Period; and

vi. the shareholding interest of the existing public Shareholders will be diluted upon completion of the Subscription by 31.05% (from 57.16% to 26.11%), of which the dilution was slightly higher than the average of, but within range of the Comparable Transactions. Please refer to the table under the section headed "H.2. Comparable transactions" for more information.

We are of the view that the dilution in the shareholding interests of the public Shareholders upon Completion is not prejudicial to their interests and is acceptable.

Conclusion

Having considered all factors discussed above, we are of the view that the terms of the Subscription are fair and reasonable and in the interests of the Company and the Shareholders as a whole as far as the Independent Shareholders are concerned. As such, we also consider the grant of the specific mandate to issue the Subscription Shares to be fair and reasonable and in the interests of the Company and the Shareholders as a whole as far as the Independent Shareholders are concerned.

THE WHITEWASH WAIVER

As at the Latest Practicable Date, the Subscriber and parties acting in concert with it do not hold any Shares. Immediately after Completion, the Subscriber (together with parties acting in concert with it) will in aggregate be interested in 4,423,175,008 Shares, representing approximately 118.95% of the issued share capital of the Company as at the Latest Practicable Date and approximately 54.33% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares (assuming that there is no change in the issued share capital of the Company other than the issue of the Subscription Shares). Under Rule 26.1 of the Takeovers Code, the Subscriber would be obliged to make a mandatory general offer to the Shareholders for all the issued Shares and other securities of the Company not already owned or agreed to be acquired by it and any parties acting in concert with it, unless the Whitewash Waiver is obtained from the Executive.

In this regard, the Subscriber has made an application to the Executive for the Whitewash Waiver in respect of the issue of the Subscription Shares. The Whitewash Waiver, if granted by the Executive, is subject to, among other things, approval by the Independent Shareholders at the SGM by way of poll. The Executive has indicated that it will grant the Whitewash Waiver subject to the approval of the Independent Shareholders on a vote by way of poll at the SGM.

The granting of the Whitewash Waiver is a condition precedent for Completion which is not capable of being waived. If the Whitewash Waiver is not obtained, the Subscription will not proceed. The Company would then lose all the benefits that are expected to be brought to the Group by the Subscription.

Having considered the factors discussed under section headed "Reasons for the Subscription", in particular, (i) the Subscription represents a valuable opportunity for the Group to bring in a highly reputable controlling shareholder which has extensive experience, strong expertise and a wide business network in the e-commerce and cloud computing industry; (ii) the proceeds from the Subscription could potentially provide a substantial amount of additional funds for the Company and improve the financial position and liquidity to cope with the capital expenditure and working capital required for the development of the Group's business; and all the other factors as discussed under the section headed "Principal Factors and Reasons Considered" above, we consider the grant of the Whitewash Waiver to be fair and reasonable and in the interests of the Company and the Shareholders as a whole as far as the Independent Shareholders are concerned.

RECOMMENDATION

Having taken into consideration the factors and reasons as stated above, we consider that (i) the terms of the Subscription Agreement are on normal commercial terms and fair and reasonable, and (ii) the Subscription and the grant of the Whitewash Waiver are in the interests of the Company and the Independent Shareholders as a whole as far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Shareholders and the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Whitewash Waiver and the Subscription at the SGM.

Yours faithfully,
For and on behalf of
China Galaxy International Securities (Hong Kong) Co., Limited
Steven Chiu
Managing Director
Investment Banking

A. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

	For the year ended 31 March		
	2013	**2012**	**2011**
	*HK$'000**	*HK$'000*	*HK$'000*
RESULTS			
Turnover	489,885	481,663	372,132
Loss before taxation	(40,065)	(2,558)	(24,934)
Taxation	(1,279)	(5,178)	(1,416)
Loss for the year	(41,344)	(7,736)	(26,350)
Loss for the year attributable to:			
Owners of the Company	(41,344)	(7,735)	(26,350)
Non-controlling interests	–	(1)	–
	(41,344)	(7,736)	(26,350)
Dividend	–	–	–
	HK cents	*HK cents*	*HK cents*
Loss per share			
– Basic and diluted	(1.11)	(0.21)	(0.71)

* An amendment to a Hong Kong Financial Reporting Standard (the "HKFRS"), namely, HKFRS 12, became effective in April 2013 and the financial position previously reported by the Group as at 31 March 2013 and the operating results previously reported by the Group for the six months ended 30 September 2012 have been restated in the Interim Results to account for such amendments. The financial information reported in the table above reflected the Group's operating results for the twelve months ended 31 March 2013 as reported in, and were extracted directly from, the Company's annual reports published on 25 July 2013 without taking into account the aforesaid amendment to HKFRS 12. Please see "Appendix I — C. Interim Results — Notes to the Condensed Consolidated Financial Statements — 2. Basis of Preparation and Principal Accounting Policies — New and revised standards on consolidation, joint arrangements, associates and disclosures" for further details relating to the impact of such restatement.

	As at 31 March			
	2013 restated	**2013**	**2012**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(as restated and published in the Company's Interim Results)	*(as published in the Company's annual report on 25 July 2013)*		
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS				
Non-current assets	245,234	197,578	262,438	267,317
Current assets	154,494	259,885	275,082	298,468
Current liabilities	107,989	165,724	134,399	161,337
Non-current liability	4,348	4,348	4,152	2,032
Capital and reserves				
Share capital	37,179	37,179	37,179	37,179
Reserves	324,638	324,638	361,781	365,227
	361,817	361,817	398,960	402,406
Non-controlling interests	(74,426)	(74,426)	9	10
Total equity	287,391	287,391	398,969	402,416

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March 2013

	Notes	2013 HK$'000	2012 HK$'000
Turnover	7	489,885	481,663
Cost of sales and services		(418,502)	(426,744)
Gross profit		71,383	54,919
Other income, gains and losses	9	(805)	(5,699)
Administrative expenses		(111,937)	(88,474)
Impairment losses recognised in respect of PIATS business *(defined in note 1)*	19	–	(7,808)
Share of profit of an associate	20	1,962	19,172
Reversal of accrued interest and related expenses in connection with arbitration and litigation	39	–	26,271
Interest expenses	10	(668)	(939)
Loss before taxation		(40,065)	(2,558)
Taxation	11	(1,279)	(5,178)
Loss for the year	12	(41,344)	(7,736)
Other comprehensive income for the year:			
Exchange differences arising on translation of foreign operations		4,201	4,289
Total comprehensive expense for the year		(37,143)	(3,447)
Loss for the year attributable to:			
Owners of the Company		(41,344)	(7,735)
Non-controlling interests		–	(1)
		(41,344)	(7,736)
Total comprehensive expense attributable to:			
Owners of the Company		(37,143)	(3,446)
Non-controlling interests		–	(1)
		(37,143)	(3,447)
		HK cents	*HK cents*
Loss per share			
– Basic and diluted	16	(1.11)	(0.21)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31st March 2013

	Notes	2013 HK$'000	2012 HK$'000
Non-current assets			
Property, plant and equipment	17	51,575	72,031
Intangible assets	18	39,157	42,622
Interest in an associate	20	97,471	93,170
Loans receivable	21	–	45,465
Available-for-sale investments	22	9,375	9,150
		197,578	262,438
Current assets			
Amounts due from customers for contract work	23	949	2,940
Debtors and prepayments	24	96,497	96,764
Investments held for trading	25	27,491	41,565
Fixed deposit held at a bank with maturity over three months	26	11,063	–
Bank balances and cash	26	123,885	133,813
		259,885	275,082
Current liabilities			
Creditors and accruals	27	159,261	120,265
Taxation payable		338	2,178
Short-term bank loans	28	6,125	11,956
		165,724	134,399
Net current assets		94,161	140,683
Total assets less current liabilities		291,739	403,121
Non-current liability			
Deferred taxation	29	4,348	4,152
		287,391	398,969
Capital and reserves			
Share capital	30	37,179	37,179
Reserves		324,638	361,781
		361,817	398,960
Non-controlling interests		(74,426)	9
Total equity		287,391	398,969

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2013

	Attributable to owners of the Company										
	Share capital *HK$'000*	Share premium *HK$'000*	Capital reserve *HK$'000* *(note 32)*	Contributed surplus *HK$'000* *(note 32)*	Translation reserve *HK$'000*	Share options reserve *HK$'000*	General reserve *HK$'000* *(note 32)*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total *HK$'000*
At 1st April 2011	37,179	769,675	19,215	78,108	68,940	21,181	11,851	(603,743)	402,406	10	402,416
Exchange differences arising on translation of foreign operations	–	–	–	–	4,289	–	–	–	4,289	–	4,289
Loss for the year	–	–	–	–	–	–	–	(7,735)	(7,735)	(1)	(7,736)
Total comprehensive income (expense) for the year	–	–	–	–	4,289	–	–	(7,735)	(3,446)	(1)	(3,447)
Transfers	–	–	–	–	–	–	1,080	(1,080)	–	–	–
Forfeiture of share options	–	–	–	–	–	(350)	–	350	–	–	–
At 31st March 2012	37,179	769,675	19,215	78,108	73,229	20,831	12,931	(612,208)	398,960	9	398,969
Exchange differences arising on translation of foreign operations	–	–	–	–	4,201	–	–	–	4,201	–	4,201
Loss for the year	–	–	–	–	–	–	–	(41,344)	(41,344)	–	(41,344)
Total comprehensive income (expense) for the year	–	–	–	–	4,201	–	–	(41,344)	(37,143)	–	(37,143)
Transfers	–	–	–	–	–	–	502	(502)	–	–	–
Reserve released upon dissolution of a subsidiary	–	–	–	–	(1,892)	–	–	1,892	–	–	–
Reserve released upon deemed disposal of a joint venture	–	–	–	–	(678)	–	–	678	–	–	–
Deemed acquisition of a subsidiary *(note 34)*	–	–	–	–	–	–	–	–	–	(74,435)	(74,435)
At 31st March 2013	37,179	769,675	19,215	78,108	74,860	20,831	13,433	(651,484)	361,817	(74,426)	287,391

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31st March 2013

	2013 HK$'000	2012 HK$'000
Operating activities		
Loss before taxation	(40,065)	(2,558)
Adjustments for:		
Interest income from bank deposits	(1,409)	(734)
Imputed interest income on loans receivable	(1,660)	(1,500)
Dividends from listed equity securities	(919)	(837)
Interest expenses	668	939
Share of profit of an associate	(1,962)	(19,172)
Depreciation	24,690	24,425
Amortisation of intangible assets	4,404	4,404
Reversal of allowance for doubtful debts	(167)	(6)
Change in value of loans receivable upon initial recognition	90	432
Impairment loss recognised in respect of property, plant and equipment	–	2,919
Impairment loss recognised in respect of intangible assets	–	4,889
Net loss on deemed disposal of a joint venture and deemed acquisition of a subsidiary	11,492	–
Loss on disposal of property, plant and equipment	64	81
Reversal of accrued interest and related expenses in connection with the arbitration and litigation	–	(26,271)
Written-back of long outstanding trade payables	–	(836)
Recovery of amounts previously written off	829	–
Operating cash flows before movements in working capital	(3,945)	(13,825)
Decrease in amounts due from customers for contract work	1,234	1,252
(Increase) decrease in debtors and prepayments	(12,797)	7,475
Decrease in investments held for trading	14,074	8,660
Increase in creditors and accruals	6,340	6,418
Cash from operations	4,906	9,980
Interest received	1,409	734
Dividends received from listed equity securities	919	837
Taxation paid	(2,985)	(1,404)
Net cash from operating activities	4,249	10,147

	Note	2013 HK$'000	2012 HK$'000
Investing activities			
Dividends received from an associate		18,300	–
Net cash inflow from deemed disposal of a joint venture and deemed acquisition of a subsidiary	34	452	–
Proceeds from disposal of property, plant and equipment		110	431
Purchase of property, plant and equipment		(14,681)	(21,432)
Placement of fixed deposit held at a bank with maturity over three months		(11,063)	–
Loan advanced		(1,875)	(4,880)
Net cash used in investing activities		(8,757)	(25,881)
Financing activities			
Repayment of short-term bank loans		(11,956)	(23,912)
Interest paid		(668)	(939)
New short-term bank loans raised		5,978	11,956
Net cash used in financing activities		(6,646)	(12,895)
Decrease in cash and cash equivalents		(11,154)	(28,629)
Cash and cash equivalents at beginning of the year		133,813	160,335
Effect of foreign exchange rate changes		1,226	2,107
Cash and cash equivalents at end of the year, representing bank balances and cash		123,885	133,813

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31st March 2013

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 address of the registered office and principal place of business of the Company is disclosed in the "Corporate Information" section of the annual report.

