

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements of the Company for the year ended 31st December, 2003.

GROUP REORGANISATION

During the year, the Company undergo a group reorganisation ("Group Reorganisation"), whereby:

- (a) Apex Quality Group Limited ("Apex"), the then wholly owned subsidiary of the Group, issued new shares in Apex, to acquire from the Company interests of certain subsidiaries carrying on hotel and leisure-related business. Intra-group balances between the Company and those subsidiaries acquired by Apex were transferred. Amounts due to China Strategic Holdings Limited ("CSH") were transferred from the Company to Apex.
- (b) Shares in Apex were distributed in specie to the shareholders of the Company whose names appeared on the register of members on the date of completion of the above transfer.

Following the Group Reorganisation, the Company has ceased to be the holding company of Apex and the Group has discontinued to engage in hotel and leisure-related business.

CAPITAL REORGANISATION AND SHARE CAPITAL

During the year, the Company undergo a capital reorganisation ("Capital Reorganisation") which involve:

- (a) Paid up capital on each issued ordinary shares was reduced from US\$0.02 to US\$0.002 each ("Capital Reduction");
- (b) Each authorized but unissued ordinary shares was subdivided into ten shares of US\$0.002 each;
- (c) Share premium were transferred to the contributed surplus account; and
- (d) Every ten issued and unissued ordinary shares of US\$0.002 each were consolidated into one share of US\$0.02 each ("Consolidated Shares").

The Group Reorganisation and Capital Reorganisation were approved by the shareholders of the Company at the special general meeting on 26th November, 2003, details of which were set out in the circulars to the shareholders of the Company dated 31st October, 2003.

Details of these and other movements in the share capital of the Company are set out in note 28 to the financial statements.

CHANGE OF COMPANY'S NAME

Pursuant to a special resolution passed at a special general meeting held on 20th January, 2004, the name of the Company was changed from Rosedale Hotel Group Limited to China Velocity Group Limited with effect from 26th January, 2004. 中國高速(集團)有限公司 was adopted as the new Chinese name of the Company in place of 珀麗酒店集團有限公司 for identification purpose.

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PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 46 to the financial statements.

Upon completion of the Group Reorganisation, the Group concentrates on property investment and development in the Peoples' Republic of China (the "PRC") and discontinued its hotel and leisure-related business.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2003 are set out in the consolidated income statement on page 18 of the financial statements.

Pursuant to the Group Reorganisation, shares in Apex were distributed to the shareholders of the Company whose names appear on the register of member of the Company on the basis of one share of Apex for every issued share in the Company.

The directors do not recommend the payment of a final dividend for the year.

CHANGES IN SUBSTANTIAL SHAREHOLDERS

On 9th July, 2003, Wing On Travel (Holdings) Limited ("Wing On", formerly known as Ananda Wing On Travel (Holdings) Limited) has entered into a sales and purchase agreement with Velocity International Limited ("Velocity") for the acquisition by Velocity of 136,666,666 Consolidated Shares in the Company, representing approximately 49.3% interest in the Company.

Following the acquisition by Velocity on 16th December, 2003, Wing On ceased to be the Company's substantial shareholder and Velocity becomes the substantial shareholder of the Company. Velocity and CSH are beneficially interested in 136,666,666 and 62,821,662 Consolidated Shares in the Company, respectively, representing approximately 71.9% interest in the Company. In accordance with the Hong Kong Code on Takeovers and Mergers, Velocity has made a mandatory cash offer to acquire all the issued shares of the Company at a price of HK\$0.644 per share ("Mandatory Unconditional Cash Offer").

The Mandatory Unconditional Cash Offer was closed on 9th January, 2004, Velocity and CSH held 146,943,418 and 62,821,662 Consolidated Shares of the Company, representing approximately 53.0% and 22.6% respectively of the issued share capital of the Company. In order to restore the public float of the Company to the minimum requirement of 25% in accordance with the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), Velocity has taken active steps to place approximately 2,000,000 Consolidated Shares of the Company, representing 0.72% of the issued share capital, to independent third parties.

Details of Velocity's and CSH's interest in the share capital of the Company as at 31st December, 2003 are disclosed under the section "Substantial Shareholders".

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INVESTMENT PROPERTIES

The Group revalued all of its investment properties at the balance sheet date and a deficit of approximately HK\$1.3 million was charged to the consolidated income statement.

Details of the movements in the investment properties of the Group during the year are set out in note 15 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group recognised impairment losses of approximately HK\$110.8 million, on its hotel properties and properties under construction, which have been charged to the consolidated income statement.

Property, plant and equipment with an aggregate net book value of approximately HK\$1,520.2 million were disposed as a result of the Group Reorganisation.

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

PROPERTIES UNDER/HELD FOR DEVELOPMENT

The Group recognised impairment losses of HK\$4.4 million on its properties under/held for development during the year, which have been charged to the consolidated income statement.

