

# Press Release

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Date: 22 July 2007

## **CITIC 21CN'S FULL YEAR TURNOVER REACHED HK\$286.1 MILLION**

CITIC 21CN COMPANY LIMITED ("CITIC 21CN" or the "Company"; stock code: 241), a major provider of telecommunication/information value-added services in the People's Republic of China (the "PRC"), together with its subsidiaries (collectively the "Group") today announced the results for the year ended 31 March 2007. During the year, the Group succeeded in securing support from the State in promoting the use of its product identification, authentication and tracking system ("PIATS"), with 128 top domestic brand name manufacturers such as Haier, Moutai Liquor, Wuliangye Liquor, Tsingtao Beer, Shineway Group and Hainan Coconut Palm coconut juice signing up for PIATS.

Turnover of the Group for the year under review was HK\$286.1 million (2006: approximately HK\$403.5 million). The decrease in turnover was mainly due to the fall in revenue from all of the three principal operations during the year which included system integration and software development, telecommunications/information value-added services and PIATS business.

During the year, net loss attributable to shareholders was HK\$61.0 million (2006: a profit of HK\$9.15 million), mainly due to non-cash items arising from the revaluation of the fair value of convertible bonds of HK\$19.8 million, a share options expense of HK\$1.3 million, depreciation of HK\$11.3 million and amortisation of HK\$912,000. The fair value adjustment of convertible bonds and share options expenses were recorded in accordance with the new accounting standards starting from the year ended 31 March 2006. Excluding the above non-cash adjustments, the net loss will be narrowed to approximately HK\$28 million.

The Board of CITIC 21CN does not recommend the payment of a final dividend for the year ended 31 March 2007. (2006: nil)

During the year, China Credit Information Technology Company ("CCIT"), the Group's 50 per cent-owned jointly controlled entity responsible for the operation of the PIATS business, was in a start-up phase. CCIT reported a turnover of HK\$911,000 (2006: approximately HK\$5.15 million). The adjustment in turnover was a result of the impact of delays in government policies and procedures related to PIATS on the launch of PIATS and the start-up and technical problems relating to the initial rollout of PIATS. During the year, CCIT made a segment loss of HK\$28.1 million, which was mainly due

to annual support fees and amortisation of the license fees for the Oracle database of HK\$10 million and increases in other operating expenses including higher rental expenses.

CCIT is a joint venture with the Information Centre of General Administration of Quality Supervision, Inspection and Quarantine (“AQSIQ”) and China Telecom. Despite its initial development stage, CCIT has obtained strong support from government departments, including AQSIQ, State Administration of Industries and Commerce (“SAIC”), Ministry of Commerce, Ministry of Agriculture and State Food and Drug Administration (“SFDA”), for its PIATS system, which provides food and drug safety service, product quality services, anti-counterfeit service, trans-shipment information service, and other marketing-related services such as market research, promotion service and customer care, and logistic management service. During the year, 128 top domestic brand name manufacturers including Haier, Moutai Liquor, Wuliangye Liquor, Tsingtao Beer, Shineway Group, Hainan Coconut Palm coconut juice etc signed up for PIATS. During the year, several government departments including AQSIQ and SAIC issued measures to give incentives to manufacturers that join PIATS. Such measures include giving exemption from government quality inspection and simplification from the license renewal procedures for those companies with good track records in PIATS. As at July 2007, over 19,000 manufacturers across China have joined PIATS.

During the year under review, the Group has successfully obtained approval from SFDA in the use of PIATS platform for two kinds of controlled drugs: anaesthetics and mental disorder drugs. After reviewing the success in using PIATS for the initial two controlled drugs, SFDA decided to extend the scope of the use of PIATS for all types of controlled drugs. Since April 2007, the PIATS platform for controlled drugs has been completed on all testing for the daily supervision functions as recognised by SFDA. Trial run was launched in 11 selected provinces and it is expected that this platform for controlled drugs will be launched nation-wide in the next few months.

“We are delighted that PIATS has obtained tremendous support from a number of Chinese government departments. In addition, AQSIQ plans to schedule an additional 20,000 manufacturers to join PIATS in 2007. At present, PIATS are used in supermarkets, shops, farm product supply stations, hospitals and drug stores,” said Chen Xiao Ying, Executive Vice Chairman of CITIC 21CN.

In order to make PIATS more easily accessible by users across the country, the Group has signed co-operation contracts with China Telecom and China Netcom, which means PIATS enquiry services has been included in the nation-wide hotline numbers 114, 116114 and 118114, the national-wide hotline numbers for China Telecom and China Netcom.

“China’s food and drug safety, as well as product quality is a major concern for the Chinese government and other countries trading with China. In view of the continued growth of the PRC economy and rising concern over forgeries, food and drug safety and product quality in the country, and the fact that there are no companies in China capable of providing services similar to that of our PIATS, we will strive to develop the PIATS business, which has strong market potential. With tremendous support from the government, we are confident that there will be a huge market potential for the PIATS business. We will further consolidate the business development platform of the Group’s PIATS business and enhance its competitiveness, and will continue to sign up manufacturers to join PIATS, especially in the pharmaceutical, tobacco, liquor and food products industries, in order to extend our market reach in China,” said Ms Chen.