The consolidated financial statements are presented in Hong Kong dollars while the functional currency of the Company is Renminbi ("RMB"). The reason for selecting Hong Kong dollars ("HK$") as presentation currency is because the Company is a public company in Hong Kong with the shares listed on the Stock Exchange.

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.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred tax: Recovery of underlying assets
Amendments to HKFRS 7	Financial instruments: Disclosures – Transfers of financial assets

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009–2011 cycle[1]
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 7 and HKFRS 9	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[2]
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine[1]
HK(IFRIC) – INT 21	Levies[2]

1 Effective for annual periods beginning on or after 1st January 2013.
2 Effective for annual periods beginning on or after 1st January 2014.
3 Effective for annual periods beginning on or after 1st January 2015.
4 Effective for annual periods beginning on or after 1st July 2012.

HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

All recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January 2015, with earlier application permitted.

The directors of the Company anticipate that the application of HKFRS 9 for annual period beginning 1st April 2015 will affect the classification and measurement of the available-for-sale investments but do not expect the application of HKFRS 9 will have material impact on the amounts reported in respect of the Group's other financial assets and financial liabilities based on the Group's financial instruments reported at the end of the reporting period.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK(SIC) – INT 12 "Consolidation – Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in Joint ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – INT 13 "Jointly controlled entities – Non-monetary contributions by venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1st April 2013. Currently, the Group's investment in Beijing Honglian 95 Information Industries Company Limited 北京鴻聯九五信息產業有限公司 ("HL 95"), which is classified as a jointly controlled entity under HKAS 31 and accounted for using the proportionate consolidation method. Under HKFRS 11, HL 95 will be classified as a joint venture and accounted for using the equity method, resulting in the aggregation of the Group's proportionate share of HL 95's respective net assets and items of profit or loss into a single line item which will be presented in the consolidated statement of financial position and in the consolidated statement of comprehensive income as "interest in a joint venture" and "share of profit of a joint venture", respectively. The directors of the Company anticipate that there will be no material impact on the Group's loss for the year under equity method and under proportionate consolidation method. The summarised financial information in respect of HL 95 is disclosed in note 33.

HKFRS 13 "Fair value measurement"

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

The directors of the Company anticipate that the application of the new standard for annual period beginning 1st April 2013 may affect the amount reported in the consolidated financial statements in relation to the available-for-sale investments and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 "Presentation of items of other comprehensive income"

The amendments to HKAS 1 "Presentation of items of other comprehensive income" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 will be adopted for annual period beginning 1st April 2013. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

The directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the consolidated financial statements.

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 of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that 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 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.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another standard.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Interest in an associate

An associate is an entity over which the investor 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.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and other comprehensive income of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interest in the associate that are related to the Group.

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, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

Revenue recognition

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

Revenue from telecommunications/information value-added services and product identification authentication, tracking system business 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.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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 on initial recognition.

Dividend income from investments is recognised when the shareholders' 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 revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs for each contract.

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable to be recoverable. 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.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. 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 profit or loss when the asset is derecognised.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Impairment losses on tangible and intangible asset other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or a CGU) 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 (or a CGU) in prior years. A reversal of an impairment loss is recognised as income immediately.

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 'loss before taxation' as reported in the consolidated statement of comprehensive income 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 end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associate, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate and tax laws that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Leasing

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 lease are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is unclear that both elements are operating leases in which the case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are reallocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position 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 or 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 are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets at FVTPL are financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "other gains and losses" in the consolidated statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including debtors and other receivables, loans receivable, fixed deposit held at a bank with maturity over three months and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL, loans and receivables or held-to-maturity investments.

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 and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For other financial assets, the objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premium or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Derecognition

The Group derecognises when a financial asset only when the contractual right to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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 the respective 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated 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 retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period. 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 in other comprehensive income and accumulated in equity under the heading of translation reserve.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees on or before 7th November 2002, or granted after 7th November 2002 and vested before 1st January 2005

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in profit or loss in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded 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 as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

Share options granted to employees of the Company after 7th November 2002 and vested on or after 1st January 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 the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest, irrespective of market conditions. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss, such that the cumulative expense reflects the revised estimate, with corresponding adjustment to share options reserve.

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

Retirement benefit cost

Payments to the state-managed retirement benefit schemes or the Mandatory Provident Fund Scheme which are defined contribution plans are recognised as an expense when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, 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.

Estimated impairment of property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are stated at cost less subsequent accumulated depreciation/amortisation and accumulated impairment losses. Property, plant and equipment and intangible assets are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimation of the future cash flows generated by each asset or group of assets. If the recoverable amounts are less than the carrying amounts of the property, plant and equipment and intangible assets, the relevant asset's carrying amount is written down to the recoverable amount. If the actual result is different or the management's expectation changes, the carrying value and write downs of property, plant and equipment and intangible assets will be affected in the periods in which such estimate is changed. At 31st March 2013, the carrying amount of property, plant and equipment and intangible assets are HK$51,575,000 (2012: HK$72,031,000) and HK$39,157,000 (2012: HK$42,622,000), respectively (net of accumulated impairment losses of HK$16,628,000 (2012: HK$16,628,000) and HK$21,196,000 (2012: HK$21,196,000), respectively.

Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st March 2013, the carrying amount of trade receivables is HK$73,330,000 (2012: HK$63,640,000) (net of allowance for doubtful debts of HK$26,954,000 (2012: HK$26,470,000)).

Income taxes

As at 31st March 2013, no deferred tax asset was recognised in the consolidated statement of financial position in relation to the estimated unused tax losses of HK$297,428,000 (2012: HK$264,347,000) 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, it may lead to utilisation of tax losses and recognition of deferred tax asset, which would be recognised in profit or loss for the period in which such utilisation and recognition take place.

Provision for litigation

The Group is involved in legal proceedings as disclosed in note 39 to the consolidated financial statements. The management has evaluated and assessed the claims made against the Group based on legal advice received and information presently available and are of the view that an adequate provision has been made in the consolidated financial statements in relation to the Oracle Licence and Service Agreement as defined in note 39.

5. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2013	**2012**
	HK$'000	*HK$'000*
Financial assets		
Investments held for trading	27,491	41,565
Loans and receivables (including cash and cash equivalents)	212,926	263,418
Available-for-sale investments	9,375	9,150
	249,792	314,133
Financial liabilities		
Amortised cost	101,359	105,379

Financial risk management objectives and policies

The Group's major financial instruments include trade receivables and other receivables, available-for-sale investments, investments held for trading, loans receivable, fixed deposit held at a bank with maturity over three months, bank balances and cash, trade payables and other payables and short-term bank loans. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. 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.

Market risk

Currency risk

The carrying amounts of the Group's foreign currency denominated assets (including loans receivable, investments held for trading and bank balances and cash) at the end of the reporting period are as follows:

	Assets	
	2013	**2012**
	HK$'000 equivalent	*HK$'000 equivalent*
United States Dollars ("USD") against HK$	43,998	22,182
USD against RMB	33,530	71,418

Sensitivity analysis

The Group is mainly exposed to the foreign exchange risk of USD against RMB. Exposures on balances which are denominated in USD in group companies against HK$ as functional currency are not considered significant as HK$ is pegged to USD.

The following table details the Group's sensitivity to a 5% (2012: 5%) increase and decrease in RMB against USD. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items adjusts their translation at the end of the reporting period for a 5% change in foreign currency rates. A positive number below indicates a decrease in loss for the year where USD strengthen 5% against RMB. For a 5% weakening of USD against the RMB, there would be an equal and opposite impact on the loss, and the balances below would be negative.

	2013	**2012**
	HK$'000	*HK$'000*
USD	1,677	3,571

Interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate fixed deposit held at a bank with maturity over three months (see note 26) and fixed-rate bank loans (see note 28 for details of these borrowings). However, the management considered the relevant risks are insignificant due to short term nature.

The Group's cash flow interest rate risk relates primarily to variable-rate bank balances (See note 26 for details of these bank balances).

The Group currently does not have hedging policy in respect of the interest rate risks. However, management monitors the related interest rate risk exposure closely and will consider hedging significant interest rate risk exposure should the need arise.

Sensitivity analysis

No sensitivity analyses have been prepared since the management of the Group considers that the Group's interest rate risk at the end of the reporting period is insignificant.

Other price risk

The Group is exposed to equity price risk through its investments in equity securities listed in Hong Kong and the United States at the end of the reporting period. The management manages these exposure by maintaining a portfolio of investments with different risks. Details of the investment are set out in note 25. The management has closely monitored the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective listed equity instruments had been 20% (2012: 20%) higher/lower, loss for the year ended 31st March 2013 will decrease/increase by HK$5,498,000 (2012: decrease/increase by HK$8,313,000) as a result of the changes in fair value of investments held for trading.

Credit risk

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 statement of financial position.

In order to minimise the credit risk in relation to debtors as at 31st March 2013 and loans receivable and debtors as at 31st March 2012, the management of the Group reviews the recoverable amount of each individual debt at the end of the reporting period 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.

The Group has concentration of credit risk of the Group's loans receivable from a jointly controlled entity as at 31st March 2012. In order to minimise the credit risk, the management continuously monitors the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or to recover overdue balance.

The Group has concentration of credit risk as 21% and 39% (2012: 22% and 39%) of the total trade receivables was due from the Group's largest customer and the three largest customers respectively within the telecommunication/information value-added services segment, respectively.

The credit risk in relation to bank balances and cash is limited because the majority of the counterparties are 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").

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management of the Group monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows.

Liquidity tables

	Weighted average effective interest rate	Less than 1 month or repayable on demand	1–3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount at 31.3.2013
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2013						
Non-derivative financial liabilities						
Trade and other payables	–	95,234	–	–	95,234	95,234
Bank loans – fixed rate	6.30%	32	64	6,339	6,435	6,125
		95,266	64	6,339	101,669	101,359

	Weighted average effective interest rate	Less than 1 month or repayable on demand	1–3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount at 31.3.2012
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2012						
Non-derivative financial liabilities						
Trade and other payables	–	93,423	–	–	93,423	93,423
Bank loans – fixed rate	7.87%	77	157	12,209	12,443	11,956
		93,500	157	12,209	105,866	105,379

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 consolidated financial statements approximate to their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31st March 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at FVTPL:				
Investments held for trading				
– Listed equity securities	27,491	–	–	27,491

	31st March 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at FVTPL:				
Investments held for trading				
– Listed equity securities	41,565	–	–	41,565

There were no transfers between Level 1 and 2 in the current and prior years.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new issues of share as well as raising bank loans.

7. TURNOVER

	2013	**2012**
	HK$'000	*HK$'000*
An analysis of the Group's turnover is as follows:		
Telecommunications/information value-added services	473,648	470,671
PIATS business	12,816	9,741
System integration and software development	3,421	1,251
	489,885	481,663

8. SEGMENT INFORMATION

Information reported to the Executive Vice-Chairman, the Group's chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focus on services provided.

The Group is an integrated information and content service provider. For management purposes, the Group is organised into three operating divisions namely telecommunications/information value-added services, the provision of PIATS, and system integration and software development. These divisions are the basis on which the Group reports its segment information. For the telecommunications/information value-added services and PIATS business divisions, information reported to the Executive Vice-Chairman includes the financial information of its joint ventures prepared on a proportionate consolidation basis. On 28th March 2013, the Group obtained control over China Credit Information Technology Company Limited 中信國檢信息技術有限公司 ("CCIT"), the then joint venture (see note 34). The financial information of CCIT is reported on a full consolidation basis subsequent to 28th March 2013.

Principal activities are as follows:

Telecommunications/information value-added services	–	Provision of telecommunications/information value-added services
PIATS business	–	Operation of an exclusive platform for PIATS in drugs and other consumer products industries
System integration and software development	–	Provision of system integration and software development

Segment revenues and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

	Segment revenue		Segment profit (loss)	
	2013	**2012**	**2013**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Telecommunication/information value-added services	473,648	470,671	9,993	6,838
PIATS business	12,816	9,741	(32,805)	(28,119)
System integration and software development	3,421	1,251	921	(425)
Total	489,885	481,663	(21,891)	(21,706)
Other income, gains and losses			(805)	(5,699)
Share of profit of an associate			1,962	19,172
Interest expenses			(668)	(939)
Reversal of accrued interest and related expenses in connection with litigation and arbitration			–	26,271
Unallocated expenses			(18,663)	(19,657)
Loss before taxation			(40,065)	(2,558)

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the both years.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by or loss from each segment without allocation of central administrative costs, share of profit of an associate, other income, gains and losses, interest expenses and reversal of accrued interest and related expenses in connection with litigation and arbitration. This is the measure reported to the Executive Vice-Chairman, the Group's chief operating decision maker, for the purposes of resources allocation and performance assessment.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments.