Movements in the properties under/held for development of the Group during the year are set out in note 17 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS' REPORT

DIRECTORS

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

Executive directors:

Chan Yeung Nam (<i>Chairman</i>)	(appointed on 19th December, 2003)
Fu Jie Pin (<i>Chief Executive Officer</i>)	(appointed on 19th December, 2003)
Chan Wai Kit	(appointed on 19th December, 2003 and resigned on 1st April, 2004)
Wong Lai Shun, Benny	(appointed on 14th March, 2003 and resigned on 9th January, 2004)
Chan Kwok Hung	(resigned on 9th January, 2004)
Chan Fut Yan	(resigned on 9th January, 2004)
Cheung Hon Kit	(resigned on 9th January, 2004)
Chau Mei Wah, Rosanna	(resigned on 9th January, 2004)
Mok Yat Fan, Edmond	(resigned on 2nd September, 2003)
Cheng Yin Ching, Anna	(resigned on 9th January, 2004)

Non-executive director:

Mok Yat Fan, Edmond	(appointed on 2nd September, 2003 and resigned on 9th January, 2004)
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Independent non-executive directors:

Tang Cheung Fai	(appointed on 19th December, 2003)
Lam Ping Cheung	(appointed on 19th December, 2003)
Wong Pui Fai	(resigned on 9th January, 2004)
Chan Shu Kin	(resigned on 9th January, 2004)

In accordance with Clause 102(B) of the Company's Bye-Laws, Mr. Chan Yeung Nam, Mr. Fu Jie Pin, Mr. Tang Cheung Fai and Mr. Lam Ping Cheung, the newly appointed directors, retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

The term of office of each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-Laws.

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SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance ("SFO") showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Long position

(a) Ordinary shares of US\$0.02 each of the Company

	Capacity	Number of Consolidated Shares			Percentage of issued share capital	Note
		Direct interest	Deemed interest	Total interest		
Velocity	Beneficial owner	136,761,600	—	136,761,600	49.3%	a
Chan Yeung Nam	Beneficial owner and interest of a controlled operation	—	136,761,600 (through 100% direct interest in Velocity)	136,761,600	49.3%	a
Wealthy Gain Limited ("Wealthy")	Beneficial owner	16,079,000	—	16,079,000	5.8%	b
Ruby Enterprises Limited ("Ruby")	Interest of a controlled operation	—	16,079,000 (through 100% direct interest in Wealthy)	16,079,000	5.8%	b
Golden Flower Limited ("Golden")	Beneficial owner	20,742,000	—	20,742,000	7.5%	c
Expert Commerce Limited ("Expert")	Beneficial owner	15,000,000	—	15,000,000	5.4%	c
China WTO.com Limited ("CWTO")	Beneficial owner and interest of controlled corporations	11,000,662	35,742,000 (through 100% direct interest in Golden and Expert)	46,742,662	16.8%	c
China Strategic Holdings Limited ("China Strategic")	Interest of controlled corporations	—	62,821,662 (through 100% direct interest in Ruby and CTWO)	62,821,662	22.6%	d
Wing On Travel (Holdings) Limited	Security interest	136,666,666	—	136,666,666	49.3%	e

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SUBSTANTIAL SHAREHOLDERS *(continued)*

Long position *(continued)*

Notes:

- (a) Mr. Chan Yeung Nam holds the entire beneficial interest in Velocity and Mr. Chan Yeung Nam is accordingly deemed to be interested in 136,761,600 Consolidated Shares in the Company.
- (b) Ruby directly holds the entire beneficial interest in Wealthy which in turn beneficially owns 16,079,000 Consolidated Shares in the Company. Accordingly, Ruby is deemed to be interested in the same 16,079,000 Consolidated Shares in the Company.
- (c) CWTO beneficially owns 11,000,662 Consolidated Shares in the Company and directly holds the entire beneficial interest in Golden and Expert. Golden and Expert beneficially own 20,742,000 and 15,000,000 Consolidated Shares in the Company respectively. Accordingly, CWTO is totally interested in 46,742,662 Consolidated Shares in the Company.
- (d) China Strategic directly holds the entire beneficial interest in Ruby and CWTO. Ruby and CWTO are deemed to be interested in 16,079,000 and 46,742,662 Consolidated Shares in the Company respectively. Accordingly, China Strategic is deemed to be interested in 62,821,662 Consolidated Shares in the Company.
- (e) These shares were pledged to Wing On pursuant to a loan agreement and share mortgage agreement both dated 16th December, 2003.

Save as disclosed above, the Company has not been notified of any other interests representing 5% or more of the Company's issued share capital as at 31st December, 2003.

DIRECTORS' INTERESTS IN SECURITIES

Other than as disclosed in the section "Substantial Shareholders", none of the directors, chief executives, nor their associates, had any interests or short positions in any shares or debentures of the Company or any of its associated corporation at 31st December, 2003, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Director of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Particulars of the Company's share option scheme are set out in note 29 to the financial statements.

As at the date of the director's report, the total number of Consolidated Shares available for issue under the Company's share option scheme is 13,624,193, representing 4.9% of the Consolidated Shares of the Company in issue at the date of this report.

At no time during the year was the Company, its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries was 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.

CONNECTED TRANSACTIONS

The Group provided hotel rooms and other ancillary hotel services to Wing On, the former substantial shareholder of the Company for the period up to 16th December, 2003, amounting HK\$2,494,655.

The independent non-executive directors confirm that the transactions were entered into by the Company in the ordinary course of its business and in accordance with the terms of the agreement governing such transactions.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers were less than 30% of the total sales for the year. The aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the total purchases for the year.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31st December, 2003 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules except in relation to Guideline 1 as certain directors frequently travelled abroad for overseas business trips and were unable to attend the board meetings when convened and held and Guideline 7 as non-executive directors are not appointed for a specific term but are subject to rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-Laws.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events are set out in note 44 to the financial statements.

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AUDITORS

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

On behalf of the Board

Chan Yeung Nam

CHAIRMAN

Hong Kong, 23rd April, 2004