Beijing Honglian 95 Information Industries Company Limited (“HL95”), a jointly controlled entity in which CITIC 21CN has a 49 per cent equity interest, is engaged in telecommunications/information value-added services. HL95 reported a turnover of HK\$274.66 million (2006: HK\$297.6 million) and a segment loss of HK\$2.34 million (2006: a profit of HK\$32.9 million) for the year under review. The turnover of HL95 comprised mainly short messaging services (“SMS”), fixed-line interactive voice response system (“IVRS”), mobile IVRS, Internet-protocol (“IP”) phone and call centres. The retreat in HL95 turnover was mainly due to a decline in SMS revenue resulting from policy changes implemented by China Mobile and China Unicom pursuant to new policy directives promulgated by Ministry of Information Industry. Nevertheless, the decrease in SMS revenue was offset by increases in fixed-line and mobile IVRS revenues due to increased tariffs and introduction of popular games, and increases in IP phone and call centre revenues due to a rise in the number of corporate customers.

“Following the recent collaborations with a number of financial institutions and large corporations, HL95 is now expanding its Shenzhen call centre capacity. In addition, HL95 is also in preliminary discussions with the largest outsourcing call centre operator in Australia to explore joint business opportunities in China. In future, the Group will through HL95 platform promote the information services of PIATS across the country, to enjoy the synergistic benefits,” said Ms Chen.

Dongfang Customs Technology Company Limited (“Dongfang Customs”), a 30 per cent-owned associate, is engaged in electronic customs processing and other electronic government services. For the year under review, the Group’s share of profit of Dongfang Customs was HK\$6.72 million, representing a decrease of 30.9 per cent from that of the previous year. The adjustment in share of profit was mainly due to a decrease in revenue from electronic port development projects, which were completed during the year, and Dongfang Customs’ shift of its business focus to concentrate on SIM cards and readers, and sales of value-added cards businesses.

During the year, Dongfang Customs adopted a new strategy directly involved in the sales of SIM cards and readers rather than through other suppliers and charged less for the SIM cards and reader. This strategy successfully increased the number of customers in using electronic custom filing and declaration. At present, Dongfang Customs has around 340,000 users. Customers can use their SIM cards and readers to access the system for electronic custom filing and declaration. With the competitive edge in its electronic custom filing platform and growing users base, Dongfang Customs is considering to expand its business into a nation-wide electronic logistics platform.

Guangdong Grand Cycle Technology Company Limited ("Grand Cycle"), a wholly-owned subsidiary of the Group, is engaged in software development and system integration services. During the year, Grand Cycle reported a turnover of HK\$10.49 million (2006: HK\$118.52 million) and a segment loss of HK\$5.5 million (2006: a profit of approximately HK\$64.8 million). The substantial adjustment in the operating results was mainly due to the fact that most of the large projects were completed by March 2006 and no revenue from these projects was reported for the year under review. In general, Grand Cycle can generate higher profit margins on larger projects since Grand Cycle can negotiate a better price from its suppliers of system integration equipment for larger contracts. During the year, Grand Cycle dedicated to seeking new long-term projects.

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

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Issued by: CITIC 21CN COMPANY LIMITED

Through: CorporateLink Limited

#### About CITIC 21CN

CITIC 21CN COMPANY LIMITED is one of the largest providers of telecommunication/information value-added services in the PRC, offering governmental, entertainment, financial and commercial information services nationwide through multiple channels including short messages services, interactive voice response system, call centres and internet.

**CITIC 21CN Company Limited**  
**(Stock code: 241)**  
**For the year ended 31 March 2007**  
**Consolidated Income Statement**

	For the year ended 31 March	
	2007	2006
	HK\$'000	HK\$'000
Turnover	286,057	403,545
Cost of sales and services	<u>(221,127)</u>	<u>(219,482)</u>
Gross profit	64,930	184,063
Other income	27,098	7,492
Distribution costs	(15)	(13)
Administrative expenses	(139,143)	(135,358)
Share option expense	(1,272)	(16,046)
Convertible bonds issue expenses	--	(26,480)
Change in fair value of convertible bonds	(19,807)	(1,420)
Change in fair value of loan receivable	--	(1,246)
Start up expenses of jointly controlled entity	--	(1,207)
Share of profit of an associate	6,718	9,725
Finance costs	<u>(721)</u>	<u>(123)</u>
(Loss) profit before taxation	(62,212)	19,387
Taxation	<u>(2,353)</u>	<u>(13,100)</u>
(Loss) profit for the year	<u><u>(64,565)</u></u>	<u><u>6,287</u></u>
Attributable to:		
Equity holders of the Company	(60,998)	9,153
Minority interests	<u>(3,567)</u>	<u>(2,866)</u>
	<u><u>(64,565)</u></u>	<u><u>6,287</u></u>
	HK cents	HK cents
(Loss) earnings per share		
Basic	(1.84)	0.28
Diluted	<u>N/A</u>	<u>0.27</u>