	2013	2012
	HK$'000	*HK$'000*
Segment assets		
Telecommunications/information value-added services	130,380	115,293
PIATS business	54,109	67,736
System integration and software development	1,877	9,759
Total segment assets	186,366	192,788
Interest in an associate	97,471	93,170
Loans receivable	–	45,465
Investments held for trading	27,491	41,565
Available-for-sale investments	9,375	9,150
Fixed deposit held at a bank with maturity over three months	11,063	–
Bank balances and cash	123,885	133,813
Dividend receivable from an associate	–	18,300
Other unallocated assets	1,812	3,269
Consolidated assets	457,463	537,520
Segment liabilities		
Telecommunications/information value-added services	48,529	34,090
PIATS business	93,118	68,758
System integration and software development	6,298	6,203
Total segment liabilities	147,945	109,051
Short-term bank loans	6,125	11,956
Deferred taxation	4,348	4,152
Other unallocated liabilities	11,654	13,392
Consolidated liabilities	170,072	138,551

For the purposes of monitoring segment performances and allocating resources between segments:

– All assets are allocated to operating segments other than investments held for trading, available-for-sale investments, loans receivable, fixed deposit held at a bank with maturity over three months, bank balances and cash and interest in an associate and assets used jointly by operating segments.

– All liabilities are allocated to operating segments other than short-term bank loans, deferred taxation and liabilities for which operating segments are jointly liable.

Other segment information

2013

Amounts included in the measure of segment profit or loss or segment assets:

	Tele-communications/ information value-added services	PIATS business	System integration and software development	Segment total	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions to non-current assets *(note)*	4,821	9,860	–	14,681	–	14,681
Depreciation	10,167	13,343	2	23,512	1,178	24,690
Amortisation of intangible assets	–	4,404	–	4,404	–	4,404
Net loss on deemed disposal of a joint venture and deemed acquisition of a subsidiary *(note 34)*	–	–	–	–	11,492	11,492
Loss on disposal of property, plant and equipment	64	–	–	64	–	64

Note: Non-current assets represent property, plant and equipment and intangible assets.

2012

Amounts included in the measure of segment profit or loss or segment assets:

	Tele-communications/ information value-added services	PIATS business	System integration and software development	Segment total	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Additions to non-current assets *(note)*	16,987	4,441	4	21,432	–	21,432
Depreciation	10,599	12,619	11	23,229	1,196	24,425
Amortisation of intangible assets	–	4,404	–	4,404	–	4,404
Impairment loss recognised in respect of property, plant and equipment	–	2,919	–	2,919	–	2,919
Impairment loss recognised in respect of intangible assets	–	4,889	–	4,889	–	4,889
Loss on disposal of property, plant and equipment	81	–	–	81	–	81

Note: Non-current assets represent property, plant and equipment and intangible assets.

Geographical information

Substantially all of the Group's revenue and non-current assets were derived from and located in PRC and, therefore, no geographical analysis is presented.

Information about major customers

Revenue from customers contributing over 10% of the total sales of the Group of the corresponding years are as follows:

	2013	2012
	HK$'000	*HK$'000*
Customer A[1]	211,156	153,303
Customer B[1]	115,430	120,263
Customer C[1,2]	–	60,131

1 Revenues from telecommunication/information value-added services.

2 Customer C contributes less than 10% of the total sales of the Group during the year ended 31st March 2013.

9. OTHER INCOME, GAINS AND LOSSES

	2013	2012
	HK$'000	*HK$'000*
Included in other income, gains and losses are the following items:		
Net loss on deemed disposal of a joint venture and deemed acquisition of a subsidiary *(note 34)*	(11,492)	–
Interest income from bank deposits	1,409	734
Imputed interest income on loans receivable	1,660	1,500
Dividends from listed equity securities	919	837
Change in fair value of investments held for trading	6,091	(8,660)
Change in value of loans receivable upon initial recognition *(note 21)*	(90)	(432)
Written-back of long outstanding trade payables	–	836
Net exchange gain (loss)	418	(520)
Reversal of allowance for doubtful debts	167	6
Others	113	–
	(805)	(5,699)

10. INTEREST EXPENSES

	2013	2012
	HK$'000	*HK$'000*
Interest on bank loans wholly repayable within five years	(668)	(939)

11. TAXATION

	2013	2012
	HK$'000	*HK$'000*
Current tax		
– PRC Enterprise Income Tax – Jointly controlled entities	1,029	1,228
Underprovision in prior years		
– PRC Enterprise Income Tax – Jointly controlled entities	54	–
Withholding tax on dividends	–	1,830
Deferred tax		
– Current year *(note 29)*	196	2,120
	1,279	5,178

No provision for Hong Kong Profits Tax has been made for both years as the Group did not derive taxable profits in Hong Kong in either year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries and jointly controlled entities are 25%.

Pursuant to the relevant laws and regulations in the PRC, one of the jointly controlled entity of the Group operating in the PRC was awarded the Advanced-technology Enterprise Certificate and is eligible for tax concession rate of 15% for three years commenced from 1st January 2012.

The charge for the year can be reconciled to the loss before taxation per consolidated statement of comprehensive income as follows:

	2013	**2012**
	HK$'000	*HK$'000*
Loss before taxation	(40,065)	(2,558)
Tax credit at the applicable tax rate of 25% (2012: 25%)	(10,016)	(640)
Tax effect of income that is not taxable for the tax purposes	(2,244)	(7,621)
Tax effect of share of profit of an associate	(491)	(4,793)
Tax effect of expenses that are not deductible for tax purposes	7,013	9,955
Tax effect of tax losses not recognised	8,996	5,414
Utilisation of tax losses previously not recognised	(890)	(332)
Effect of different tax rates of subsidiaries operating in Hong Kong	(476)	(116)
Underprovision of tax in prior years	54	–
Income tax at concessionary rate	(863)	(639)
Deferred taxation arising from withholding tax on undistributed profit of an associate	196	3,950
Taxation for the year	1,279	5,178

12. LOSS FOR THE YEAR

	2013	**2012**
	HK$'000	*HK$'000*
Loss for the year has been arrived at after charging (crediting):		
Directors' and chief executive's remuneration *(note 13)*	2,860	2,860
Other staff's retirement benefits scheme contributions	13,294	9,264
Other staff costs	298,053	230,457
Total staff costs	314,207	242,581
Amortisation of intangible assets (included in cost of sales and services)	4,404	4,404
Auditor's remuneration	2,330	2,384
Depreciation	24,690	24,425
Loss on disposal of property, plant and equipment	64	81
Operating lease rentals in respect of buildings	17,124	13,856
Recovery of amount previously written off	(829)	–
Share of tax of an associate (included in share of profit of an associate)	392	1,718

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the 9 (2012: 9) directors and the chief executive were as follows:

	Executive directors						Independent non-executive directors			
	Mr. Wang Jun	Ms. Chen Xiao Ying	Mr. Luo Ning	Mr. Sun Yalei	Mr. Zhang Lian Yang	Ms. Xia Guilan	Dr. Hui Ho Ming, Herbert, JP	Mr. Zhang Jian Ming	Dr. Long Junsheng	2013 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Fees	1,000	–	–	–	–	–	360	–	200	1,560
Other emoluments										
– salaries and other benefits	–	1,285	–	–	–	–	–	–	–	1,285
– contributions to retirement benefits schemes	–	15	–	–	–	–	–	–	–	15
Total emoluments	1,000	1,300	–	–	–	–	360	–	200	2,860

	Executive directors						Independent non-executive directors			
	Mr. Wang Jun	Ms. Chen Xiao Ying	Mr. Luo Ning	Mr. Sun Yalei	Mr. Zhang Lian Yang	Ms. Xia Guilan	Dr. Hui Ho Ming, Herbert, JP	Mr. Zhang Jian Ming	Dr. Long Junsheng	2012 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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

Ms. Chen Xiao Ying also acts as the Chief Executive of the Company and her emoluments disclosed above include those for services rendered by her as the Chief Executive.

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

14. EMPLOYEES' EMOLUMENTS

The aggregate emoluments of the five highest paid individuals included two (2012: two) directors of the Company, whose emoluments are included in note 13 above. The aggregate emoluments of the remaining three (2012: three) highest paid individuals are as follows:

	2013	**2012**
	HK$'000	*HK$'000*
Salaries and allowances	2,571	2,724
Retirement benefits scheme contributions	44	31
	2,615	2,755

The emoluments of the individuals fall within the following band:

	Number of individuals	
	2013	**2012**
Nil to HK$1,000,000	2	2
HK$1,000,001 to HK$1,500,000	1	1
	3	3

15. DIVIDENDS

No dividend was paid or proposed during both years, nor has dividend been proposed since the end of both reporting periods (2012: HK$nil).

16. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company for the year is based on the following data:

	2013	**2012**
	HK$'000	*HK$'000*
Loss for the purposes of basic and diluted loss per share	(41,344)	(7,735)

Number of ordinary shares

	2013	**2012**
Number of ordinary shares for the purposes of basic and diluted loss per share	3,717,869,631	3,717,869,631

For the years ended 31st March 2013 and 2012, the effect of the outstanding share options has not been taken into account in the calculation of diluted loss per share as their exercise would result in a decrease in loss per share for both years.

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Leasehold improvements, furniture and equipment HK$'000	Computer and special computer equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
COST						
At 1st April 2011	2,156	19,153	184,441	7,047	8,564	221,361
Currency realignment	54	235	4,588	113	216	5,206
Additions	–	2,519	6,373	–	12,540	21,432
Disposals	–	–	(2,704)	(227)	–	(2,931)
Transfers	–	10,183	6,493	–	(16,676)	–
At 31st March 2012	2,210	32,090	199,191	6,933	4,644	245,068
Currency realignment	55	547	4,843	107	109	5,661
Additions	–	2,360	11,894	–	427	14,681
Disposals	–	–	(2,084)	–	–	(2,084)
Derecognised on deemed disposal of a joint venture	–	(2,333)	(35,548)	(170)	–	(38,051)
Deemed acquisition of a subsidiary *(note 34)*	–	–	21	34	–	55
Transfers	–	183	40	–	(223)	–
At 31st March 2013	2,265	32,847	178,357	6,904	4,957	225,330
DEPRECIATION AND IMPAIRMENT						
At 1st April 2011	1,203	15,006	121,552	6,989	–	144,750
Currency realignment	30	190	3,031	111	–	3,362
Provided for the year	53	3,089	21,255	28	–	24,425
Impairment loss recognised	–	–	2,919	–	–	2,919
Eliminated on disposals	–	–	(2,192)	(227)	–	(2,419)
At 31st March 2012	1,286	18,285	146,565	6,901	–	173,037
Currency realignment	33	309	4,021	107	–	4,470
Provided for the year	53	4,092	20,533	12	–	24,690
Eliminated on disposals	–	–	(1,910)	–	–	(1,910)
Derecognised on deemed disposal of a joint venture	–	(2,333)	(24,046)	(153)	–	(26,532)
At 31st March 2013	1,372	20,353	145,163	6,867	–	173,755
CARRYING VALUES						
At 31st March 2013	893	12,494	33,194	37	4,957	51,575
At 31st March 2012	924	13,805	52,626	32	4,644	72,031

The leasehold land is located in the PRC and held under medium term leases.

During the year ended 31st March 2012, the Group carried out a review of the recoverable amount of its property, plant and equipment used in the Group's PIATS segment, having regard to the weaker and slower than expected development in the PIATS business. The review led to the recognition of an impairment loss of HK$2,919,000, that had been recognised in profit or loss. No impairment loss is recognised during the year ended 31st March 2013. Particulars regarding impairment assessment are disclosed in note 19.

Items of property, plant and equipment other than construction in progress are depreciated on a straight line basis less their residual values, over their estimated useful lives as follows:

Leasehold land and 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

18. INTANGIBLE ASSETS

	Licence rights
	HK$'000
COST	
At 1st April 2011	85,921
Currency realignment	2,166
At 31st March 2012	88,087
Currency realignment	2,166
At 31st March 2013	90,253
AMORTISATION AND IMPAIRMENT	
At 1st April 2011	35,282
Currency realignment	890
Impairment loss recognised for the year	4,889
Provided during the year	4,404
At 31st March 2012	45,465
Currency realignment	1,227
Provided during the year	4,404
At 31st March 2013	51,096
CARRYING VALUES	
At 31st March 2013	39,157
At 31st March 2012	42,622

The Group's licence rights were acquired from third parties. Such licences are amortised over an estimated useful life of 20 years on a straight line basis.

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

During the year ended 31st March 2012, as a result of the weaker and slower than expected development in the PIATS business, impairment loss was identified for intangible assets based on their recoverable amounts. Accordingly, impairment loss of HK$4,889,000 had been recognised. No impairment loss is recognised during the year ended 31st March 2013. Particulars regarding impairment assessment are disclosed in note 19.

