

## CHAIRMAN'S STATEMENT

During the past year, CITIC 21CN COMPANY LIMITED ("CITIC 21CN" or the "Company") witnessed significant growth in various businesses. Much progress has been made in the exploration of new businesses and the overall development of the Company and its subsidiaries ("the Group") is favourable.

Product Identification, Authentication, Tracking System ("PIATS") is a new pivotal business of CITIC 21CN and all our efforts devoted to the development of the business have bore fruit, with the construction of the fundamental platform progressing steadily. In order to develop the PIATS platform into a key integrated information service platform of the country, we are building a database which can enable 2 million enterprises to join and has a network handling capacity that can accept 4 billion enquiries each day, in order to satisfy the needs of future business development. The trial operation of PIATS in Hebei has been successful. In September 2005, 國家質量監督檢驗檢疫總局 (General Administration of Quality Supervision, Inspection and Quarantine) ("AQSIQ") launched the trial operation of PIATS in Hebei. Rapid progress has been made in all areas of work, and extensive operating experience has been acquired. After inspecting the trial operation in Hebei and listening to reports, numerous Chinese government leaders gave their recognition to the construction of PIATS and the success of its trial operation in Hebei.

In March 2006, PIATS was officially activated and implemented on a nationwide basis. Under the coordination and active promotion of AQSIQ, the PIATS platform was deployed to monitor product production electronically in the "Hundreds and Ten Thousands Project". By 2010, all products in the country which are eligible to join the network will join and an enquiry terminal system covering numerous urban and rural areas will be established.

On 18 July 2006, 128 renowned enterprises in the country including Haier, Tsingtao Brewery, Wu Liang Ye, Moutai Liquor, Shine Way and Hainan Coconut Palm (Hainan Yeshe Coconut Juice) enter into contracts to join PIATS, signifying that PIATS has entered into a full implementation stage. In September 2006, one hundred large shopping malls and supermarkets in the country will enter into contracts to join PIATS to install enquiry terminals which will allow consumers to check product authenticity at point-of-sale.

In 2005, CITIC 21CN entered into a special drugs supervision services agreement with the State Food and Drug Administration. This will diversify the application of PIATS to the pharmaceutical drugs industry. The trial implementation of the project will commence in the fourth quarter of 2006. Meanwhile, the cooperation between PIATS and authorities such as the State Administration for Industry and Commerce and the Ministry of Agriculture has also commenced.

中國電信集團公司 (China Telecommunications Corporation) ("China Telecom") has already agreed to engage in strategic cooperation with the Company with regard to the construction and operation of PIATS. Oracle Corporation has also established a strategic cooperation partnership with the Company and will provide support for the construction of the system platform.

CITIC 21CN will take into serious consideration the needs of enterprises, provide information value-added services of distinguished quality, fully expand the functions of its integrated information service platform, provide tools for the government to monitor electronically product manufacturing, provide means through which enterprises can acquire market management information, provide product information enquiry services for consumers, so as to establish a leading position in the PRC information service sector through these services.

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北京鴻聯九五信息產業有限公司(Beijing Honglian 95 Information Industries Company Limited) ("HL 95") witnessed encouraging business growth in the past year. HL 95 is the Company's important business platform, through which the Company promotes the information services of PIATS throughout the country. The Company also provides information services or content of the Group's existing and new businesses through the platform of HL 95. We believe that as the Group continues to develop, the results of HL 95 will further improve.

東方口岸科技有限公司(Dongfang Customs Technology Company Limited) ("Dongfang Customs"), the Company's joint venture with the PRC Customs Department and China Telecom, is principally engaged in electronic customs processing. It is the only operator in China to provide electronic customs processing. The number of its users is expected to increase in line with the growth of the PRC economy, which will bring greater economic benefits.

廣東天圖科技有限公司(Guangdong Grand Cycle Technology Company Limited) ("Grand Cycle") engages in system integration and software development. During the year, Grand Cycle has focused on projects with higher margins and larger contract sums, and provided technical support to HL95 and the PIATS platform. Grand Cycle will continue to expand its system integration and software development business and provide the corporations and customers with professional technical solutions.

Looking ahead, a more critical and important period for the construction of PIATS will begin in the second half of this year, providing a larger room for the continuous and rapid development of the business of CITIC 21CN.

Leveraging on the Group's established high performance application platform and its provision of ever-improving services, we will proactively make progress according to the business development strategies and targets of the Group so as to enhance the standard of the Company's operational management, maximize its economic benefits, and in turn create greater return for the shareholders.

On behalf of the directors of the Company (the "Directors"), I would like to express my sincere gratitude for the strenuous support from all our shareholders, business partners, financial institutions, government authorities, our staff and parties from the society which support the development of the Company. We look forward to your continuous support in the future.

**Wang Jun**

*Chairman*