

Report of the Directors

The Directors submit their report together with the audited accounts of the Group for the year ended 31st March 2005.

Principal activities

The principal activity of the Company is investment holding. The principal activities of the Group are Telecom VAS, operation of a platform for electronic customs processing and system integration and software development.

An analysis of the Group's performance for the year by business segments is set out in note 2 to the accounts. All business segments are primarily carried out in the PRC, accordingly, a separate summary by geographical segments is not presented.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 26 of this annual report.

The Directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 24 to the accounts.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 12 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in note 23 to the accounts.

No pre-emptive rights exist under Bermuda law in relation to issue of new shares by the Company.

Borrowings

Details of the Group's loans are set out in note 22 to the accounts.

Five-year financial summary

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 74 of this annual report.

Report of the Directors

Purchase, sale and redemption of the Company's listed securities

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

Directors

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

Executive Directors

| | |
|---|-----------------------------------|
| Mr. Wang Jun (<i>Chairman</i>) | (appointed on 21st March 2005) |
| Ms. Chen Xiao Ying (<i>Executive Vice Chairman</i>) | |
| Mr. Luo Ning (<i>Vice Chairman</i>) | |
| Mr. Sun Yalei | |
| Mr. Zhang Lian Yang | |
| Mr. Yin Yiping | |
| Ms. Xia Guilan | |
| Dr. Liu Xiaoping | |
| Mr. Vong Tat leong, David (<i>Vice Chairman</i>) | (resigned on 30th October 2004) |
| Mr. Zhang Yue | (resigned on 13th September 2004) |

Independent non-executive Directors

| | |
|-----------------------|------------------------------------|
| Mr. Tsui Yiu Wa, Alec | |
| Mr. Zhang Jian Ming | |
| Mr. Liu Hongru | (appointed on 30th September 2004) |

In accordance with Clause 99 of the bye-laws of the Company, Ms. Chen Xiao Ying, Ms. Xia Guilan and Mr. Yin Yiping will retire by rotation at the forthcoming annual general meeting of the Company and Ms. Chen Xiao Ying and Ms. Xia Guilan, being eligible, offer themselves for re-election. Mr. Yin Yiping does not offer himself for re-election at the forthcoming annual general meeting of the Company and shall retire as a Director at the close of the forthcoming annual general meeting.

In accordance with Clause 102 of the bye-laws of the Company, Mr. Wang Jun and Mr. Liu Hongru will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Biographical details of Directors

Brief biographical details of Directors are set out on pages 23 and 24 of this annual report.

Share Option and Warrants

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

No warrants have been exercised since the date of issue and up to 31st March 2005. From 1st April 2005 to the date of this report, a total of 52,417 warrants were exercised. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 550,645,247 additional Shares.

Share Option Schemes

(i) *Old Scheme*

On 28th May 1998, a share option scheme (the "Old Scheme") was approved at a special general meeting of the Company for the primary purpose of providing incentives to the Directors and eligible employees. Under the Old Scheme, the Directors may, at their discretion, grant share options to full time employees including executive Directors in accordance with the terms and conditions of the Old Scheme. The total number of Shares in respect of which options may be granted under the Old Scheme is not permitted to exceed 10% of the issued Shares from time to time excluding the aggregate number of Shares which have been duly allotted and issued pursuant to the Old Scheme, without prior approval from the Company's shareholders. The number of Shares in respect of which options may be granted to any one individual in aggregate is not permitted to exceed 25% of the maximum aggregate number of Shares issued and issuable under the Old Scheme.

Options granted under the Old Scheme must be taken up within 28 days of the date of grant, upon payment of HK\$1 per option. All the options granted will expire at the end of ten years from the date of grant or the life of the Old Scheme, whichever is earlier. The subscription price of the options shall be at a price not less than the higher of the nominal value of the Shares and 80% of the average of the closing prices of the Shares quoted on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for five trading days immediately preceding the date of grant of the option.