19. IMPAIRMENT LOSSES RECOGNISED IN RESPECT OF PIATS BUSINESS

	2013	**2012**
	HK$'000	*HK$'000*
Impairment loss recognised in respect of property, plant and equipment	–	2,919
Impairment loss recognised in respect of intangible assets	–	4,889
	–	7,808

For the purposes of impairment testing, property, plant and equipment and intangible assets set out in notes 17 and 18 have been allocated into two individual CGUs, comprising one subsidiary in the PIATS business in drugs industry and one subsidiary (a former jointly controlled entity (see note 34)) in the PIATS business in other consumer products industry.

During the year ended 31st March 2013, as a result of the intensive promotion of PIATS business in drugs industry, further reinforcement on the area of electronic monitoring of drugs by the relevant authorities in the PRC and improvements in revenue earned in the first half of year 2013 in the PIATS business in drugs industry, the management of the Group determines that there is no impairment on the CGU of PIATS business in drugs industry. As to the other consumer products industry, the carrying amount of the property, plant and equipment after completion of the deemed acquisition of HK$55,000 (see note 34) is insignificant.

During the year ended 31st March 2012, due to the weaker and slower development in the PIATS business in drugs industry, the Group recognised impairment losses of HK$1,379,000 and HK$4,889,000 in relation to the property, plant and equipment and intangible assets of PIATS business in drugs industry, respectively. Furthermore, during the year ended 31st March 2012, in view of the postponed development in PIATS business in other consumer products industry, the Group recognised impairment losses of HK$1,540,000 in relation to the property, plant and equipment of PIATS business in other consumer products industry.

The recoverable amount of PIATS business in both drugs and other consumer products industries has been determined on the basis of value in use calculation. The key factors for the value in use calculation are discount rates, growth rates and expected changes to revenue and direct costs during the year. Management estimates discount rates using pre-tax rates that reflect current market assessment of the time value of money and the risks specific to the PIATS business. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

During the year, the Group performed impairment review for the PIATS business in drugs industry and other consumer products industry based on the cash flows forecasts derived from the most recent financial budgets for the next three years using a discount rate of 22.40% (2012: 19.14%) and 22.56% (2012: 19.14%), respectively while the remaining forecast periods of seven years has been extrapolated with reference to annual growth rates in the relevant industries.

20. INTEREST IN AN ASSOCIATE

	2013 HK$'000	2012 HK$'000
Cost of investment in unlisted shares	28,026	28,026
Contribution from a shareholder	19,215	19,215
Share of post-acquisition profits and other comprehensive income, net of dividend received	43,483	41,521
Currency realignment	6,747	4,408
	97,471	93,170

Name of the company	Place of registration and operation	Nominal value of registered capital	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	RMB71,428,571	30% (2012: 30%)	Operation of a platform for electronic customs processing

The summarised financial information in respect of the associate prepared in accordance with HKFRSs is set out below:

	2013 HK$'000	2012 HK$'000
Total assets	395,734	399,835
Total liabilities	(70,829)	(89,267)
Net assets	324,905	310,568
Group's share of net assets of the associate	97,471	93,170
Turnover	172,564	149,222
Profit for the year	6,539	63,905
Group's share of profit of an associate for the year	1,962	19,172

21. LOANS RECEIVABLE

	2013 HK$'000	2012 HK$'000
Loans receivable comprises:		
Non-current assets:		
Loan to CCIT on 3rd March 2006 *(note a)*	–	24,974
Loan to CCIT on 21st July 2009 *(note b)*	–	11,321
Loan to CCIT on 23rd November 2010 *(note c)*	–	9,170
	–	45,465

Notes:

(a) On 3rd March 2006, CITIC 21CN Telecom Company Limited ("Telecom") (a wholly owned subsidiary of the Group), entered into a loan agreement with CCIT in which Telecom granted a non-interest bearing and unsecured two-year loan of USD6,900,000 (equivalent to HK$53,820,000) (2012: equivalent to HK$53,820,000) to CCIT for the development of the PIATS business. During the year ended 31st March 2008 and 31st March 2011, the maturity dates of the loan were extended to 23rd March 2011 and 15th April 2014, respectively with terms and conditions remain unchanged.

As at 31st March 2012, the carrying amount of the loan receivable from CCIT not eliminated on proportionate consolidation was HK$24,974,000 with effective interest rate of 3.73% per annum.

(b) On 21st July 2009, CITIC 21CN (China) Technology Company Limited ("CITIC 21CN Technology") (a wholly owned subsidiary of the Group) entered into a loan agreement with CCIT in which CITIC 21CN Technology granted a non-interest bearing and unsecured three-year loan of RMB20,000,000 (equivalent to HK$25,000,000) (2012: equivalent to HK$24,400,000) to CCIT for the development of the PIATS business.

During the year ended 31st March 2011, the maturity date of the loan was extended to 15th April 2014 with terms and conditions remained unchanged.

As at 31st March 2012, the carrying amount of the loan receivable from CCIT not eliminated on proportionate consolidation was HK$11,321,000 with effective interest rate of 3.73% per annum.

(c) On 23rd November 2010, CITIC 21CN Technology entered into a second loan agreement with CCIT in which CITIC 21CN Technology granted a loan facility of RMB30,000,000 (equivalent to HK$37,500,000) (2012: equivalent to HK$36,600,000) to CCIT for the development of the PIATS business. The loan is non-interest bearing and unsecured, with a term up to 15th April 2014.

As at 31st March 2012, CCIT has drawn RMB16,000,000 (equivalent to HK$19,520,000) from the loan facility, and the carrying amount of the loan receivable from CCIT not eliminated on proportionate consolidation was HK$9,170,000 with effective interest rate of 3.73% per annum.

During the year ended 31st March 2013, CCIT has further drawn RMB3,000,000 (equivalent to HK$3,750,000) from the loan facility (c). As at 31st March 2013, the above loans are fully eliminated on consolidation after the deemed acquisition of CCIT as stated in note 34. In the opinion of the directors, the above loans were not expected to be repaid within twelve months after the reporting period as at 31st March 2012. Accordingly, it was classified as non-current as at 31st March 2012.

22. AVAILABLE-FOR-SALE INVESTMENTS

	2013	**2012**
	HK$'000	*HK$'000*
Unlisted club debenture	9,375	9,150

The above available-for-sale investments are stated at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

23. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2013	2012
	HK$'000	*HK$'000*
Cost incurred plus recognised profits less recognised losses	34,934	33,266
Less: Progress billings	(33,985)	(30,326)
	949	2,940

24. DEBTORS AND PREPAYMENTS

	2013	2012
	HK$'000	*HK$'000*
Trade receivables	100,284	90,110
Less: Allowance for doubtful debts	(26,954)	(26,470)
	73,330	63,640
Other receivables	4,648	2,200
Deposits and prepayments	18,519	12,624
Dividend receivable from an associate	–	18,300
	96,497	96,764

The Group provides a credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on invoice date at the end of the reporting period, which approximated the respective revenue recognition dates:

	2013	2012
	HK$'000	*HK$'000*
0–90 days	67,253	44,975
91–180 days	1,698	8,689
181–360 days	1,280	1,729
Over 360 days	3,099	8,247
	73,330	63,640

Before accepting any customer, the Group will internally assess the potential customer's credit quality and defines credit limits by customer.

Management closely monitors the credit quality of trade and other receivables and considers the trade and other receivables that are neither past due nor impaired to be of a good credit quality based on the good payment history of the related debtors from historical experience.

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$6,077,000 (2012: HK$18,665,000) which are past due at the reporting date for which the Group has not provided for impairment loss, as there has not been significant changes in credit quality and the amounts are still considered recoverable based on the relationship and repayment history from the debtors. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	2013	2012
	HK$'000	*HK$'000*
91–180 days	1,698	8,689
181–360 days	1,280	1,729
Over 360 days	3,099	8,247
	6,077	18,665

Movement in the allowance for doubtful debts

	2013	2012
	HK$'000	*HK$'000*
Balance at beginning of the year	26,470	25,825
Currency realignment	651	651
Impairment losses reversed	(167)	(6)
Balance at end of the year	26,954	26,470

The Group's allowance for doubtful debts are related to individually impaired trade receivables. The individually impaired receivables related to customers that were in financial difficulties and the directors consider the recoverability of these debts is remote.

25. INVESTMENTS HELD FOR TRADING

	2013	2012
	HK$'000	*HK$'000*
Listed securities at fair value:		
– equity securities listed in Hong Kong	22,410	19,937
– equity securities listed elsewhere	5,081	21,628
	27,491	41,565

The fair value of the above investments held for trading was determined based on the quoted market bid price of the listed securities available on the relevant exchanges.

26. FIXED DEPOSIT HELD AT A BANK WITH MATURITY OVER THREE MONTHS/BANK BALANCES AND CASH

The fixed deposit at 31st March 2013 carries a fixed interest of 2.8% per annum. Bank balances carry interest at market rates ranging from 0.001% to 0.500% per annum (2012: 0.001% to 0.500% per annum) during the year.

Included in the bank balances are Renminbi short-term bank deposits of HK$43,000,000 (2012: HK$58,699,000) kept in banks registered in the PRC, and which are subjected to exchange control as at 31st March 2013.

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

	2013	2012
	HK$'000 equivalent	*HK$'000 equivalent*
USD	72,447	46,998

27. CREDITORS AND ACCRUALS

	2013	2012
	HK$'000	*HK$'000*
Trade payables	41,024	32,446
Receipt in advance from customers	13,706	12,014
Other payables and accruals	104,531	75,805
	159,261	120,265

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2013	2012
	HK$'000	*HK$'000*
0–90 days	17,533	12,548
91–180 days	370	1,792
181–360 days	788	720
Over 360 days	22,333	17,386
	41,024	32,446

28. SHORT-TERM BANK LOANS

During the year ended 31st March 2013, HL 95, a jointly controlled entity of the Group, obtained bank loans of RMB10,000,000 (equivalent to HK$12,500,000) (2012: RMB20,000,000 (equivalent to HK$24,400,000)) secured by corporate guarantee from another joint venture partner. The loans carry fixed interest rate at 6.30% (2012: 7.87%) per annum and are due for payment in January 2014 (2012: October 2012). As at 31st March 2013, the Group proportionate consolidated 49% of the amount of short-term bank loans of HL95 of HK$6,125,000 (2012: HK$11,956,000) stated in the consolidated statement of financial position.

29. DEFERRED TAXATION

The following deferred tax liability mainly arising from withholding tax applied on the profit of the associate in PRC for the year ended 31st March 2013 and 2012 and movement thereon during the year:

	HK$'000
At 1st April 2011	2,032
Charged to profit or loss during the year *(note 11)*	3,950
Reversal of deferred tax liabilities upon distribution of profits *(note 11)*	(1,830)
At 31st March 2012	4,152
Charged to profit or loss during the year *(note 11)*	196
At 31st March 2013	4,348

At the end of the reporting period, the Group has unused tax losses of approximately HK$297,428,000 (2012: HK$264,347,000) 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. Included in tax losses are losses of HK$83,416,000, HK$37,681,000, HK$34,532,000, HK$29,614,000 and HK$35,983,000 (2012: HK$41,772,000, HK$74,921,000, HK$24,742,000, HK$25,055,000 and HK$21,655,000) that will expire from year 2013 to 2017 (2012: year 2012 to 2016), respectively. These tax losses have not been agreed with the local tax bureau in the PRC. Other losses may be carried forward indefinitely.

30. SHARE CAPITAL

	Number of ordinary shares	*HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each		
– at 1st April 2011, 31st March 2012 and 31st March 2013	10,000,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
– at 1st April 2011, 31st March 2012 and 31st March 2013	3,717,869,631	37,179

31. RESERVES

Capital reserve represents the deemed capital contribution from a shareholder, CITIC Group Corporation (formerly known as "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.

General reserve represents the share of PRC statutory reserves from the joint ventures. PRC statutory reserves are required to be maintained under the relevant PRC laws applicable to the joint ventures of the Group.

