



DIRECTORS' REPORT

The Directors submit their report together with the audited financial statements of the Group for the year ended 31st March 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is an integrated information and content service provider. The principal activities of the Group comprise telecommunication and information value-added services, the provision of PIATS, system integration and software development.

An analysis of the Group's performance for the year by businesses and geographical segments is set out in note 8 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 37 of this annual report.

The Directors do not recommend the payment of a dividend.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 39 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 29 to the financial statements.

No pre-emptive rights exist under the Company's Bye-laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

DIRECTORS' REPORT (CONTINUED)

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 90 of this annual report.

PURCHASE, SALE AND REDEMPTION OF THE LISTED SECURITIES

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

DIRECTORS

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

Executive directors

Mr. Wang Jun (*Chairman*)

Ms. Chen Xiao Ying (*Executive Vice Chairman*)

Mr. Luo Ning (*Vice Chairman*)

Mr. Sun Yalei

Mr. Zhang Lian Yang

Mr. Yin Yiping (resigned on 18th August 2005)

Ms. Xia Guilan

Dr. Liu Xiaoping (resigned on 26th September 2005)

Independent non-executive directors

Mr. Hui Ho Ming, Herbert, JP (appointed on 16th November 2005)

Mr. Zhang Jian Ming

Mr. Liu Hongru

Mr. Tsui Yiu Wa, Alec (resigned on 10th November 2005)

In accordance with Clause 99 of the Bye-laws of the Company, Mr. Luo Ning and Mr. Zhang Jian Ming will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Clause 102 of the Bye-laws of the Company, Mr. Hui Ho Ming, Herbert, JP will retire at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

DIRECTORS' REPORT (CONTINUED)

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.

The Company has complied with the requirements of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") to have 3 Independent Non-executive Directors. The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of Directors are set out on pages 29 to 30 of this annual report.

CONVERTIBLE BONDS

The Company issued US\$55 million and US\$15 million, zero coupon convertible bonds at a par value of US\$1,000 each on 21st December 2005 and 11th January 2006 respectively with a maturity date on 21st December 2010 (collectively referred to as the "Bonds"). The Bonds are unsecured and denominated in United States dollars. The Bonds entitle the holders to convert them into ordinary shares of the Company at any time between 15th February 2006 and 14th December 2010 at an initial conversion price of HK\$1.36 per share subject to adjustments. The conversion price will be adjusted downwards on each anniversary date of issue to the ten-day average price immediately prior to the reset date multiplied by 125% if such reset price is less than the conversion price in effect; and adjusted downwards to the ten-day average price immediately prior to the date of the conversion notice delivered by the bondholders multiplied by 94% if such price is less than the conversion price in effect. If the Bonds have not been converted, they will be redeemed at amount as determined by the terms of the Bonds. Please refer to the Company's circular dated 23rd December 2005 for the details of the terms of the Bonds.

SHARE OPTION AND WARRANTS

During the year ended 31st March 2005, 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 on 25th February 2005, resulting in 550,697,664 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.01 at an initial 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.

During the year, 52,417 warrants were exercised. At the balance sheet date, the Company had 550,645,247 warrants outstanding. 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 of HK\$0.01 each.

DIRECTORS' REPORT (CONTINUED)

SHARE OPTION AND WARRANTS (Continued)

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 Executive Directors and key employees of the Company or its subsidiaries and other eligible persons as defined in the New Scheme to subscribe for shares in the Company subject to terms and conditions stipulated therein. On the same date, the share option scheme approved by the shareholders on 28th May 1998 (the "Old Scheme") was terminated such that no further options shall be offered but the options granted shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

Details of the movement of the share options granted under the Old Scheme and New Scheme during the year are set out below:

	Date of grant	Exercise price HK\$	Exercise period	Number of options				At 31st March 2006	Term of new scheme to mention
				At 1st April 2005	Granted during the year	Lapsed during the year	Exercised during the year #		
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	∅
				225,000,000	–	–	–	225,000,000	

DIRECTORS' REPORT (CONTINUED)

SHARE OPTION AND WARRANTS (Continued)