The Old Scheme was terminated on 30th August 2002 pursuant to a resolution passed on that date such that no further options shall be offered under the Old Scheme but the options granted thereunder shall continue to be valid and exercisable in accordance with their terms of issue and its provisions shall remain in full force and effect in all other respects.

Share Option Schemes *(Continued)***(ii) New Scheme**

At the annual general meeting of the Company held on 30th August 2002, the shareholders of the Company approved the adoption of a share option scheme (the "New Scheme") under which the Directors may, at their discretion, invite Directors and employees of the Company or its subsidiaries and other eligible persons to subscribe for Shares subject to terms and conditions stipulated therein. The purpose of the New Scheme, which will expire on 30th August 2012, is to enable the Board to grant options to selected eligible persons as incentives or rewards for their contribution or potential contribution to the Group. Under the New Scheme, the Directors may grant options to the following eligible persons (and their wholly owned companies) of the Company, its subsidiaries and any companies in which the Group holds any equity interest, to subscribe for the Shares:-

- (i) employees; or
- (ii) Directors; or
- (iii) shareholders; or
- (iv) business or joint venture partners; or
- (v) any persons or entity that provides research, development or other technological support or any advisory or other services; or
- (vi) suppliers or customers; or
- (vii) landlord or tenant.

Share Option Schemes *(Continued)***(ii) New Scheme** *(Continued)*

An offer for the grant of options must be accepted within 30 days of the date of grant, upon payment of HK\$1 by way of consideration for the grant thereof. Share options may be exercised at any time from the date of grant or such later date as the Directors may determine and expiring at the close of business on such date as the Directors may determine but in any event not exceeding 10 years from the date of grant. The exercise price must be no less than the highest of (i) the closing price of Shares on the date of grant; (ii) the average closing price of the Shares for the five trading days immediately preceding the date of grant; or (iii) the nominal value of the Shares. The maximum number of Shares in respect of which share options may be granted under the New Scheme and any other option scheme is not permitted to exceed 30% of the Shares in issue from time to time. The current limit is 310,926,600, being 10% of Shares in issue as at the adoption date of the New Scheme (subject to new scheme mandate as refreshed by approval of shareholders in general meeting). No person shall be granted an option which exceeds 1% of the Shares in issue as at the date of grant in any twelve-month period up to the date of grant. Any grant of share options to a substantial shareholder or an independent non-executive Director (or any of their respective associates), which aggregated with all share options (whether exercised, cancelled or outstanding) already granted to any of them during the twelve-month period up to the date of grant, in excess of 0.1% of the Shares in issue and having an aggregate value in excess of HK\$5,000,000, is subject to approval by shareholders at the general meeting of the Company, with voting to be taken by way of a poll.

(iii) Movements in the Share Options

As at 31st March 2005, the number of Shares available for issue under the Old Scheme was 78,400,000 Shares, representing approximately 2.4% of the issued share capital of the Company as at the date of this report. No further options will be granted under the Old Scheme.

Under the New Scheme, the Company had granted (excluding share options lapsed under the New Scheme) share options to subscribe for 209,660,000 Shares up to 31st March 2005, representing approximately 6.3% of the issued share capital of the Company as at date of this report. Under the existing limit, the Company can further grant share options to subscribe for 101,266,600 Shares, representing approximately 3.1% of the total issued capital as at the date of this report.

Report of the Directors

Share Option Schemes (Continued)

(iii) Movements in the Share Options (Continued)