32. 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 HK$	Outstanding at 1.4.2011, 31.3.2012 and 31.3.2013
Directors of the Company, including ex-Director:			
24.6.2003	10.9.2004–23.6.2013	0.3220	30,000,000
24.6.2003	10.3.2005–23.6.2013	0.3220	30,000,000
24.6.2003	10.9.2005–23.6.2013	0.3220	30,000,000
24.6.2003	24.6.2004–23.6.2013	0.3220	11,666,666
24.6.2003	24.12.2004–23.6.2013	0.3220	11,666,666
24.6.2003	24.6.2005–23.6.2013	0.3220	11,666,668
23.3.2005	23.3.2006–23.3.2015	3.1750	10,000,000
23.3.2005	23.3.2007–23.3.2015	3.1750	10,000,000
23.3.2005	23.3.2008–23.3.2015	3.1750	10,000,000
			155,000,000
Exercisable at the end of the year			155,000,000
Weighted average exercise price			HK$0.8742

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

Date of grant	Exercisable period	Exercise price HK$	Outstanding at 1.4.2011	Forfeited during the year ended 31.3.2012	Outstanding at 31.3.2012 and 31.3.2013
Employees:					
2.3.2005	2.9.2005–1.3.2015	2.5250	366,666	(166,666)	200,000
2.3.2005	2.9.2006–1.3.2015	2.5250	366,667	(166,667)	200,000
2.3.2005	2.3.2008–1.3.2015	2.5250	366,667	(166,667)	200,000
23.3.2005	23.3.2006–22.3.2015	3.1750	200,000	–	200,000
23.3.2005	23.3.2007–22.3.2015	3.1750	200,000	–	200,000
23.3.2005	23.3.2008–22.3.2015	3.1750	200,000	–	200,000
23.3.2005	23.3.2009–22.3.2015	3.1750	200,000	–	200,000
23.3.2005	23.3.2010–22.3.2015	3.1750	200,000	–	200,000
4.6.2007	4.6.2008 to 3.6.2017	2.5000	900,000	(900,000)	–
4.6.2007	4.6.2009 to 3.6.2017	2.5000	600,000	(600,000)	–
4.6.2007	*Note (a)*	2.5000	750,000	(750,000)	–
4.6.2007	*Note (b)*	2.5000	750,000	(750,000)	–
			5,100,000	(3,500,000)	1,600,000
Total			160,100,000	(3,500,000)	156,600,000
Exercisable at the end of the year					1,600,000
Weighted average exercise price			HK$2.6377	HK$2.5036	HK$2.9313

Notes:

(a) These options are exercisable upon a trigger event of the Company's share price quoted on the Stock Exchange equal to HK$8 or above until 3.6.2017.

(b) These options are exercisable upon a trigger event of the Company's share price quoted on the Stock Exchange equal to HK$12 or above until 3.6.2017.

No share options has been exercised during the year ended 31st March 2013 and 2012.

The Group did not recognise any expense for the years ended 31st March 2013 and 2012 in relation to share options granted by the Company.

33. JOINT VENTURES

As at 31st March 2013 and 2012, the Group has the following interests in jointly controlled entities:

Name of entity	Place of registration/ operations	Nominal value of registered capital	Effective percentage of interest held by the Group 31.3.2013	Effective percentage of interest held by the Group 31.3.2012	Principal activities
HL 95	PRC	RMB60,000,000	49%	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 in other consumer products industries

* *See note 34 for details.*

The summarised financial information in respect of the Group's interests in the jointly controlled entities which are accounted for using the proportionate consolidation with the line-by-line reporting format is set out below:

	2013 *HK$'000*	2012 *HK$'000*
Current assets	105,555#	83,820
Non-current assets	43,207#	59,400
Current liabilities	57,898#	65,160
Income	474,182**	471,988
Expenses	472,335**	476,160
Taxation	1,083**	1,228

\# Excluded the financial information of CCIT as it is not a jointly controlled entity of the Group as at 31st March 2013.

** Included the results of CCIT up to the date that the Group lost the joint control as disclosed in note 34.

34. DEEMED DISPOSAL OF A JOINT VENTURE/DEEMED ACQUISITION OF A SUBSIDIARY

In terms of the shareholders' agreement dated 20th January 2005, the Group had joint control over CCIT and CCIT was classified and accounted for as a jointly controlled entity. On 28th March 2013, the Group entered into a supplementary agreement (the "Arrangement") with the other joint venturer in terms of which the latter agreed to vote in accordance with the instructions of the Group on CCIT's financing and operating decisions. As a result of this Agreement, the Group obtained control over CCIT.

Upon the completion of the Arrangement, the Group lost joint control over CCIT and was deemed to have disposed of 50% equity interest in CCIT, which resulted in a gain on deemed disposal of the joint venture of HK$62,943,000.

At the same time, CCIT became a non-wholly owned subsidiary of the Group and the Arrangement resulted in goodwill arising from deemed acquisition of a subsidiary of approximately HK$74,435,000 which is fully impaired because of the continuous operating loss and postponed development in PIATS business in other consumer products industry. The acquisition has been accounted for using the acquisition method.

The fair value of the previously held interest and the fair values of the identificable assets and liabilities at the deemed acquisition date were determined by reference to the valuation carried out by Asset Appraisal Limited, an independent qualified professional valuer not connected with the Group. The valuation was arrived at by reference to the assets based approach.

The net liabilities of CCIT at the date of deemed acquisition are as follows:

	Fair value
	HK$'000
Net liabilities acquired:	
Property, plant and equipment	55
Other receivables	748
Bank balances and cash	904
Trade and other payables	(38,888)
Amount due to a fellow subsidiary	(12,830)
Loans from Telecom and CITIC 21CN Technology	(98,859)
	(148,870)
Non-controlling interests	74,435
	(74,435)

Net loss on deemed disposal of a joint venture and deemed acquisition of a subsidiary

	HK$'000
Net liability of CCIT attributable to the Group upon consolidation	(74,435)
Net liability of CCIT derecognised upon consolidation	62,943
Net loss on deemed disposal of a joint venture and deemed acquisition of a subsidiary *(note 9)*	(11,492)
Net cash inflow of cash and cash equivalents:	
Bank balances and cash disposed of	(452)
Bank balances and cash acquired	904
	452

As the date of deemed acquisition of CCIT is close to year end, there is no material difference between the Group's turnover and loss for the year ended 31st March 2013 between the date of deemed acquisition and at the end of the reporting period.

If the deemed acquisition had been completed on 1st April 2012, total Group's turnover for the year ended 31st March 2013 would have been approximately HK$490,234,000, and loss for the year ended 31st March 2013 would have been HK$49,686,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1st April 2012, nor is it intended to be a projection of future results.

35. OPERATING LEASES

At the end of the reporting period, the Group and the joint ventures had commitments for future minimum lease payments in respect of buildings under non-cancellable operating leases which fall due as follows:

	2013	**2012**
	HK$'000	*HK$'000*
Within one year	18,051	10,758
In the second to fifth years inclusive	32,424	16,715
	50,475	27,473

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

36. CAPITAL COMMITMENTS

	2013	**2012**
	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	314	280

In addition to the above, the Group's share of the capital commitments of its joint ventures are as follows:

	2013	**2012**
	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	341	768

37. 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 (increase to maximum of HK$1,250 effective from 1st June 2012) 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 basic 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.

38. RELATED PARTY TRANSACTIONS

(a) Transactions with other government-related entities in the PRC

The Company's substantial shareholder with significant influence over the Group, CITIC Group Corporation, is controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities").

Apart from the transactions with the entities under CITIC Group Corporation, the Group also conducts business with other government-related entities in the ordinary course of the business, including deposit placements, borrowings and other general banking facilities with certain banks and financial institutions. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful. The directors consider those government-related 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 government-related entities, the Group does not differentiate whether the counter-party is a government-related entity or not.

The following is a summary of significant related party transactions between the Group and government-related entities (other than transactions with government-related entities which are not individually or collectively significant) during the year and balances arising from related party transactions at the end of the reporting period.

Significant related party transactions are as follows:

	2013	**2012**
	HK$'000	*HK$'000*
Telecommunications/information value-added services agency fee expenses *(note)*	38,510	68,605
Revenue from entities under CITIC Group Corporation	211,156	153,303

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

Balances with related parties are as follows:

	2013	**2012**
	HK$'000	*HK$'000*
Balances with entities under CITIC Group Corporation		
Trade receivables	15,615	10,793
Bank balances	43,864	35,215
Balances with the other government-related entities		
Trade receivables	23,946	24,318
Bank balances	8,636	4,934

The Group believes that it has provided, at the best of its knowledge, adequate and appropriate disclosure of related party transactions as summarised above.

(b) Transactions with other shareholders of a jointly controlled entity

	2013	2012
	HK$'000	*HK$'000*
Telecommunications/information value-added services agency fee expenses *(note)*	2,190	3,008

Note: 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.

39. ARBITRATION AND LITIGATION

On 29th October 2009, the Company received the Arbitration Notice issued by China International Economic and Trade Arbitration Commission ("CIETAC"). According to the Arbitration Notice, Oracle (China) Software Systems Co., Ltd. (formerly known as Beijing Oracle Software Systems Co., Ltd.) ("Oracle Beijing"), an independent third party, submitted an application in relation to an arbitration (the "Arbitration") on the dispute arising from a payment agreement signed by Oracle Beijing, CITIC 21CN Technology, the Company and Oracle Systems Hong Kong Limited, an independent third party, on 30th May 2006 (the "Payment Agreement"). The Payment Agreement provided, among others, the settlement arrangement of licence fee and service fee in relation to the Oracle Licence and Service Agreement in an aggregate amount of approximately RMB116 million (the "Oracle Licence and Service Agreement") against which approximately US$11 million (approximately RMB88 million) deposit has been paid by the Group. The reason for the dispute over the Payment Agreement was that the parties to the agreements could not reach a consensus on the execution of the agreements.

During the financial year ended 31st March 2011, the Company received an Arbitral Award handed down by CIETAC and received a court order (the "Order") from the High Court of the Hong Kong Special Administrative Region ("HKSAR") that leave be granted to Beijing Oracle to enforce the Arbitral Award. Details of the Arbitral Award were set out in the Company's announcement dated 24th June 2010. By a judgement made by Beijing First Intermediate People's Court dated 25th October 2011, the Arbitral Award was set aside. As a result, the Company received another court order dated 7th December 2011 from the High Court of the HKSAR that the legal action of the Order was discontinued. Accordingly, the interest expenses with other legal and related costs of RMB21,534,000 (equivalent to HK$26,271,000) arising from the Arbitral Award previously recognised were reversed during the year ended 31st March 2012.

On 24th January 2011, CITIC 21CN Technology, being the plaintiff, made an appeal to the Beijing First Intermediate People's Court against Oracle Beijing, being the defendant, for termination of the Oracle Licence and Services Agreement and Payment Agreement and compensation from Oracle Beijing. The legal proceedings of the claim were still in progress at the end of the reporting period and as at the date that these consolidated financial statements were authorised for issue.

On 18th January 2012, Oracle Beijing, being the plaintiff, commenced a new legal action in the High Court of the HKSAR against the Company, CITIC 21CN Technology and Oracle Systems Hong Kong Limited, an independent third party, for an alleged breach of the Oracle Licence and Services Agreement and the Payment Agreement and claimed for payment in relation to the agreements of approximately RMB88 million together with it costs. On 5th April 2012, the Company and CITIC 21CN Technology took out a Summons to apply for the legal action to be stayed. The hearing of the Summons was held on 31st January 2013, but the result has not yet been announced as at the date that these consolidated financial statements were authorised for issue. The aforesaid amounts of licence fee and other related costs, net of deposits paid, has been properly accounted for in the consolidated financial statements as at 31st March 2013 and 31st March 2012.

As the above application and litigation are still waiting for court decision, the result cannot be reasonably estimated at this stage. In the opinion of the directors of the Company, adequate provision has been made in the consolidated financial statements.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, all of which are limited liability companies, at 31st March 2013 and 2012 are as follows:

Name of subsidiary	Form of entity	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	Incorporated	Hong Kong	HK$1,000,000	–	100% (2012: 100%)	System integration and software development
CITIC 21CN (China) Technology Company Limited	Incorporated	PRC	RMB50,000,000	–	100% (2012: 100%)	Provision of product identification, authentication and tracking system business in drugs industry
Guangdong Grand Cycle Technology Company Limited	Incorporated	PRC	HK$21,000,000	–	100% (2012: 100%)	System integration and software development for a term of 50 years commencing December 2002
CCIT	Incorporated	PRC	RMB60,000,000	–	50% *(note)* *(2012: nil)*	Provision of product identification, authentication and tracking system business in other consumer products industries

Note: CCIT is the non-wholly owned subsidiary of the Group because the Group has obtained control over the financial and operating policies of CCIT during the current year (see note 34).

