

Chairman's Report

I am pleased to report the result of CITIC 21CN COMPANY LIMITED (the "Company") and its subsidiaries (the "Group") for the six months period to 30th September 2004.

Over the past few years, we have worked very hard in redefining our corporate strategy and followed it up with seamless execution. With the strong support from our substantial shareholder, CITIC Group, we have successfully trimmed our non-core assets and stepped towards our goal to become a major player in the Mainland China telecommunications value-added services ("Telecom VAS") industry.

BUSINESS REVIEW

Telecommunications Value-Added Services

With the Closer Economic Partnership Arrangement ("CEPA") certificate, the Group successfully participated in the Mainland China Telecom VAS sector in 2004 with the ownership of Beijing Honglian 95 Information Industries Company Limited ("HL95"), a nationwide leading Telecom VAS company in Mainland China, which mainly provides governmental, business and leisure information via Interactive Voice Response Systems ("IVRS") and Short Messaging Services ("SMS").

Turnover of HL95 for the year ended 2003/2004 was HK\$423,203,000 and that for the six months ended 30th September 2004 was HK\$235,997,000. The Group's share of turnover for the period was HK\$109,756,000. The composition of the turnover represented approximately 45% from SMS, 38% from IVRS and 17% from other operations such as IP phone and call centre.

Net profit of HL95 for the year ended 2003/2004 was HK\$31,314,000 and that for the six months ended 30th September 2004 was HK\$26,691,000 which represented approximately 85% of the whole year profit in 2003/2004. The Group's share of net profit for the period amounted to HK\$11,361,000. The increase in net profit during the period were mainly due to (1) successful launch of new products, such as interactive shooting game during the European League 2004, interactive quiz games during the 2004 Athen Olympics and interactive music video/song dedication; and (2) implementation of cost control program during the year.

During the period, actions were taken by telecommunication service operators to tighten the industry supervision. Such actions did not caused any material impact to HL95. However, we believe that the clean up has long-term positive impact to HL95 as well as the industry as a whole. It also removed further regulatory concerns for the industry.

HL95 is one of the largest Telecom VAS provider with coverage over 300 cities with its nationwide uniform access number for both fixed line and mobile phone. With this competitive advantage, HL95 targets to strengthen the industry application service by cooperating with large corporations and governmental departments to provide nationwide application services in the PRC. Those services include checking of results for the public examinations, checking balances of social welfare funds, checking flight schedules, enquiries on bank balances and financial services and others.

As HL95 already has nationwide network coverage, it serves as a core base support to the Group in its future development in the Telecom VAS industry and provides synergy as a whole.

Chairman's Report

System Integration and Software Development

The Group's system integration and software development business recorded a turnover of HK\$16,134,000 and the division recorded a loss of HK\$4,422,000 during the period.

The competition among the system integration and software development industry becomes more and more severe due to the increase in the transparency of prices of equipments as a result of rapid development in the technology sector. The Group maintains a long-term close relationship with its major customers, like the China Mobile Group. The Group successfully obtained one of the five sole purchasing agent license for the China Mobile Group for the year 2004.

NEW BUSINESS

On 20th September 2004, the Group entered into an agreement to acquire CITIC Group's 30% equity interest in Dongfang Customs Technology Company Limited ("Dongfang Customs Technology") at a consideration of approximately HK\$56,421,000.

Dongfang Customs Technology engages in the business of operating the network platform for accessing the China Electronic Customs dedicated network for electronic customs processing and other electronic government services and electronic commerce transactional platforms. As such, the platform potentially provides the gateway for corporations in China to deal directly with Customs in a timely and efficient manner. In addition, through its operation of the network platform for accessing the China Electronic Customs dedicated network, Dongfang Customs Technology provides services to users of China Electronic Customs, including electronic government services, electronic commerce value-added services, identity authentication, online payments, billing, and related services. Dongfang Customs Technology's users include import and export corporations, government agencies, banks, insurance companies, and logistics companies.

Upon completion of the acquisition, with reference to the historical audited financial information under China GAAP, Dongfang Customs Technology is expected to contribute over RMB15 million (equivalent to HK\$14 million) net profit per annum to the Group in the future. The completion of this acquisition is subject to the approval from the relevant government authorities which is currently in progress.

Chairman's Report**PROSPECTS**

Through the acquisition of HL95 from our substantial shareholder, CITIC Group, we have put ourselves in the forefront of Telecom VAS in one of the largest market in the world — China. HL95 provides the Company with a mass platform in tapping into the daily life of each individual and corporation in China. The number of access points and the communication channels of the Company have been greatly enhanced with the coverage of over 300 cities in China. This move has become a strategic corner stone of the Company, going forward, the platform for distribution of information to mass public is set and ready to go.

With the acquisition of Dongfang Customs Technology from CITIC Group, we have strengthened our position and expertise in the fast growing Telecom VAS industry in China focusing in enterprise application.

Combining both assets, the Company is strongly positioned in the Mainland China as a major Telecom VAS player. With the access to the government's invaluable transactional platform coupled with one of the nation's largest telecom value-added platform, we have a solid foundation for future growth. The future of the Company relies upon the expansion of more highly valuable Telecom VAS in order to further utilize the existing platforms.

We are highly confident that a much brighter future is ahead of us, given the strong support from CITIC Group, and our proven execution capabilities, we are set to become the leading player in the field of telecommunication and information value-added services player in the country. I would like to take this opportunity to thank my dedicated colleagues who made all these possible.

On behalf of the Board

Chen Xiao Ying

Chairman

Hong Kong, 10th December 2004