As at 31st March 2005, the particulars of the options granted to each of the Directors and the employees and other eligible persons of the Company under the Old Scheme and New Scheme are as follows:

| | Date of grant | Exercise price (HK\$) | Exercise period | Number of options | | | | At 31st March 2005 | |
|---------------------|---------------|------------------------|-------------------------|-------------------|----------------------------------|--------------------|------------------------------------|--------------------|----|
| | | | | At 1st April 2004 | Granted during year ² | Lapsed during year | Exercised during year ⁴ | | |
| Directors | | | | | | | | | |
| Mr. Wang Jun | 23.3.2005 | 3.175 | 23.3.2006 to 23.3.2015 | - | 10,000,000 | - | - | 10,000,000 | ∅ |
| | 23.3.2005 | 3.175 | 23.3.2007 to 23.3.2015 | - | 10,000,000 | - | - | 10,000,000 | ∅ |
| | 23.3.2005 | 3.175 | 23.3.2008 to 23.3.2015 | - | 10,000,000 | - | - | 10,000,000 | ∅ |
| Ms. Chen Xiao Ying | 13.7.2000 | 0.9900 | 13.1.2001 to 27.5.2008 | 21,000,000 | - | - | - | 21,000,000 | Δ* |
| | 13.7.2000 | 0.9900 | 13.7.2001 to 27.5.2008 | 21,000,000 | - | - | - | 21,000,000 | Δ* |
| | 13.7.2000 | 0.9900 | 13.7.2002 to 27.5.2008 | 28,000,000 | - | - | - | 28,000,000 | Δ* |
| | 24.6.2003 | 0.3220 | 10.9.2004 to 23.6.2013 | 30,000,000 | - | - | - | 30,000,000 | ∅* |
| | 24.6.2003 | 0.3220 | 10.3.2005 to 23.6.2013 | 30,000,000 | - | - | - | 30,000,000 | ∅* |
| 24.6.2003 | 0.3220 | 10.9.2005 to 23.6.2013 | 30,000,000 | - | - | - | 30,000,000 | ∅* | |
| Mr. Luo Ning | 24.6.2003 | 0.3220 | 24.6.2004 to 23.6.2013 | 3,333,333 | - | - | - | 3,333,333 | ∅* |
| | 24.6.2003 | 0.3220 | 24.12.2004 to 23.6.2013 | 3,333,333 | - | - | - | 3,333,333 | ∅* |
| | 24.6.2003 | 0.3220 | 24.6.2005 to 23.6.2013 | 3,333,334 | - | - | - | 3,333,334 | ∅* |
| Mr. Sun Yalei | 24.6.2003 | 0.3220 | 24.6.2004 to 23.6.2013 | 3,333,333 | - | - | - | 3,333,333 | ∅* |
| | 24.6.2003 | 0.3220 | 24.12.2004 to 23.6.2013 | 3,333,333 | - | - | - | 3,333,333 | ∅* |
| | 24.6.2003 | 0.3220 | 24.6.2005 to 23.6.2013 | 3,333,334 | - | - | - | 3,333,334 | ∅* |
| Mr. Zhang Lian Yang | 24.6.2003 | 0.3220 | 24.6.2004 to 23.6.2013 | 5,000,000 | - | - | - | 5,000,000 | ∅* |
| | 24.6.2003 | 0.3220 | 24.12.2004 to 23.6.2013 | 5,000,000 | - | - | - | 5,000,000 | ∅* |
| | 24.6.2003 | 0.3220 | 24.6.2005 to 23.6.2013 | 5,000,000 | - | - | - | 5,000,000 | ∅* |
| Dr. Liu Xiaoping | 24.6.2003 | 0.3220 | 24.6.2004 to 23.6.2013 | 1,666,666 | - | - | (1,666,666) | - | ∅ |
| | 24.6.2003 | 0.3220 | 24.12.2004 to 23.6.2013 | 1,666,666 | - | - | (1,666,666) | - | ∅ |
| | 24.6.2003 | 0.3220 | 24.6.2005 to 23.6.2013 | 1,666,668 | - | - | - | 1,666,668 | ∅* |
| | | | | 200,000,000 | 30,000,000 | - | (3,333,332) | 226,666,668 | |

Report of the Directors

Share Option Schemes (Continued)