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.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2013	2012
	HK$'000	*HK$'000*
Investment in subsidiaries	13,000	13,000
Amounts due from subsidiaries	260,628	274,840
Other assets	121,359	125,219
	394,987	413,059
Total liabilities	(42,549)	(42,444)
Net assets	352,438	370,615
Capital and reserves		
Share capital	37,179	37,179
Reserves	315,259	333,436
Total equity	352,438	370,615

Movement of share capital and reserves

	Share capital	Share premium	Contributed surplus	Share option reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2011	37,179	769,675	58,318	21,181	(496,256)	390,097
Loss and total comprehensive expense for the year	–	–	–	–	(19,482)	(19,482)
Forfeiture of share options	–	–	–	(350)	350	–
At 31st March 2012	37,179	769,675	58,318	20,831	(515,388)	370,615
Loss and total comprehensive expense for the year	–	–	–	–	(18,177)	(18,177)
At 31st March 2013	37,179	769,675	58,318	20,831	(533,565)	352,438

C. INTERIM RESULTS

The information set out below is extracted from the interim report of the Company for the six months ended 30 September 2013 published on 6 December 2013.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30th September 2013

		Six months ended 30th September	
		2013	**2012**
		(Unaudited)	(Unaudited and restated)
	Notes	*HK$'000*	*HK$'000*
Turnover	*3*	14,892	7,552
Cost of sales and services		(12,823)	(9,233)
Gross profit/(loss)		2,069	(1,681)
Other income, gains and losses	*4*	885	(113)
Administrative expenses		(21,691)	(16,528)
Share of profit of an associate	*5*	1,005	3,585
Share of net results of joint ventures	*6*	530	434
Loss before taxation		(17,202)	(14,303)
Taxation	*7*	(100)	(358)
Loss and total comprehensive expense for the period	*8*	(17,302)	(14,661)
Loss for the period attributable to:			
Owners of the Company		(14,619)	(14,661)
Non-controlling interests		(2,683)	–
		(17,302)	(14,661)
Total comprehensive expense attributable to:			
Owners of the Company		(14,619)	(14,661)
Non-controlling interests		(2,683)	–
		(17,302)	(14,661)
		HK cents	*HK cents*
Loss per share			
Basic and diluted	*9*	(0.39)	(0.39)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30th September 2013

	Notes	30th September 2013 (Unaudited) HK$'000	31st March 2013 (Restated) HK$'000
Non-current assets			
Property, plant and equipment		5,660	8,367
Intangible assets	10	36,901	39,157
Interest in an associate		98,476	97,471
Interest in a joint venture		91,394	90,864
Available-for-sale investments		9,375	9,375
		241,806	245,234
Current assets			
Amounts due from customers for contract work		–	949
Debtors and prepayments	11	17,958	9,324
Investments held for trading		26,004	27,491
Fixed deposit held at a bank with maturity over three months		3,750	11,063
Bank balances and cash		90,704	105,667
		138,416	154,494
Current liabilities			
Creditors and accruals	12	71,041	107,970
Taxation payable		19	19
		71,060	107,989
Net current assets		67,356	46,505
Total assets less current liabilities		309,162	291,739
Non-current liabilities			
Long-term loan	13	28,958	–
Deferred taxation		4,448	4,348
		33,406	4,348
		275,756	287,391
Capital and reserves			
Share capital	14	37,179	37,179
Reserves		312,853	324,638
		350,032	361,817
Non-controlling interests		(74,276)	(74,426)
Total equity		275,756	287,391

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September 2013

	Attributable to owners of the Company										
	Share capital	Share premium	Capital reserve	Contributed surplus	Translation reserve	Share options reserve	General reserve	Accumulated losses	Total	Non-controlling interests	Total
	(Unaudited and restated)	(Unaudited and restated)	(Unaudited and restated)	(Unaudited and restated)	(Unaudited and restated)	(Unaudited and restated)	(Unaudited and restated)	(Unaudited and restated)	(Unaudited and restated)	(Unaudited and restated)	(Unaudited and restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st April 2013	37,179	769,675	19,215	78,108	74,860	20,831	13,433	(651,484)	361,817	(74,426)	287,391
Loss and total comprehensive expense for the period	–	–	–	–	–	–	–	(14,619)	(14,619)	(2,683)	(17,302)
Deemed contribution from the shareholder	–	–	2,834	–	–	–	–	–	2,834	2,833	5,667
At 30th September 2013	37,179	769,675	22,049	78,108	74,860	20,831	13,433	(666,103)	350,032	(74,276)	275,756
At 1st April 2012	37,179	769,675	19,215	78,108	73,229	20,831	12,931	(612,208)	398,960	9	398,969
Loss and total comprehensive expense for the period	–	–	–	–	–	–	–	(14,661)	(14,661)	–	(14,661)
At 30th September 2012	37,179	769,675	19,215	78,108	73,229	20,831	12,931	(626,869)	384,299	9	384,308

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30th September 2013

	Six months ended 30th September	
	2013	2012
	(Unaudited)	(Unaudited and restated)
	HK$'000	*HK$'000*
Net cash (used in) from operating activities	(56,098)	2,879
Net cash from (used in) investing activities	6,714	(8,700)
Net cash from (used in) financing activities	34,421	(431)
Decrease in cash and cash equivalents	(14,963)	(6,252)
Cash and cash equivalent at beginning of the period	105,667	121,471
Cash and cash equivalent at end of the period, representing bank balances and cash	90,704	115,219

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

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

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

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

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

The condensed consolidated financial statements for the six months ended 30th September 2013 are unaudited and have been reviewed by the audit committee of the Company.

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

Except as described below, the accounting policies and methods of computation used in condensed consolidated financial statements for the six months ended 30th September 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31st March 2013.

In the current interim period, the Group has adopted, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements.

Amendments to HKFRSs	Annual improvements to HKFRSs 2009–2011 cycle
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
Amendments to HKAS 1	Presentation of financial statements – Presentation of items of other comprehensive income
HKAS 19 (as revised in 2011)	Employee benefits
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine

New and revised standards on consolidation, joint arrangements, associates and disclosures

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK (SIC) INT 12 "Consolidation – Special purpose entities". HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. Some guidance has been included in HKFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

Impact of the application of HKFRS 11

HKFRS 11 replaces HKAS 31 "Interests in Joint Ventures", and the guidance contained in a related interpretation, HK(SIC) – INT 13 "Jointly controlled entities – Non-monetary contributions by venturers", has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC) INT 13 "Jointly controlled entities – Non-monetary contributions by venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have rights to the net assets of the arrangement. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

Impact of the application of HKFRS 12

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

Upon the adoption of these five standards in the Group's consolidated financial statements for this financial period beginning 1st April 2013, the Group's investment in Beijing Honglian 95 Information Industries Company Limited 北京鴻聯九五信息產業有限公司 ("HL 95"), which was previously classified as a jointly controlled entity ("JCE") under HKAS 31 and accounted for using the proportionate consolidation method, was classified as a joint venture and accounted for using the equity method under HKFRS 11, resulting in the aggregation of the Group's proportionate share of HL 95's respective net assets and items of profit or loss into a single line item which were presented in the consolidated statement of financial position and in the consolidated statement of comprehensive income as "interest in a joint venture" and "share of profit of a joint venture", respectively. The profit after tax of the Group was the same under equity method and under proportionate consolidation method. The comparative amount has been restated with HL95 being equity accounted for since the date of acquisition. The comparative amount for the six months ended 30th September 2012 has also been restated with China Credit information Technology Company Limited 中信國檢信息技術有限公司 ("CCIT") which was still a JCE of the Group during that period*.

* On 28th March 2013, the Group obtained control over CCIT, the then joint venture. The financial information of CCIT was reported as JCE between 1st April 2012 to 28th March 2013, and on a full consolidation basis for the period subsequent to 28th March 2013 and up to 30th September 2013. Please refer to the Company "Financial Information — B. Audited Consolidated Financial Statements — 34. Deemed Disposal of a Joint Venture/Deemed Acquisition of a Subsidiary" in Appendix II to this circular on page 87 to 88.

The operating results previously reported by the Group for the six months ended 30th September 2012 have been restated to equity accounted for the Group's JCEs as set out below:

	The Group (as previously reported)	**JCEs**	**The Group**
	HK$'000	*HK$'000*	*HK$'000* (Restated)
Turnover	245,657	(238,105)	7,552
Cost of sales and services	(215,807)	206,574	(9,233)
Gross profit/(loss)	29,850	(31,531)	(1,681)
Other income, gains and losses	(5)	(108)	(113)
Administrative expenses	(47,182)	30,654	(16,528)
Share of profit of an associate	3,585	–	3,585
Share of net results of joint ventures	–	434	434
Interest expenses	(430)	430	–
Loss before taxation	(14,182)	(121)	(14,303)
Taxation	(479)	121	(358)
Loss for the period	(14,661)	–	(14,661)

The financial position previously reported by the Group as at 31st March 2013 have been restated to equity accounted for the Group's JCE as set out below:

	The Group (as previously reported) *HK$'000*	**JCE** *HK$'000*	**The Group** *HK$'000* (Restated)
Non-current assets			
Property, plant and equipment	51,575	(43,208)	8,367
Intangible assets	39,157	–	39,157
Interest in an associate	97,471	–	97,471
Interest in a joint venture	–	90,864	90,864
Available-for-sale investments	9,375	–	9,375
	197,578	47,656	245,234
Current assets			
Amounts due from customers for contract work	949	–	949
Debtors and prepayments	96,497	(87,173)	9,324
Investments held for trading	27,491	–	27,491
Fixed deposit held at a bank with maturity over three months	11,063	–	11,063
Bank balances and cash	123,885	(18,218)	105,667
	259,885	(105,391)	154,494
Current liabilities			
Creditors and accruals	159,261	(51,291)	107,970
Taxation payable	338	(319)	19
Short-term loans	6,125	(6,125)	–
	165,724	(57,735)	107,989
Net current assets	94,161	(47,656)	46,505
Total assets less current liabilities	291,739	–	291,739
Non-current liability			
Deferred taxation	4,348	–	4,348
	287,391	–	287,391

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 "Presentation of items of other comprehensive income" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a "statement of comprehensive income" is renamed as a "statement of profit or loss and other comprehensive income". The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The title of condensed consolidated statement of comprehensive income has been changed to condensed consolidated statement of profit and loss and other comprehensive income.

Other than the above, the directors of the Company anticipate that the application of other new and revised HKFRSs has had no material impact on these condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group is an integrated information and content service provider. For management purposes, the Group is organised into two operating divisions namely the provision of Product Identification, Authentication, Tracking System ("PIATS"), and the system integration and software development. These divisions are the basis on which the Group reports its segment information.

Principal activities are as follows:

PIATS business	–	operation of an exclusive platform for PIATS
System integration and software development	–	provision of system integration and software development

The following is an analysis of the Group's revenue and results by operating and reporting segments:

	Segment revenue		Segment profit/(loss)	
	Six months ended 30th September			
	2013	2012	2013	2012
	(unaudited)	(unaudited and restated)	(unaudited)	(unaudited and restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
PIATS business	13,286	6,299	(12,509)	(11,418)
System integration and software development	1,606	1,253	382	(151)
Total	14,892	7,552	(12,127)	(11,569)
Other income, gains and losses			885	(113)
Share of profit of an associate			1,005	3,585
Share of net results of joint ventures			530	434
Unallocated expenses			(7,495)	(6,640)
Loss before taxation			(17,202)	(14,303)

4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30th September	
	2013	2012
	(Unaudited)	(Unaudited and restated)
	HK$'000	*HK$'000*
Interest income from bank deposits	213	640
Imputed interest income on loans receivable	–	823
Imputed interest expense on long-term loan	(204)	–
Dividends from listed equity securities	929	772
Change in fair value of investments held for trading	71	(2,412)
Change in value of loans receivable upon initial recognition	–	(35)
Net exchange (loss) gain	(124)	99
	885	(113)

5. SHARE OF PROFIT OF AN ASSOCIATE

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

6. SHARE OF NET RESULTS OF JOINT VENTURES

The Group recorded a share of profit from a 49%-owned joint venture, HL 95 for both periods, and for the six months ended 30th September 2012, a share of loss from a 50%-owned joint venture, CCIT.

7. TAXATION

The charge represents withholding tax on dividends.

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

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries and jointly controlled entities are 25%.

8. LOSS FOR THE PERIOD

	Six months ended 30th September	
	2013	**2012**
	(Unaudited)	(Unaudited and restated)
	HK$'000	*HK$'000*
Loss for the period has been arrived at after charging (crediting):		
Staff costs	16,913	10,048
Depreciation	1,051	1,293
Operating lease rentals in respect of buildings	3,788	2,096
Reversal of impairment losses on trade receivables	(352)	(167)

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to the owners of the Company for the period is based on the loss for the purposes of basic and diluted loss per share of HK$14,619,000 (2012: HK$14,661,000) and the weighted average number of ordinary shares for the purposes of basic and diluted loss per share of 3,717,870,000 (2012: 3,717,870,000).

The diluted loss per share for the six months period ended 30th September 2013 and 2012 are not presented as the exercise of the outstanding share options would result in a decrease in loss per share for both periods.

