

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited accounts of the Company and its subsidiaries (collectively the “Group”) for the year ended 31st March 2004.

### CHANGE OF NAME

Pursuant to the special resolution passed on 1st March 2004, the Company changed its name from 21CN CyberNet Corporation Limited to CITIC 21CN COMPANY LIMITED.

### PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group are telecommunications valued-added services, system integration and software development. The Group has terminated its activities in property investment, telecommunication, multi-media and dairy farm operations.

An analysis of the Group’s performance for the year by business and geographical segments is set out in note 2 to the accounts.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 23 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 25 to the accounts.

### DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$2,109,000.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 13 to the accounts.

### SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 24 to the accounts.

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

## BORROWINGS

Details of the Group's loans are set out in note 23 to the accounts.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 64 of this annual report.

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## DIRECTORS

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

### Executive Directors

Ms. Chen Xiao Ying ( <i>Chairman</i> )	
Mr. Luo Ning ( <i>Vice Chairman</i> )	
Mr. Vong Tat leong, David ( <i>Vice Chairman</i> )	(appointed on 18th July 2003)
Mr. Sun Yalei	
Mr. Zhang Lian Yang	
Mr. Zhang Yue ( <i>Chief Executive Officer</i> )	
Mr. Yin Yiping	(appointed on 22nd July 2003)
Ms. Xia Guilan	(appointed on 27th August 2003)
Dr. Liu Xiaoping	(appointed on 12th March 2004)

### Independent Non-executive Directors

Mr. Tsui Yiu Wa, Alec	
Mr. Zhang Jian Ming	(appointed on 27th August 2003)
Mr. Zuo Wei Qi	(resigned on 15th September 2003)
Mr. Ma Huaide	(resigned on 12th November 2003)

In accordance with Bye-law 99 of the Bye-laws of the Company, Mr. Sun Yalei, Mr. Zhang Lian Yang and Mr. Tsui Yiu Wa, Alec will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Bye-law 102 of the Bye-laws of the Company, Dr. Liu Xiaoping will retire at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

## DIRECTORS (continued)

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 10 and 11 of this annual report.

## 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 of the Group 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 of the Company from time to time excluding the aggregate number of shares of the Company 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 individual in aggregate is not permitted to exceed 25% of the maximum aggregate number of shares of the Company 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 of the Company quoted on The Stock Exchange of Hong Kong Limited for five trading days immediately preceding the date of offer 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 of the Company may, at their discretion, invite Directors and employees of the Company or its subsidiaries to subscribe for shares in the Company 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 Board may grant options to the 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 shares in the Company:-

- (i) employees; or
- (ii) Directors; or
- (iii) shareholders; or
- (iv) business or joint venture partners; or
- (v) any person 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.

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 determined and expiring at the close of business on such date as the Board 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 offer; (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 is not permitted to exceed 30% of the shares in issue from time to time or 10% of shares in issue as at the adoption date of the New Scheme. 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), when 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 of the Company 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.

## SHARE OPTION SCHEMES (continued)

## (iii) Movements in the Share Options

As at 31st March 2004, the number of shares available for issue under the Old Scheme was 82,110,000 shares, representing approximately 2.5% 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 255,000,000 shares up to 31st March 2004, representing approximately 7.8% of the issued share capital of the Company as at date of this report. Under the existing unit, the Company can further grant share options to subscribe for 55,926,600 shares, representing approximately 1.7% of the total issued capital as at the date of this report.

As at 31st March 2004, the particulars of the options granted to each of the Directors and the employees of the Company under the Old Scheme and New Scheme are as follows:

Directors	Date of grant	Exercise Price (HK\$)	Exercise Period	Number of options				Outstanding as at 31st March 2004
				Outstanding as at 1st April 2003	Granted during year*	Lapsed during year	Exercised during year <sup>#</sup>	
Ms. Chen Xiao Ying	13.07.2000	0.9900	13.01.2001 to 27.05.2008	21,000,000	—	—	—	21,000,000 △
	13.07.2000	0.9900	13.07.2001 to 27.05.2008	21,000,000	—	—	—	21,000,000 △
	13.07.2000	0.9900	13.07.2002 to 27.05.2008	28,000,000	—	—	—	28,000,000 △
	24.06.2003	0.3220	10.09.2004 to 23.06.2013	—	30,000,000	—	—	30,000,000 ∂
	24.06.2003	0.3220	10.03.2005 to 23.06.2013	—	30,000,000	—	—	30,000,000 ∂
	24.06.2003	0.3220	10.09.2005 to 23.06.2013	—	30,000,000	—	—	30,000,000 ∂
Mr. Luo Ning	24.06.2003	0.3220	24.06.2004 to 23.06.2013	—	3,333,333	—	—	3,333,333 ∂
	24.06.2003	0.3220	24.12.2004 to 23.06.2013	—	3,333,333	—	—	3,333,333 ∂
	24.06.2003	0.3220	24.06.2005 to 23.06.2013	—	3,333,334	—	—	3,333,334 ∂
Mr. Vong Tat leong, David	24.06.2003	0.3220	24.06.2004 to 23.06.2013	—	10,360,000	—	—	10,360,000 ∂
	24.06.2003	0.3220	24.12.2004 to 23.06.2013	—	10,360,000	—	—	10,360,000 ∂
	24.06.2003	0.3220	24.06.2005 to 23.06.2013	—	10,360,000	—	—	10,360,000 ∂
Mr. Sun Yalei	24.06.2003	0.3220	24.06.2004 to 23.06.2013	—	3,333,333	—	—	3,333,333 ∂
	24.06.2003	0.3220	24.12.2004 to 23.06.2013	—	3,333,333	—	—	3,333,333 ∂
	24.06.2003	0.3220	24.06.2005 to 23.06.2013	—	3,333,334	—	—	3,333,334 ∂
Mr. Zhang Lian Yang	24.06.2003	0.3220	24.06.2004 to 23.06.2013	—	5,000,000	—	—	5,000,000 ∂
	24.06.2003	0.3220	24.12.2004 to 23.06.2013	—	5,000,000	—	—	5,000,000 ∂
	24.06.2003	0.3220	24.06.2005 to 23.06.2013	—	5,000,000	—	—	5,000,000 ∂
Mr. Zhang Yue	24.06.2003	0.3220	24.06.2004 to 23.06.2013	—	5,000,000	—	—	5,000,000 ∂
	24.06.2003	0.3220	24.12.2004 to 23.06.2013	—	5,000,000	—	—	5,000,000 ∂
	24.06.2003	0.3220	24.06.2005 to 23.06.2013	—	5,000,000	—	—	5,000,000 ∂
Dr. Liu Xiaoping	24.06.2003	0.3220	24.06.2004 to 23.06.2013	—	1,666,666	—	—	1,666,666 ∂
	24.06.2003	0.3220	24.12.2004 to 23.06.2013	—	1,666,666	—	—	1,666,666 ∂
	24.06.2003	0.3220	24.06.2005 to 23.06.2013	—	1,666,668	—	—	1,666,668 ∂
				70,000,000	176,080,000	—	—	246,080,000

## SHARE OPTION SCHEMES (continued)

Directors	Date of grant	Exercise Price (HK\$)	Exercise Period	Outstanding as at 1st April 2003	Number of options			Outstanding as at 31st March 2004	
					Granted during year*	Lapsed during year	Exercised during year <sup>#</sup>		
Employees	13.07.2000	0.9900	13.01.2001 to 27.05.2008	1,065,000	—	—	—	1,065,000	△
	13.07.2000	0.9900	13.07.2001 to 27.05.2008	1,065,000	—	—	—	1,065,000	△
	13.07.2000	0.9900	13.07.2002 to 27.05.2008	1,420,000	—	—	—	1,420,000	△
	20.11.2000	0.7920	20.11.2001 to 27.05.2008	2,400,000	—	—	—	2,400,000	△
	20.11.2000	0.7920	20.11.2002 to 27.05.2008	2,400,000	—	—	—	2,400,000	△
	20.11.2000	0.7920	20.11.2003 to 27.05.2008	3,200,000	—	—	—	3,200,000	△
	20.03.2001	0.3304	13.01.2003 to 27.05.2008	1,830,000	—	(1,500,000)	(270,000)	60,000	△
	20.03.2001	0.3304	13.07.2003 to 27.05.2008	1,830,000	—	(1,500,000)	(270,000)	60,000	△
	20.03.2001	0.3304	13.07.2004 to 27.05.2008	2,440,000	—	(2,000,000)	—	440,000	△
	24.06.2003	0.3220	24.06.2004 to 23.06.2013	—	29,640,000	(3,333,333)	—	26,306,667	▷
	24.06.2003	0.3220	24.12.2004 to 23.06.2013	—	29,640,000	(3,333,333)	—	26,306,667	▷
	24.06.2003	0.3220	24.06.2005 to 23.06.2013	—	29,640,000	(3,333,334)	—	26,306,666	▷
				<u>17,650,000</u>	<u>88,920,000</u>	<u>(15,000,000)</u>	<u>(540,000)</u>	<u>91,030,000</u>	
				<u>87,650,000</u>	<u>265,000,000</u>	<u>(15,000,000)</u>	<u>(540,000)</u>	<u>337,110,000</u>	

\* In respect of the share options granted on 24th June 2003, the closing price of the shares of the Company immediately before the date on which the options were granted was HK\$0.31.