(iii) Movements in the Share Options (Continued)

| | Date of grant | Exercise price (HK\$) | Exercise period | Number of options | | | | At 31st March 2005 | |
|---|---------------|-----------------------|--------------------------|-------------------|----------------------------------|--------------------|------------------------------------|--------------------|----|
| | | | | At 1st April 2004 | Granted during year ² | Lapsed during year | Exercised during year [†] | | |
| Ex-Directors | | | | | | | | | |
| Mr. Vong Tat leong, David | 24.6.2003 | 0.3220 | 24.6.2004 to 23.6.2013 | 10,360,000 | - | - | (10,360,000) | - | ∅ |
| | 24.6.2003 | 0.3220 | 24.12.2004 to 23.6.2013 | 10,360,000 | - | (10,360,000) | - | - | ∅ |
| | 24.6.2003 | 0.3220 | 24.6.2005 to 23.6.2013 | 10,360,000 | - | (10,360,000) | - | - | ∅ |
| Mr. Zhang Yue | 24.6.2003 | 0.3220 | 24.6.2004 to 23.6.2013 | 5,000,000 | - | (5,000,000) | - | - | ∅ |
| | 24.6.2003 | 0.3220 | 24.12.2004 to 23.6.2013 | 5,000,000 | - | (5,000,000) | - | - | ∅ |
| | 24.6.2003 | 0.3220 | 24.6.2005 to 23.6.2013 | 5,000,000 | - | (5,000,000) | - | - | ∅ |
| | | | | 46,080,000 | - | (35,720,000) | (10,360,000) | - | |
| Employees and other eligible persons | | | | | | | | | |
| | 13.7.2000 | 0.9900 | 13.1.2001 to 27.5.2008 | 1,065,000 | - | - | (1,065,000) | - | ∆ |
| | 13.7.2000 | 0.9900 | 13.7.2001 to 27.5.2008 | 1,065,000 | - | - | (1,005,000) | 60,000 | ∆* |
| | 13.7.2000 | 0.9900 | 13.7.2002 to 27.5.2008 | 1,420,000 | - | - | (1,080,000) | 340,000 | ∆* |
| | 20.11.2000 | 0.7920 | 20.11.2001 to 27.5.2008 | 2,400,000 | - | - | - | 2,400,000 | ∆* |
| | 20.11.2000 | 0.7920 | 20.11.2002 to 27.5.2008 | 2,400,000 | - | - | - | 2,400,000 | ∆* |
| | 20.11.2000 | 0.7920 | 20.11.2003 to 27.5.2008 | 3,200,000 | - | - | - | 3,200,000 | ∆* |
| | 20.3.2001 | 0.3304 | 13.1.2003 to 27.5.2008 | 60,000 | - | - | (60,000) | - | ∆ |
| | 20.3.2001 | 0.3304 | 13.7.2003 to 27.5.2008 | 60,000 | - | - | (60,000) | - | ∆ |
| | 20.3.2001 | 0.3304 | 13.7.2004 to 27.5.2008 | 440,000 | - | - | (440,000) | - | ∆ |
| | 24.6.2003 | 0.3220 | 24.6.2004 to 23.6.2013 | 26,306,667 | - | (23,973,333) | (2,333,332) | 2 | ∅* |
| | 24.6.2003 | 0.3220 | 24.12.2004 to 23.6.2013 | 26,306,667 | - | (23,973,333) | (2,333,332) | 2 | ∅* |
| | 24.6.2003 | 0.3220 | 24.6.2005 to 23.6.2013 | 26,306,666 | - | (23,973,334) | - | 2,333,332 | ∅* |
