

C HAIRMAN'S STATEMENT

In April 2004, the Group relocated all its business subsidiaries' headquarters in Beijing to Beijing Economic-Technological Development Zone. Such move is to maximize core coherence and resource sharing as well as enhance inter-subsidary communications.



In July 2004, the Group also moved its business units' IDC (internet data centre) into Asia's largest IDC, China Netcom's Super IDC located in the Beijing Economic-Technological Development Zone, and set up a super-sized stand-alone data and network operation centre, with two back up centres in another two cities. This is the first 7x24 operated and maintained system management structure within the IT service industry, which has broadly advanced system security and technology service quality for all the subsidiaries.



In 2004, the Group's operation and management concurrently pursued an aggressive development strategy with emphasis on stability, and implemented mechanisms to advance performance. Management restructures, e-commerce application platform launches and data centre reorganizations etc. were all not only remarkably and effectively executed but also a firm foundation has been established for the future development of the Group. In respect of the

core businesses, we continue to focus on the IT application service, financial information service, distance learning education software application service sectors, and have achieved positive performance in such areas.

1. ENTERPRISE IT APPLICATION SERVICE

With CE Dongli Technology Company Limited ("CE Dongli") as the flagship, complemented by Beijing Xinnet Technology Development Limited ("Xinnet") and Easy-Trade Technology Services Limited ("Easy-Trade"), they have combined forces to become the Company's IT application service business. In 2004, the Group effectively implemented comprehensive management restructures within these companies, which contributed to optimal business performance advancement.

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CE Dongli

In 2004, CE Dongli has explicitly addressed its core business of IT application services, and pioneered the concept of IT application service providing computer network, data processing, software-based services and solutions. Base on payment for usage mode, providing enterprise customers for services for satisfying their IT application needs. CE Dongli has further strengthened its corporate objective to provide application software services and solutions to enterprises in China. In the past few years, in order to meet CE Dongli's rapid growth and development, across-the-board enhancements in corporate management, company structure, new product development capability, customer support, operation efficacy, internal information systems were required.

Therefore, comprehensive reforms were implemented in the past year, to mark new initiatives in CE Dongli's development strategy, and new management disciplines were incorporated, while momentum in all business development areas were greatly reinforced. In addition to the original sales force network, 20 new branch offices were opened. By the end of 2004, there were a total of 68 branch offices nationwide, more than 7,000 staff, servicing almost 200,000 clients, and 80,000 member clients.



In October 2004, CE Dongli successfully deployed an operation model based information platform, which is an e-commerce platform based on exclusive advanced technology of I2SS (Intelligent Integrated Seamless Solution) – e-commerce platform. This information platform integrates hardware and software systems with network operation services, with components and modules developed to meet specific needs of enterprise information requirements and thus achieving seamless integration, scalability, direct application and customization based on individual enterprise requirements. This e-commerce platform provides long-term operation services, which clients can select from quarter/annual payment plans, and allow enterprises usage of state-of-the-art technology at minimum cost, and achieve enhanced productivity and competitive advantage. The success and advancement of enterprises, CE Dongli's key resources, will in turn advance CE Dongli's

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growth and opportunity. The successful deployment of this information platform in conjunction with high level of customer satisfaction and demand have prompted a rapid increase in sales and production. Therefore, demonstrating that along with CE Dongli's vast sales network and support, technology development and high-end premium services have become another core competitive advantage for CE Dongli.

In mid-2004, CE Dongli appointed a group of new officers for strengthening its management power, reorganized the corporate, and established regional management system to meet the requirements of CE Dongli's expanding business scale, making the management structure as a whole to cater for the Company's future business development.

Xinnet

Xinnet's main business are domain name registration, and provision of virtual hosting service and emails with a business model based on distributorship and online platform sales. Its technology service, customer support, and brand name are widely recognized in the industry. In 2004, Xinnet continued its reorganization and business network expansion, setting up four new branch offices and two rep offices. By the end of 2004, Xinnet's national sales network, with such economically developed cities as Beijing, Shanghai, Guangzhou, Shenzhen, Shenyang, Chengdu and Chongqing etc. as key sales points, comprised of 23 wholly-owned branch offices and rep offices. Xinnet's annual sales revenue grew by 25% in 2004, as its distributorship grew by 2,000 to reach a total network of 8,000 distributors, an increase of 33.3% compared to 2003.

Technology has always been one of Xinnet's competitive advantage. In 2004, its technology development achieved major breakthrough at infrastructure level, specifically in the area of virtual hosting services. That as well as significant enhancement of hardware facilities, system performance and operation stability have further strengthened the market leadership status of Xinnet in the IT infrastructure service industry.



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Easy-Trade

During the year, Easy-Trade has achieved the best performance since its establishment.

In 2004, Easy-Trade established comprehensive cooperation with renowned banks in Hong Kong and China, achieved advancement in the telecommunication premium rate services, and is in the process of building up a national distribution sales system and network. In the latter half of this financial year, IT business for hotel room services has basically set up its sales model and achieved sales revenue.

In the technology area, Easy-Trade has completed the online payment platform development during the year, constructed Easy-Trade's technology architecture, and completed the initial phase of the multifunctional integrated-business platform. This will serve as a firm foundation for the long term development of Easy-Trade.

In this financial year, Easy-Trade opened a branch office in Beijing, as well as Shanghai and Changsha, which are initial efforts in the building of a nationwide sales network.