10. INTANGIBLE ASSETS

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

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

11. DEBTORS AND PREPAYMENTS

	30th September 2013 (Unaudited) *HK$'000*	**31st March 2013** (Restated) *HK$'000*
Trade receivables	34,990	26,109
Less: Allowance for doubtful debts	(26,071)	(26,071)
	8,919	38
Deposits and prepayments	9,039	9,286
	17,958	9,324

The Group provides a credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on invoice date at the end of the reporting period:

	30th September 2013 (Unaudited) *HK$'000*	**31st March 2013** (Restated) *HK$'000*
0–90 days	8,502	30
91–180 days	386	–
181–360 days	–	–
Over 360 days	31	8
	8,919	38

12. CREDITORS AND ACCRUALS

	30th September 2013 (Unaudited) *HK$'000*	31st March 2013 (Restated) *HK$'000*
Trade payables	3,969	13,646
Receipt in advance from customers	12,169	13,703
Other payables and accruals	54,903	80,621
	71,041	107,970

The following is an aged analysis of trade payables presented based on the invoice date at the end

	30th September 2013 (Unaudited) *HK$'000*	31st March 2013 (Restated) *HK$'000*
0–90 days	41	112
91–180 days	–	50
181–360 days	83	264
Over 360 days	3,845	13,220
	3,969	13,646

13. LONG-TERM LOAN

On 20th August 2013, CCIT, a 50%-owned subsidiary of the Group, entered into a loan agreement with a director of the Group in which the director granted a non-interest bearing and unsecured three-year loan of RMB27,537,000 (equivalent to HK$34,421,000) to CCIT for the continuous development of the PIATS business.

14. SHARE CAPITAL

	Number of ordinary shares	*HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each		
At 1st April 2012, 31st March 2013 and 30th September 2013	10,000,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1st April 2012, 31st March 2013 and 30th September 2013	3,717,869,631	37,179

15. COMMITMENTS

(a) Capital commitment

	30th September 2013 (Unaudited) *HK$'000*	31st March 2013 (Restated) *HK$'000*
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	–	314

(b) Operating leases

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

	30th September 2013 (Unaudited) *HK$'000*	31st March 2013 (Restated) *HK$'000*
Within one year	6,465	7,489
In the second to fifth year inclusive	19,005	21,462
	25,470	28,951

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

16. ARBITRATION AND LITIGATION

On 29th October 2009, the Company received the Arbitration Notice issued by China International Economic and Trade Arbitration Commission ("CIETAC"). According to the Arbitration Notice, Oracle (China) Software Systems Co., Ltd. (formerly known as Beijing Oracle Software Systems Co., Ltd.) ("Oracle Beijing"), an independent third party, submitted an application in relation to an arbitration (the "Arbitration") on the dispute arising from a payment agreement signed by Oracle Beijing, CITIC 21CN Technology, the Company and Oracle Systems Hong Kong Limited, an independent third party, on 30th May 2006 (the "Payment Agreement"). The Payment Agreement provided, among others, the settlement arrangement of licence fee and service fee in relation to the Oracle Licence and Services Agreement in an aggregate amount of approximately RMB116 million (the "Oracle Licence and Services Agreement") against which approximately US$11 million (approximately RMB88 million) deposit has been paid by the Group. The reason for the dispute over the Payment Agreement was that the parties to the agreements could not reach a consensus on the execution of the agreements.

During the financial year ended 31st March 2011, the Company received an Arbitral Award handed down by CIETAC (the "Arbitral Award") and received a court order (the "Order") from the High Court of the Hong Kong Special Administrative Region ("HKSAR") that leave be granted to Beijing Oracle to enforce the Arbitral Award. Details of the Arbitral Award were set out in the Company's announcement dated 24th June 2010. By a judgment made by Beijing First Intermediate People's Court dated 25th October 2011, the Arbitral Award was set aside. As a result, the Company received another court order dated 7th December 2011 from the High Court of the HKSAR that the legal action of the Order was discontinued. Accordingly, the Arbitral Award ceased to have legal effect.

On 24th January 2011, CITIC 21CN Technology, being the plaintiff, made an appeal to the Beijing First Intermediate People's Court against Oracle Beijing, being the defendant, for termination of the Oracle Licence and Services Agreement and Payment Agreement and compensation from Oracle Beijing. The legal proceedings of the claim were still in progress at the end of the reporting period.

On 18th January 2012, Oracle Beijing, being the plaintiff, commenced a new legal action in the High Court of the HKSAR against the Company, CITIC 21CN Technology and Oracle Systems Hong Kong Limited, an independent third party, for an alleged breach of the Oracle Licence and Services Agreement and Payment Agreement and claimed for payment in relation to the agreements of approximately RMB88 million together with it costs. On 5th April 2012, the Company and CITIC 21CN Technology took out a Summons to apply for the legal action to be stayed but was refused by a Judgment dated 18th September 2013. The Defence of the Company and CITIC 21 CN Technology has been filed and served on 6th November 2013. The aforesaid amounts of licence fee and other related costs, net of deposits paid, has been properly accounted for in the condensed consolidated financial statements as at 30th September 2013.

As the above litigations are still waiting for court decision, the result cannot be reasonably estimated at this stage. In the opinion of the directors of the Company, adequate provision has been made in the condensed consolidated financial statements.

D. INDEBTEDNESS STATEMENT

As at the close of business on 31 January 2014, being the latest practicable date for the purpose of preparing this indebtedness statement, the Group had repaid all its borrowings that were outstanding as of 30 September 2013. Apart from intra-group liabilities and normal trade payables in the ordinary course of business, at the close of business on 31 January 2014, the Group did not have any other outstanding bank borrowings, bank overdrafts or loans or other similar indebtedness, mortgage, charge or any other borrowings, liabilities under acceptances or acceptance credits or hire purchase commitments, guarantee or other material contingent liabilities.

The Directors have confirmed that there have been no other material changes in the indebtedness and contingent liabilities of the Group since 31 January 2014 and up to the Latest Practicable Date. For the purpose of this indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange ruling at the close of business on the Latest Practicable Date.

E. OTHER FINANCIAL INFORMATION

There was no item recorded in the financial statements of the Group that was exceptional or extraordinary because of size, nature or incidence for each of the three financial years ended 31 March 2011, 2012 and 2013, and for the six months ended 30 September 2013. Unqualified opinions were given by the independent auditors for the financial statements of the Group for each of the three financial years ended 31 March 2011, 2012 and 2013.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular (other than those relating to the Subscriber) is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information (other than that relating to the Subscriber) contained in this circular and confirm having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Subscriber) have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

The directors of the Subscriber, namely YU Feng, Timothy Alexander STEINERT, and YEN Ping Ching, Samuel, jointly and severally accept full responsibility for the accuracy of the information (other than that relating to the Group) contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Group) have been arrived at after due and careful consideration, and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

The directors of Alibaba Group Holding Limited, namely Yun MA, Joseph Chung TSAI, Masayoshi SON and Jacqueline D. RESES, jointly and severally accept full responsibility for the accuracy of the information (other than that relating to the Group) contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular (other than those expressed by the Group) have been arrived at after due and careful consideration, and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

2. SHARE CAPITAL OF THE COMPANY

As at the Latest Practicable Date, the authorized and issued share capital of the Company were as follows:

Authorized share capital:		*HK$*
10,000,000,000	Shares	100,000,000
Issued and fully paid-up share capital:		
3,718,469,631	Shares as at the Latest Practicable Date	37,184,696.31
4,423,175,008	new Subscription Shares to be issued upon Completion	44,231,750.08
8,141,644,639	Shares	81,416,446.39

All the Shares in issue rank *pari passu* in all respects, including the rights in particular as to dividend, voting rights and return on capital. The Shares in issue are listed on the Stock Exchange.

Except for the issue of 600,000 Shares pursuant to the exercise of share options granted on 2 March 2005 and under the Company's share option scheme adopted on 30 August 2002, no Share has been issued or repurchased since 31 March 2013, the date to which the latest audited financial statements of the Group were made up.

As at the Latest Practicable Date, the Company has 31,000,000 outstanding share options (exercisable into a total of 31,000,000 new Shares) at the subscription prices of HK$3.175 per Share. Save as disclosed above, the Company has no other outstanding warrants, options or securities convertible into Shares as at the Latest Practicable Date.

SHARE OPTIONS

The table below sets forth the details of the outstanding share options of the Company:

Holders	**Date of grant**	**Exercise price**	**Exercise period**	**Number of share options as of the Latest Practicable Date**
		HK$		
Directors				
Mr. Wang Jun	23.3.2005	3.175	23.3.2006 to 23.3.2015	10,000,000
	23.3.2005	3.175	23.3.2007 to 23.3.2015	10,000,000
	23.3.2005	3.175	23.3.2008 to 23.3.2015	10,000,000
				30,000,000
Employees	23.3.2005	3.175	23.3.2006 to 22.3.2015	200,000
	23.3.2005	3.175	23.3.2007 to 22.3.2015	200,000
	23.3.2005	3.175	23.3.2008 to 22.3.2015	200,000
	23.3.2005	3.175	23.3.2009 to 22.3.2015	200,000
	23.3.2005	3.175	23.3.2010 to 22.3.2015	200,000
				1,000,000
				31,000,000

3. DISCLOSURE OF INTERESTS

(a) Interests in the Company

(i) Directors' Interests in the Shares

As at the Latest Practicable Date, the interests and short positions of the Directors in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), (ii) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), were as follows:

	Number of Shares held, capacity and nature of interest			
Name of Director	**Share options**	**Through controlled corporation** *(Note 1)*	**Total**	**Percentage of the Company's issued share capital**
Mr. Wang Jun	30,000,000	–	30,000,000	0.81
Ms. Chen Xiao Ying*(Note 1)*	–	784,937,030	784,937,030	21.11

Note:

(1) Pollon Internet Corporation, a company wholly-owned by Ms. Chen Xiao Ying, owns 100% 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.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had registered an interest or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) as required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), (ii) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or (iii) as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was interested in any shareholdings in the Company and the Subscriber that fall to be disclosed under the Takeovers Code.

(ii) Directors' rights to acquire Shares

At no time during the Relevant Period were rights to acquire benefits by means of the acquisition of Shares in the Company granted to any Director or their respective spouse or minor children, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

(iii) Substantial Shareholders' and other persons' interests in Shares

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO, and so far as known to the Directors, the following persons had, or was deemed or taken to have, an interest or short position in the Shares or underlying Shares which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of shareholders	**Shareholding as at the Latest Practicable Date and immediately before the Completion**	
	Number of Shares held	%
CITIC Group Corporation *(Note 1)*	807,998,000	21.73
Uni-Tech International Group Limited *(Note 2)*	784,937,030	21.11
The Subscriber and parties acting in concert with it *(Note 3)*	4,423,175,008	118.95

Notes:

(1) 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 Corporation (previously known as "CITIC Group"), a state-owned investment company established in the PRC.

(2) Uni-Tech International Group Limited is wholly-owned by 21CN Corporation. 21CN Corporation is owned as to 100% by Pollon Internet Corporation, which is wholly-owned by Ms. Chen.

(3) Please refer to the paragraph headed "Information on the Subscriber" in the letter from our Board attached to this circular.

Save as disclosed above, the Directors were not aware of any persons, as at the Latest Practicable Date, who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 Part XV of the SFO or, who was, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

(iv) The Subscriber, its ultimate beneficial owners and parties acting in concert with any of them

Save for the entering into of the Subscription Agreement, none of the Subscriber, its ultimate beneficial owners and parties acting in concert with any of them (including the directors of the Subscriber and Alibaba Holding) has dealt in the Shares, outstanding options, derivatives, warrants or other securities convertible or exchangeable into the Shares during the Relevant Period. As at the Latest Practicable Date, the Subscriber, its ultimate beneficial owners and parties acting in concert with any of them (including the directors of the Subscriber and Alibaba Holding) do not hold any Shares or other securities of the Company.

(v) Others

During the Relevant Period,

i. none of the subsidiaries of the Company, nor any pension funds of the Company or of any of its subsidiaries, nor China Galaxy nor any other advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Company;

ii. no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of clauses (1), (2), (3) and (4) of the definition of associate under the Takeovers Code, and with the Subscriber, its ultimate beneficial owners or any party acting in concert with any of them; and

iii. no shareholding in the Company was managed on a discretionary basis by fund managers connected with the Company.

(b) Dealings in securities

(i) Directors

None of the Directors or parties acting in concert with any of them had dealt in any Shares, convertible securities, warrants, options or derivatives of the Company during the Relevant Period.

(ii) Others

During the Relevant Period, none of the subsidiaries of the Company, nor any pension fund of the Company or any of its subsidiaries, nor China Galaxy nor any other advisers to the Company as specified in class (2) of the definition of "associate" under the Takeovers Code had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company.

During the Relevant Period, no fund managers who managed funds on a discretionary basis connected with the Company had dealt for value in any Shares, convertible securities, warrants, options and derivatives of the Company.