| | 22.9.2004 | 1.2300 | 22.09.2005 to 22.10.2005 | - | 8,000,000 | (3,666,666) | - | 4,333,334 | ∅* |
| | 22.9.2004 | 1.2300 | 22.09.2006 to 22.10.2006 | - | 8,000,000 | (3,666,666) | - | 4,333,334 | ∅* |
| | 22.9.2004 | 1.2300 | 22.09.2007 to 22.10.2007 | - | 8,000,000 | (3,666,668) | - | 4,333,332 | ∅* |
| | 01.2.2005 | 2.255 | 06.01.2006 to 31.01.2015 | - | 1,333,333 | - | - | 1,333,333 | ∅* |
| | 01.2.2005 | 2.255 | 06.01.2007 to 31.01.2015 | - | 1,333,333 | - | - | 1,333,333 | ∅* |
| | 01.2.2005 | 2.255 | 06.01.2008 to 31.01.2015 | - | 1,333,334 | - | - | 1,333,334 | ∅* |
| | 01.2.2005 | 2.255 | 05.01.2006 to 31.01.2015 | - | 1,000,000 | - | - | 1,000,000 | ∅* |
| | 01.2.2005 | 2.255 | 05.01.2007 to 31.01.2015 | - | 1,000,000 | - | - | 1,000,000 | ∅* |
| | 01.2.2005 | 2.255 | 05.01.2008 to 31.01.2015 | - | 1,000,000 | - | - | 1,000,000 | ∅* |
| | 2.3.2005 | 2.525 | 02.09.2005 to 01.03.2015 | - | 2,766,666 | - | - | 2,766,666 | ∅ |
| | 2.3.2005 | 2.525 | 02.09.2006 to 01.03.2015 | - | 2,766,666 | - | - | 2,766,666 | ∅ |
| | 2.3.2005 | 2.525 | 02.03.2008 to 01.03.2015 | - | 2,766,668 | - | - | 2,766,668 | ∅ |
| | 2.3.2005 | 2.525 | 02.03.2006 to 01.03.2015 | - | 200,000 | - | - | 200,000 | ∅ |
| | 2.3.2005 | 2.525 | 02.03.2007 to 01.03.2015 | - | 200,000 | - | - | 200,000 | ∅ |
| | 2.3.2005 | 2.525 | 02.03.2008 to 01.03.2015 | - | 200,000 | - | - | 200,000 | ∅ |
| | 2.3.2005 | 2.525 | 02.03.2009 to 01.03.2015 | - | 200,000 | - | - | 200,000 | ∅ |
| | 2.3.2005 | 2.525 | 02.03.2010 to 01.03.2015 | - | 200,000 | - | - | 200,000 | ∅ |
| | 10.3.2005 | 2.925 | 10.03.2006 to 09.03.2015 | - | 1,000,000 | - | - | 1,000,000 | ∅ |
| | 10.3.2005 | 2.925 | 10.03.2007 to 09.03.2015 | - | 1,000,000 | - | - | 1,000,000 | ∅ |
| | 23.3.2005 | 3.175 | 23.03.2006 to 22.03.2015 | - | 200,000 | - | - | 200,000 | ∅ |
| | 23.3.2005 | 3.175 | 23.03.2007 to 22.03.2015 | - | 200,000 | - | - | 200,000 | ∅ |
| | 23.3.2005 | 3.175 | 23.03.2008 to 22.03.2015 | - | 200,000 | - | - | 200,000 | ∅ |
| | 23.3.2005 | 3.175 | 23.03.2009 to 22.03.2015 | - | 200,000 | - | - | 200,000 | ∅ |
| | 23.3.2005 | 3.175 | 23.03.2010 to 22.03.2015 | - | 200,000 | - | - | 200,000 | ∅ |
| | | | | 91,030,000 | 43,300,000 | (82,920,000) | (8,376,664) | 43,033,336 | |
| | | | | 337,110,000 | 73,300,000 | (118,640,000) | (22,069,996) | 269,700,004 | |