	Date of grant	Exercise price HK\$	Exercise period	Number of options				At 31st March 2006	Term of new scheme to mention
				At 1st April 2005	Granted during the year	Lapsed during the year	Exercised during the year #		
Ex-Director									
Dr. Liu Xiaoping	24.6.2003	0.3220	24.6.2005 to 23.6.2013	1,666,668	–	–	1,666,668	–	∅
				1,666,668	–	–	1,666,668	–	
Employees									
	13.7.2000	0.9900	13.7.2001 to 27.5.2008	60,000	–	–	60,000	–	Δ
	13.7.2000	0.9900	13.7.2002 to 27.5.2008	340,000	–	–	140,000	200,000	Δ
	20.11.2000	0.7920	20.11.2001 to 27.5.2008	2,400,000	–	2,400,000	–	–	Δ
	20.11.2000	0.7920	20.11.2002 to 27.5.2008	2,400,000	–	2,400,000	–	–	Δ
	20.11.2000	0.7920	20.11.2003 to 27.5.2008	3,200,000	–	3,200,000	–	–	Δ
	24.6.2003	0.3220	24.6.2004 to 23.6.2013	2	–	–	2	–	∅
	24.6.2003	0.3220	24.12.2004 to 23.6.2013	2	–	–	2	–	∅
	24.6.2003	0.3220	24.6.2005 to 23.6.2013	2,333,332	–	–	2,333,332	–	∅
	22.9.2004	1.2300	22.9.2005 to 22.10.2005	4,333,334	–	4,333,334	–	–	∅*
	22.9.2004	1.2300	22.9.2006 to 22.10.2006	4,333,334	–	2,533,334	–	1,800,000	∅*
	22.9.2004	1.2300	22.9.2007 to 22.10.2007	4,333,332	–	2,533,332	–	1,800,000	∅*
	1.2.2005	2.255	6.1.2006 to 31.1.2015	1,333,333	–	1,333,333	–	–	∅
	1.2.2005	2.255	6.1.2007 to 31.1.2015	1,333,333	–	1,333,333	–	–	∅
	1.2.2005	2.255	6.1.2008 to 31.1.2015	1,333,334	–	1,333,334	–	–	∅
	1.2.2005	2.255	5.1.2006 to 31.1.2015	1,000,000	–	–	–	1,000,000	∅*
	1.2.2005	2.255	5.1.2007 to 31.1.2015	1,000,000	–	–	–	1,000,000	∅*
	1.2.2005	2.255	5.1.2008 to 31.1.2015	1,000,000	–	–	–	1,000,000	∅*
	2.3.2005	2.525	2.9.2005 to 1.3.2015	2,766,666	–	2,066,666	–	700,000	∅
	2.3.2005	2.525	2.9.2006 to 1.3.2015	2,766,666	–	2,066,666	–	700,000	∅
	2.3.2005	2.525	2.3.2008 to 1.3.2015	2,766,668	–	2,066,668	–	700,000	∅
	2.3.2005	2.525	2.3.2006 to 1.3.2015	200,000	–	200,000	–	–	∅
	2.3.2005	2.525	2.3.2007 to 1.3.2015	200,000	–	200,000	–	–	∅
	2.3.2005	2.525	2.3.2008 to 1.3.2015	200,000	–	200,000	–	–	∅
	2.3.2005	2.525	2.3.2009 to 1.3.2015	200,000	–	200,000	–	–	∅
	2.3.2005	2.525	2.3.2010 to 1.3.2015	200,000	–	200,000	–	–	∅
	10.3.2005	2.925	10.3.2006 to 9.3.2015	1,000,000	–	1,000,000	–	–	∅
	10.3.2005	2.925	10.3.2007 to 9.3.2015	1,000,000	–	1,000,000	–	–	∅
	23.3.2005	3.175	23.3.2006 to 22.3.2015	200,000	–	–	–	200,000	∅
	23.3.2005	3.175	23.3.2007 to 22.3.2015	200,000	–	–	–	200,000	∅
	23.3.2005	3.175	23.3.2008 to 22.3.2015	200,000	–	–	–	200,000	∅
	23.3.2005	3.175	23.3.2009 to 22.3.2015	200,000	–	–	–	200,000	∅
	23.3.2005	3.175	23.3.2010 to 22.3.2015	200,000	–	–	–	200,000	∅
	1.6.2005	2.175	1.6.2006 to 30.6.2006	–	2,333,333	–	–	2,333,333	∅
	1.6.2005	2.175	1.6.2007 to 30.6.2007	–	2,333,333	–	–	2,333,333	∅
	1.6.2005	2.175	1.6.2008 to 30.6.2008	–	2,333,334	–	–	2,333,334	∅
	1.6.2005	2.175	1.6.2006 to 30.6.2006	–	800,000	200,000	–	600,000	∅
	1.6.2005	2.175	1.6.2007 to 30.6.2007	–	800,000	200,000	–	600,000	∅
	1.6.2005	2.175	1.6.2008 to 30.6.2008	–	800,000	200,000	–	600,000	∅
	1.6.2005	2.175	1.6.2009 to 30.6.2009	–	800,000	200,000	–	600,000	∅
	1.6.2005	2.175	1.6.2010 to 30.6.2010	–	800,000	200,000	–	600,000	∅
				43,033,336	11,000,000	31,600,000	2,533,336	19,900,000	
				269,700,004	11,000,000	31,600,000	4,200,004	244,900,000	