During the Relevant Period, none of the Company or the Directors has borrowed or lent any Shares.

(c) Interests and dealings in the Subscriber

None of the Directors or the Company had any interest in the shares, convertible securities, options, warrants or derivatives of the Subscriber and none of them had dealt for value in any shares, convertible securities, options, warrants or derivatives of the Subscriber during the Relevant Period.

4. MATERIAL CONTRACT

Other than the Subscription Agreement, as of the Latest Practicable Date, the Company or its subsidiaries had not entered into any material contracts (not being contracts in the ordinary course of business) after the date two years immediately preceding the date of the Announcement and up to the Latest Practicable Date.

5. LITIGATION AND CLAIMS

Save as disclosed in the section headed "Appendix 1 — Financial Information — C. Interim Results — Note 16 Arbitration and Litigation", as at the Latest Practicable Date, neither the Company nor any other members of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was or is known to the Directors to be pending or threatening by or against any member of the Group.

6. COMPETING BUSINESSES OR INTERESTS

As at the Latest Practicable Date, the Directors were not aware of any business or interest of the Directors or any management shareholder (as defined under the Listing Rules) of the Company and their respective associates (as defined under the Listing Rules) that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

7. MARKET PRICES OF SHARES

The closing prices of the Shares quoted on the Stock Exchange (i) at the end of each of the calendar months during the period commencing the six months immediately preceding 23 January 2014, being the date of the Announcement and ending on the Latest Practicable Date, (ii) on the Last Trading Day, and (iii) on the Latest Practicable Date were as follows:

Date	**Closing Price of the Share** *(HK$)*
31 July 2013	0.415
30 August 2013	0.410
30 September 2013	0.400
31 October 2013	0.480
29 November 2013	0.530
31 December 2013	0.560
15 January 2014 (being the Last Trading Day)	0.830
30 January 2014	3.670
28 February 2014	4.220
Latest Practicable Date	5.350

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the Relevant Period were HK$7.370 on both 10 March 2014 and 11 March 2014 and HK$0.400 on 30 September 2013, respectively.

8. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date:

(a) none of the Directors had any existing or proposed service contract between any of the Directors and any member of the Group which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation); and

(b) none of the Directors had any existing or proposed service contracts with the Company or any of its subsidiaries or associated companies in force which (a) (including both continuous and fixed terms contracts) were entered into or amended within six months before the date of the Announcement, (b) were continuous contracts with a notice period of 12 months or more, or (c) were fixed term contracts with more than 12 months to run irrespective of the notice period.

9. MATERIAL CHANGE

For the six months ended 30 September 2013, the Group adopted, among other changes, five new and revised Hong Kong Financial Reporting Standards ("**HKFRSs**"), namely HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 and HKAS 28, that are relevant for the preparation of the Group's condensed consolidated financial statements. Upon the adoption of these new and revised HKFRSs in the Group's consolidated financial statements for six months ended 30 September 2013, the Group's investment in HL 95, which was previously classified as a jointly controlled entity ("**JCE**") under Hong Kong Accounting Standard 31 and accounted for using the proportionate consolidation method, was classified as a joint venture and accounted for using the equity method under HKFRS 11, resulting in the aggregation of the Group's proportionate share of HL 95's respective net assets and items of profit or loss into a single line item which were presented in the consolidated statement of financial position and in the consolidated statement of comprehensive income as "interest in a joint venture" and "share of profit of a joint venture", respectively. This change in accounting policy contributed to the significant decrease in the Group's revenue from approximately HK$245.7 million for the six months ended 30 September 2012, as reported previously in the Group's interim report for the year ended 30 September 2012 (and prior to the restatement of the profit and loss amounts in the Group's Interim Results) to approximately HK$14.9 million for the six months ended 30 September 2013, which represented a decrease by 93.9%. For details, please refer to the sections headed "Financial Information of the Group — B. Audited Consolidated Financial Statements — 2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") — New and revised standards on consolidation, joint arrangements, associates and disclosures" in Appendix II to this circular on page 52 to page 53 and "Financial Information of the Group — C. Interim Results — Notes to the Condensed Consolidated Financial Statements — 2. Basis of Preparation and Principal Accounting Policies — New and revised standards on consolidation, joint arrangements, associates and disclosures" in Appendix II to this circular on page 97 to page 99. Save (i) as disclosed above and (ii) the information disclosed under the sections headed "The Subscription Agreement", "Reasons for the Subscription" and "Whitewash Waiver" in this circular, the Directors confirmed that there were no material changes in the financial or trading position or outlook of the Group since 31 March 2013, the date to which the latest published audited consolidated financial statements of the Group were made up, up to the Latest Practicable Date.

10. QUALIFICATIONS OF EXPERT AND CONSENT

The following are the qualifications of the professional advisers who have given opinions or advice contained in this circular.

Name	Qualification
China Galaxy International Securities (Hong Kong) Co., Limited	a corporation licensed to carry out Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO, having CE registration number AXM 459 and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Subscription and the Whitewash Waiver

The above expert has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its opinion, letter or advice and/or all references thereto and to its name in the form and context in which it is included.

As at the Latest Practicable Date, the above experts did not have (i) any shareholding, direct or indirect, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, or (ii) any interest, direct or indirect, in any assets which had been, since 31 March 2013, being the date of the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or was proposed to be acquired or disposed of by or leased to any member of the Group.

11. MISCELLANEOUS

(a) The qualified accountant of the Company is Yuen Wai Ho, FCCA, FCPA.

(b) The secretary of the Company is Au Kin Fai, HKICPA.

(c) The registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda.

(d) The registered office of the Subscriber is Trident Trust Company (B.V.I) Limited, Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands.

(e) The registered office of Alibaba Holding is Trident Trust Company (Cayman) Limited, Fourth Floor, One Capital Place, P.O. Box 847, George Town, Grand Cayman, Cayman Islands.

(f) The share registrar and transfer office of the Company in Hong Kong is Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(g) The correspondence address of the Independent Financial Adviser is Unit 3501-07, Cosco Tower, 183 Queen's Road Central, Hong Kong.

(h) As at the Latest Practicable Date, the Directors comprise of Mr. Wang Jun, Ms. Chen Xiao Ying, Mr. Luo Ning, Mr. Sun Yalei, Mr. Zhang Lianyang and Ms. Xia Guilan, who are executive Directors; Dr. Hui Ho Ming, Herbert, JP, Mr. Zhang Jianming and Dr. Long Junsheng who are independent non-executive Directors.

(i) As at the Latest Practicable Date, the directors of the Subscriber are YU Feng, Timothy Alexander STEINERT, and YEN Ping Ching, Samuel and they do not hold any Shares and the directors of Alibaba Holding (the ultimate holding company of the Subscriber) are Yun MA, Joseph Chung TSAI, Masayoshi SON and Jacqueline D.RESES.

(j) As at the Latest Practicable Date, none of the Independent Shareholders had irrevocably committed themselves to vote for or against the Subscription and/or the Whitewash Waiver.

(k) There is no agreement, arrangement or understanding (including any compensation arrangement) between the Subscriber or any person acting in concert with it and any of the Directors, recent Directors, Shareholders and recent Shareholders having any connection with or dependence upon the outcome of the Subscription and/or the Whitewash Waiver. There are no benefits to be given to any Directors as compensation for loss of office or otherwise in connection with the Subscription and the Whitewash Waiver.

(l) There is no agreement or arrangement between any Directors and any other person which is conditional on or dependent upon the outcome of the Subscription and the Whitewash Waiver or otherwise connected therewith.

(m) Other than Ms Chen in respect of the Subscription Agreement, there is no material contract entered into by the Subscriber in which any Director has a material personal interest.

(n) None of the Directors has any interest, direct or indirect, in any assets which had been, since 31 March 2013, being the date of the latest published audited consolidated financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

(o) No Director (including the Directors on the Independent Board Committee) (directly or indirectly) holds any Shares that will be voted in respect of the Subscription and/or the Whitewash Waiver.

(p) Other than the redemption right of Innovare (or its affiliate) as described in the section headed "Information on the Subscriber", as at the Latest Practicable Date, there is no agreement, arrangement or understanding to transfer, charge or pledge any voting rights over the Subscription Shares.

(q) The English text of this circular and form of proxy shall prevail over the Chinese text in the case of inconsistency.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection (i) during normal business hours from 9:30 a.m. to 5:30 p.m. (other than Saturday, Sunday and public holidays) at the principal place of business of the Company in Hong Kong, (ii) on the website of the Company at http://www.irasia.com/listco/hk/citic21cn/, and (iii) on the website of the SFC at www.sfc.hk from the date of this circular up to and including 7 April 2014, being the date of the SGM:

(a) the memorandum of association and Bye-laws of the Company;

(b) the memorandum and articles of association of the Subscriber;

(c) the material contract referred to in the section headed "Material Contract" in this appendix, being the Subscription Agreement;

(d) the annual reports of the Company for the two years ended 31 March 2013;

(e) the interim report of the Company for the six-month period ended 30 September 2013;

(f) the letter of consent referred to in the section headed "Qualifications of Expert and Consent" in this appendix;

(g) the letter from the Board, the text of which is set out on pages 6 to 20 of this circular;

(h) the letter from the Independent Board Committee, the text of which is set out on page 21 of this circular;

(i) the letter from China Galaxy, the text of which is set out on pages 22 to 43 of this circular; and

(j) a copy of this circular.

CITIC 21CN
中信 21世紀

CITIC 21CN COMPANY LIMITED

(Incorporated in Bermuda with limited liability)
(Stock code: 241)

NOTICE OF THE SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the "**SGM**") of CITIC 21CN Company Limited (the "**Company**") will be held at Units 614–616, Level 6, Core D, Cyberport 3, 100 Cyberport Road, Hong Kong on Monday, 7 April 2014 at 10:30 a.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions of the Company:

ORDINARY RESOLUTIONS

1. "**THAT** the issue and allotment of 4,423,175,008 Shares (constituting approximately 54.33% of the share capital of the Company, as enlarged by the issue of such Shares) (the "**Subscription Shares**") by the Company to the Subscriber, subject to, and in accordance with, the terms and conditions of the subscription agreement (the "**Subscription Agreement**") dated 23 January 2014 entered into between the Company, Ms. Chen Xiao Ying and Perfect Advance Holding Limited (the "**Subscriber**") details of which are set out in the circular of the Company dated 21 March 2014 (the "**Subscription**") be and are hereby approved."

2. "**THAT**, subject to and conditional on the passing of ordinary resolution no. 1, the waiver (the "**Whitewash Waiver**") granted or to be granted by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong and any delegate of such Executive Director pursuant to Note 1 on dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers in respect of the obligation on the part of the Subscriber and parties acting in concert with it to make a mandatory general offer to the shareholders of the Company for all issued Shares not already owned by the Subscriber or parties acting in concert with it under Rule 26 of the Hong Kong Code on Takeovers and Mergers as a result of the allotment and issue of the Subscription Shares be and is hereby approved."

3. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1 and no. 2, the directors of the Company (the "**Directors**") be and are hereby authorized to do all acts and execute all documents they consider necessary or expedient to give effect to the Subscription."

4. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1 and no. 2, the appointment of Mr. WANG Jian to serve as a Director as from completion of the Subscription be and is hereby approved."

5. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1 and no. 2, the appointment of Mr. ZHANG Yong to serve as a Director as from completion of the Subscription be and is hereby approved."

6. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1 and no. 2, the appointment of Mr. CHEN Jun to serve as a Director as from completion of the Subscription be and is hereby approved."

7. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1 and no. 2, the appointment of Mr. CHIA Pun Kok to serve as a Director as from completion of the Subscription be and is hereby approved."

8. "**THAT**, subject to and conditional on the passing of ordinary resolutions no. 1 and no. 2, the appointment of Mr. YU Feng to serve as a Director as from completion of the Subscription be and is hereby approved."

By Order of the Board
Chen Xiao Ying
Executive Vice-Chairman

Hong Kong, 21 March 2014

Registered office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Notes:

(1) Any member entitled to attend and vote at the SGM is entitled to appoint one or more proxies to attend and on a poll vote on his behalf. A member who is the holder of two or more Shares may appoint more than one proxy to represent him and vote on his behalf at the SGM. A proxy need not be a member. A proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(2) Where there are joint holders of any Share any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he was solely entitled thereto, but if more than one of such joint holders be present at any meeting the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding. Several executors or administrators of a deceased member in whose name any Share stands shall be deemed joint holders thereof.

(3) A form of proxy for use at the SGM is enclosed herewith.

(4) To be effective, the form of a proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be deposited with the Company's share registrar in Hong Kong, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 48 hours before the time appointed for the holding of the SGM or adjournment thereof. Completion and return of the proxy form will not prevent members from attending and voting at the SGM if they so wish.