# The closing price of the shares of the Company on the dates on which the options were exercised by employees during the year was HK\$0.67.

△ Options granted under the Old Scheme

▷ Options granted under the New Scheme

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 scheme, 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 of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS IN EQUITY SECURITIES

As at 31st March 2004, 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 of Hong Kong Limited (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, 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") in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rule"):

		Interests in shares/ other than pursuant to equity derivatives <sup>(1)</sup>	Interests in underlying shares pursuant to equity derivatives <sup>(1)</sup>	Total interests in shares/ underlying shares	Approximate aggregate percentage of interests
	Nature of interests				
Ms. Chen Xiao Ying	Corporate interest	784,937,030 <sup>(2)</sup>	160,000,000	944,937,030	28.80%
Mr. Luo Ning	Personal interest	—	10,000,000	10,000,000	0.30%
Mr. Vong Tat leong, David	Personal interest	—	31,080,000	31,080,000	0.95%
Mr. Sun Yalei	Personal interest	—	10,000,000	10,000,000	0.30%
Mr. Zhang Lian Yang	Personal interest	—	15,000,000	15,000,000	0.46%
Mr. Zhang Yue	Personal interest	—	15,000,000	15,000,000	0.46%
Dr. Liu Xiaoping	Personal interest	—	5,000,000	5,000,000	0.15%

Notes:

- (1) Interests in shares and underlying shares represented long positions, the equity derivatives are physically settled and unlisted. The interests of the Directors in the underlying shares pursuant to equity derivatives represent share options of the Company granted to them pursuant to the share option schemes adopted by the Company, details of which are set out in the section headed "Share Option Schemes" above.
- (2) These shares were held by Uni-Tech International Group Limited, a wholly owned subsidiary of 21CN Corporation, which in turn is owned as to 95% by Pollon Internet Corporation, a company wholly-owned by Ms. Chen Xiao Ying.

Save as disclosed above, none of the Directors nor any chief executive of the Company had 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 were recorded in the register maintained under section 352 of the SFO as at 31st March 2004.

## SUBSTANTIAL SHAREHOLDERS INTEREST

As at 31st March 2004, the following parties (other than a Director or chief executive of the Company) had interests or short positions in the shares of underlying shares of the Company 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	Number of Shares held	Nature of interest	Approximate percentage of the issued share capital
Uni-Tech International Group Limited (Note (a))	784,937,030	Beneficial owner	23.91%
21CN Corporation (Note (a))	784,937,030	Interest of controlled corporation	23.91%
Pollon Internet Corporation (Note (a))	784,937,030	Interest of controlled corporation	23.91%
Ms. Chen Xiao Ying (Note (a))	784,937,030	Interest of controlled corporation	23.91%
Road Shine Developments Limited (Note (b))	600,000,000	Beneficial owner	18.28%
CITIC Group ("CITIC") (Note (b))	807,998,000	Interest of controlled corporation	24.62%

*Notes:*

- (a) Uni-Tech International Group Limited 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, Chairman of the Company.
- (b) Road Shine Developments Limited, Goldreward.com Limited and Perfect Deed Company Limited holds 600,000,000 shares, 163,818,000 shares and 44,180,000 shares, respectively, all of which are controlled by CITIC.

Save as disclosed above, there are no other interests or short positions in the shares or underlying shares of the Company as recorded in the register maintained under section 336 of SFO as at 31st March 2004.

## CONNECTED TRANSACTIONS

During the year, the Group entered into certain connected transactions, as defined in the Listing Rules of the Stock Exchange (the "Listing Rules"), which are also related party transactions, references to which are set out in note 28 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 approximately 39% of the total purchases of revenue and services of the Group, of which approximately 15% was made with the largest supplier. The aggregate turnover during the year attributable to the Group's five largest customers was approximately 48% of the total turnover of the Group, of which approximately 17% was made by 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.

## AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board 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 Committee currently comprises two Independent Non-executive Directors, namely Mr. Tsui Yiu Wa, Alec and Mr. Zhang Jian Ming. Mr. Zuo Wei Qi and Mr. Ma Huaide resigned from the Audit Committee on 15th September 2003 and 12th November 2003, respectively. Three meetings were held during the current financial year. During the recent meeting, it reviewed the annual accounts of the Group and discussed with Independent Auditors the result of their audit, prior to recommending them to the Board for approval.

## COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Listing Rules except that the Independent Non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Bye-laws of the Company.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

## AUDITORS

The accounts have been audited by PricewaterhouseCoopers, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming Annual General Meeting.

On behalf of the Board

**Chen Xiao Ying**

*Chairman*

Hong Kong, 20th July 2004