DIRECTORS' REPORT (CONTINUED)

SHARE OPTION AND WARRANTS *(Continued)*

- Δ Options under Old Scheme
- ∂ Options under New Scheme
- * The exercise of options and the number of share of the Company ("Share") to be issued upon exercise of such options are subject to achievement of certain targeted turnover of HL95, a jointly controlled entity of the Group.
- # The weighted average closing prices of the Shares immediately before the dates of which the options were exercised by an ex-Director and employees were HK\$2.125 and HK\$2.263 respectively.

The share options granted are recognised in the financial statements in accordance with the accounting policy of the Group as set out in note 4 to the financial statements.

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, existed at the end of the year or at any time during the year.

DIRECTORS' REPORT (CONTINUED)

DIRECTORS' INTERESTS OR SHORT POSITIONS IN EQUITY SECURITIES

As at 31st March 2006, 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, 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 Listing Rules:

	Number of shares/underlying shares held			
	Shares (Corporate interest)	Shares (Personal interest) ⁽²⁾	Equity derivative ⁽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
	<u>784,937,030</u>	<u>225,000,000</u>	<u>130,822,838</u>	<u>1,140,759,868</u>

Notes:

- (1) Pollon Internet Corporation, a company wholly-owned by Ms. Chen Xiao Ying, owns 99.5% interest in 21CN Corporation. Uni-Tech International Group Limited, a wholly owned subsidiary of 21CN Corporation, holds 784,937,030 shares in the Company. Accordingly, Ms. Chen Xiao Ying is interested in the shares held by Uni-Tech International Group Limited.
- (2) Particulars of interests of the Directors in the share options of the Company are set out in the section headed "Share Option and Warrants" above.
- (3) All interests in shares and underlying shares of equity derivatives of the Company are long positions. All interests in underlying shares of equity derivatives 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 were recorded in the register maintained under section 352 of the SFO.

DIRECTORS' REPORT (CONTINUED)

SUBSTANTIAL SHAREHOLDERS' INTERESTS OR SHORT POSITIONS IN EQUITY SECURITIES

As at 31st March 2006, 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	Nature of interest	Number of shares held	Equity derivative	Total interest	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	27.68
21CN Corporation (note (a))	Interest of controlled corporation	784,937,030	130,822,838	915,759,868	27.68
Pollon Internet Corporation (note (a))	Interest of controlled corporation	784,937,030	130,822,838	915,759,868	27.68
CITIC Group (note (b))	Interest of controlled corporation	807,998,000	134,666,333	942,664,333	28.49

Notes:

- (a) Uni-Tech International Group Limited is wholly-owned by 21CN Corporation. 21CN Corporation is owned as to 99.5% by Pollon Internet Corporation, which is wholly-owned by Ms. Chen Xiao Ying, Executive Vice Chairman of the Company.
- (b) Road Shine Developments Limited, Goldreward.com Ltd and Perfect Deed Co. Ltd. holds 600,000,000 shares, 163,818,000 shares and 44,180,000 shares, respectively, all of which are controlled by CITIC Group. All the equity derivatives are held by CITIC Group.
- (c) All interests in shares and underlying shares of equity derivatives of the Company are long positions. All interests in underlying shares of equity derivatives of the Company are interests in warrants.