Report of the Directors

Share Option Schemes *(Continued)*

(iii) Movements in the Share Options (Continued)

- Δ Options under Old Scheme
 ∂ Options under New Scheme
 1 The exercise of options and the number of Shares to be issued upon exercise of such options are subject to achievement of certain targeted turnover of HL95
 2 The closing prices of the Shares immediately before the dates on which the options were granted during the year are as follows:–

| Date of grant | Exercise price HK\$ | Closing price on the date immediately before the date of grant HK\$ |
|---------------------|--|---|
| 22nd September 2004 | 1.230 | 1.230 |
| 1st February 2005 | 2.255 | 2.300 |
| 2nd March 2005 | 2.525 | 2.500 |
| 10th March 2005 | 2.925 | 2.825 |
| 23rd March 2005 | 3.175 | 3.275 |
| # | The weighted average closing prices of the Shares immediately before the dates of which the options were exercised by a Director, an ex-Director and employees were HK\$1.828, HK\$2.550 and HK\$2.213 respectively. | |
| * | The Company is now consulting the relevant experts as to the adjustments required to be made to the exercise price and/or the number of the options as a result of the right issue of warrants and will give notice to the holders of options in due course. | |

The share options granted are not recognised in the accounts until they are exercised. The Directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders. Therefore, it is more appropriate to disclose only the exercise price and market price immediately before the date on which the options were granted.

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

Directors' interests in contracts

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

Report of the Directors

Directors' interests in equity securities

As at 31st March, 2005, the Directors and their associates have the following interests or short positions in Shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Securities and Futures Ordinance ("SFO")) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which were recorded in the register of the Company required to be kept under section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

| | Number of shares/underlying shares held | | | | |
|---------------------|---|----------------------------------|---|--------------------------------------|------------------------|
| | Shares (Corporate interest) | Shares (Personal interest) | Share options ⁽²⁾ (Personal interest) | Equity derivatives ⁽³⁾ | Aggregate interests |
| Mr. Wang Jun | – | – | 30,000,000 | – | 30,000,000 |
| Ms. Chen Xiao Ying | 784,937,030 ⁽¹⁾ | – | 160,000,000 | 130,822,838 ⁽¹⁾ | 1,075,759,868 |
| Mr. Luo Ning | – | – | 10,000,000 | – | 10,000,000 |
| Mr. Sun Yalei | – | – | 10,000,000 | – | 10,000,000 |
| Mr. Zhang Lian Yang | – | – | 15,000,000 | – | 15,000,000 |
| Dr. Liu Xiaoping | – | 66,000 | 1,666,668 | – | 1,732,668 |
| | 784,937,030 | 66,000 | 226,666,668 | 130,822,838 | 1,142,492,536 |

Notes:

- (1) The interest in these Shares and underlying shares of the Company were held by Uni-Tech International Group Limited, a wholly owned subsidiary of 21CN Corporation. 21CN Corporation is owned as to 95% by Pollon Internet Corporation, a company wholly owned by Ms Chen Xiao Ying.
- (2) Particulars of interests of the Directors in the share options of the Company are set out in the section headed "Share Option Schemes" above.
- (3) All interests in Shares and underlying shares of the Company are long positions. All interests in underlying shares of the Company are interests in warrants of the Company which conferred rights to subscribe for Shares at an initial subscription price of HK\$2.40 per Share (subject to adjustment) exercisable during the period from 18th March, 2005 to 17th September, 2006.

Save as disclosed above, none of Directors nor any chief executive of the Company has any interest or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of the SFO or were recorded in the register maintained under section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Report of the Directors

Substantial shareholders interest in equity securities

As at 31st March 2005, the following parties (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares of the Company that would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of the Company required to be kept under section 336 of the SFO:

| Name | Nature of interest | Number of Shares held (note (c)) | Equity derivative (note (c)) | Total interest in Shares/ underlying Shares | Approximate percentage of the issued share capital |
|---|------------------------------------|-------------------------------------|---------------------------------|--|--|
| Uni-Tech International Group Limited (note (a)) | Beneficial owner | 784,937,030 | 130,822,838 | 915,759,868 | 27.71 |
| 21CN Corporation (note (a)) | Interest of controlled corporation | 784,937,030 | 130,822,838 | 915,759,868 | 27.71 |
| Pollon Internet Corporation (note (a)) | Interest of controlled corporation | 784,937,030 | 130,822,838 | 915,759,868 | 27.71 |
| CITIC Group ("CITIC") (note (b)) | Interest of controlled corporation | 807,998,000 | 134,666,333 | 942,664,333 | 28.53 |