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.

DIRECTORS' REPORT (CONTINUED)

CONNECTED TRANSACTIONS

Grand Cycle (an indirectly wholly-owned subsidiary of the Company) and HL95 (51% and 49% equity interests of which being beneficially owned by 中信國安信息產業股份有限公司(CITIC Guoan), a company incorporated in the PRC of which CITIC Group is a substantial shareholder with 40.18% effective equity interests in it, and the Company respectively) entered into a service agreement (the "Service Agreement") on 8 August 2005 for the provision of software development and system integration service by Grand Cycle to HL95. Grand Cycle will also provide (i) technical guidance and training service to HL95 regarding the application of the system installed for 12 months commencing from the date of the Service Agreement and (ii) a 12-month free repair and maintenance service to it upon the commencement of the operation of the installed system pursuant to the Service Agreement. The system installed will be used for the provision of finance-related information to the customers of HL95.

Grand Cycle agrees to provide HL95 with software development and system integration service at a fixed fee of RMB9,130,000 (equivalent to approximately HK\$8,779,000) being payable by HL95 to Grand Cycle in the following manner:

- 10% of the service fee or RMB913,000 (equivalent to approximately HK\$878,000) being payable within five days after the signing of the Service Agreement;
- 30% of the service fee or RMB2,739,000 (equivalent to approximately HK\$2,634,000) being payable upon receipt of software by HL95 and software development personnel of Grand Cycle commencing on-site system installation at HL95;
- 50% of the service fee or RMB4,565,000 (equivalent to approximately HK\$4,389,000) being payable within five days after satisfactory testing of the installed system; and
- the balance of 10% or RMB913,000 (equivalent to approximately HK\$878,000) being payable one month after the Free Repair and Maintenance Service Period.

In addition to the above, during the year, the Group entered into certain connected transactions, as defined in Chapter 14 of the Listing Rules of the Stock Exchange, which are also related party transactions, references to which are set out in note 38 to the financial statements.

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.

DIRECTORS' REPORT (CONTINUED)

RETIREMENT BENEFITS SCHEMES

Details of the Group's retirement benefits schemes are set out in note 37 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate purchases during the year attributable to the Group's five largest suppliers was 22% of the total purchases of the Group, of which 8% was made from the largest supplier. The aggregate turnover during the year attributable to the Group's five largest customers was 16% of the total turnover of the Group, of which 5% 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

EMOLUMENT POLICY

The emolument policy regarding the employees of the Group is based on their merit, qualifications and competence.

The emoluments of the directors of the Company are decided having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 31 to the financial statements.

LITIGATION AND SUBSEQUENT EVENT

Details of litigation and subsequent event are set out in notes 39 and 41 to the financial statements respectively.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float of not less than 25% throughout the year.

DIRECTORS' REPORT (CONTINUED)

CORPORATE GOVERNANCE

Please see the "Corporate Governance Report" set out on pages 31 to 35 of this annual report of the Company for details of its compliance with the Code on Corporate Governance Practices.

AUDIT COMMITTEE

The Group's annual report for the year ended 31st March 2006 has been reviewed by the Audit Committee. Information on the work of Audit Committee and its composition are set out in the Corporate Governance Report on pages 31 to 35 of this annual report.

AUDITORS

During the year, Messrs. PricewaterhouseCoopers, who acted as auditors of the Company in the past three years, resigned and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company.

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Chen Xiao Ying

EXECUTIVE VICE CHAIRMAN

Hong Kong, 17th July 2006