Notes:

- (a) The interest in these Shares and underlying shares were held by Uni-Tech International Group Limited, which is wholly-owned by 21CN Corporation. 21CN Corporation is owned as to 95% by Pollon Internet Corporation, which is wholly-owned by Ms. Chen Xiao Ying, Executive Vice Chairman of the Company.
- (b) The interest in these Shares and underlying shares of the Company were held by Road Shine Development Limited as to 700,000,000 Shares, Goldreward.com Ltd. as to 191,121,000 Shares and Perfect Deed Co. Ltd. as to 51,543,333 Shares, all of which are, directly or indirectly, controlled by CITIC Group.
- (c) All interests in Shares and underlying shares of the Company are long positions. All interests in underlying shares of the Company are interests in warrants of the Company which conferred rights to subscribe for Shares at an initial subscription price of HK\$2.40 per Share (subject to adjustment) exercisable during the period from 18th March, 2005 to 17th September, 2006.

Report of the Directors

Substantial shareholders interest in equity securities *(Continued)*

Save as disclosed above, there are no other interests or short positions in the Shares or underlying Shares as recorded in the register maintained under section 336 of SFO as at 31st March 2005.

Connected transactions

During the year, the Group entered into certain connected transactions, as defined under the Listing Rules, which are also related party transactions, references to which are set out in note 27 to the accounts.

Management contracts

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

Retirement scheme

Details of the Group's retirement schemes are set out in note 7 to the accounts.

Major customers and suppliers

The aggregate purchase of revenue items during the year attributable to the Group's five largest suppliers was 26% of the total purchases of revenue and services of the Group, of which 10% was made from the largest supplier. The aggregate turnover during the year attributable to the Group's five largest customers was 18% of the total turnover of the Group, of which 12% was made to the largest customer.

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

Corporate governance

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules except that independent non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation at the annual general meeting in accordance with the Company's bye-laws.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as a code of conduct regarding Directors' securities transactions. The Company has made specific enquiry to all Directors regarding any non-compliance with the Model Code during the year and they all confirmed that they have fully complied with the required standard set out in the Model Code.

Report of the Directors

Audit committee

The written terms of reference which describe the authority and duties of the audit committee of the Company (the "Audit Committee") were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Directors and the independent auditors of the Company in matters coming within the scope of the audit for the Group. It also reviews the effectiveness of the external audit and of internal controls and risk evaluation. The members of the Audit Committee comprises Mr. Tsui Yiu Wa, Alec, Mr. Zhang Jian Ming and Mr. Liu Hongru, all of whom are independent non-executive Directors. Three Audit Committee meetings were held during the year ended 31st March 2005 to review financial issues and to make recommendation to the Directors for approval of the interim and annual financial statements.

Directors' interests in competing business

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

Post balance sheet event

On 23rd May 2005, the Group entered into a memorandum of understanding with Hebei Board of Radio and Television in the PRC regarding the formation of a joint venture with a registered capital of RMB100,000,000 (equivalent to approximately HK\$94,340,000). The joint venture will be engaged in (i) the development of digital television and multi services technology platform, (ii) visual, audio and data transmission business for the government, (iii) sales and leasing of set-top boxes and (iv) set up of program content library for digital television network in Hebei Province. The joint venture will be owned as to 49% by the Group and 51% by the other party. Up to the date of this report, no legal binding agreement was concluded.

Auditors

The accounts have been audited by PricewaterhouseCoopers, who will retire and, being eligible, to offer themselves for re-appointment in the forthcoming annual general meeting of the Company.

On behalf of the Board

Chen Xiao Ying

Executive Vice Chairman

Hong Kong, 4th July 2005