2. FINANCIAL INFORMATION SERVICES

Upon evaluating China's economic and capital market development trend, the Group has realized that the Chinese financial information industry is under vicious competition, not regulated, and at an immature and unprofessional stage, which are seriously prejudicing the investors' interests. During the year, the Company successfully transformed Beijing Shihua International Financial Information Company Limited ("Shihua") into a professional financial information service provider. Through standardized information exchange, professional content and analysis, real-time information delivery, Shihua has contributed significantly to the standardization of Chinese information market and advancement of information industry standards.

As global economic recovery and rapid Chinese economic growth progressed, Shihua has steadily expanded its market share in the futures and FOREX information industry during the year. It has also strengthened its brand name, developed new market and new product, to target professional investors, strategic managers as well as corporate decision makers, and to deliver real time financial information and research analysis 24 hours a day. Shihua has provided about 50,000 terminals for its clients including 112 banks, 375 futures brokerage firms, 12 securities houses, 45 educational institutions, and 350 corporations. Dominating about 85% of the futures market; and 65% of the banking sector's personal FOREX information market. Shihua has become the leading provider of financial information services in China.



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Pursuant to the commitments made by the Chinese government upon its WTO entry, by 2004, China lifted its crude oil import quota, opened up its crude and product oil retail market as well as petrochemical businesses to foreign entities. These developments have further advanced China's energy sector to international standards. In August 2004, the Shanghai Futures Exchange's (SHFE) launched fuel oil futures contracts, and Shihua simultaneously added energy related information and analysis services on its information

platform, including reports on international macroeconomic policy and energy sector trends, expert oil industry analysis and price data.

Advancing an educated investment philosophy that investment and wealth be achieved through decisions based on information, Shihua also provides training and information services for non-professional investors. Specifically for the training of future professional investors, Shihua is a key provider of virtual trading products and supplementary teaching materials for educational institutions.

Through strategic cooperation with international institutions and financial information service providers, Shihua's information standards, authoritative and objective analysis are not only acknowledged in China, but are also being recognized by the international financial information community.

3. DISTANCE LEARNING EDUCATION AND APPLICATION SOFTWARE SERVICES

During the year, Beijing Chinese Dadi Distance Education Company Limited ("Huaxia") has achieved periodic development results. Up to this reporting year, Sina and Sohu selected Huaxia as the "Top Ten Online Education Organization" for two consecutive years. In 2004, Huaxia's General Manager, Dr. Gao Sung Tao, was elected by a newspaper in the PRC as "National Top Ten Private Education Outstanding People of the Year".

As the leader in China's long distance education market, Huaxia's online student recruitment distributorship has increased by one hundred to reach more than 300 distribution agencies. Huaxia has established broad cooperative efforts with the Ministry of Education, examination offices at the national, provincial and municipal level as well as authoritative educational institutions. It has also collaborated with more than 70 major websites, including main Chinese internet portals such as Sina, Sohu and Netease.

Up to this reporting year, Huaxia has accumulated training for more than 40 professions, including computer, law, language, accounting, management, finance, etc. and more than 300 proprietary online training courses, and about 200 full and part-time teachers. Registered account holders have increased by 300,000 in the last year reaching a total of one million. Paid account holders have increased 50,000 to reach a total of 100,000. Daily click rate of the website has reached 4.5 million. All of the websites operated by Huaxia are recognized widely by the industry, including Self Study Examination website, Huaxia Dadi training website, Huaxia Dadi Accounting website, Beijing Language University Online College, National Computer Certificate Examination website (in cooperation with the Ministry of Education's Examination Centre).



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While conducting online training, Huaxia's strong technology development team, utilizing the abundant teaching resources available, have designed platforms and customized course studies for more than 60 major institutions, government departments, large corporations and both local and overseas universities. Huaxia has accumulated more than 300 custom designed course studies for clients.

Huaxia is also responsible for many national level educational technology service projects, including Sino-US Network and the Great Wall Chinese Language projects. Sino-US Network project is the largest educational cooperation between China and the US. Huaxia is the exclusive educational technology partner in this project. Great Wall Chinese is a key development project of the Ministry of Education and China National Office for Teaching Chinese as a



Foreign Language, and will be promoted worldwide as a model for teaching Chinese language in the 21 century. Huaxia successfully bid for this project. Under the guidance of the National Office for Examination, Huaxia and Guangming Daily Newspaper jointly published a self examination periodical <Examination: Self Study Examination>. Together with National Office for Examination, Huaxia set up a 5 million yen "Huaxia Dadi Self Study Award". Huaxia and Beijing Language Culture University also jointly set up the "eBLCU" website by combining Huaxia's technology with BLCU's teaching resources, broadening Huaxia's influence in the distance learning education industry.

Up to this reporting year, through resource, technology and service integration, Huaxia has provided distance learning education services to several million individual users, as well as government offices, industry associations, enterprises, military offices and others. Huaxia has earned the trust of the learning community, established a firm foundation to building a lifetime learning society and advancing the participants' core competitiveness.

4. PROPERTY DEVELOPMENT

During the year, the Company operated property development business through its subsidiary South Sea Holding Company Limited ("South Sea"). Once the restructuring between the Company and South Sea is completed, property businesses will be detached from the Company.

In order to better define business segmentation, allocate management resources, the Company and its subsidiary, South Sea, through impartial negotiations, have reached and executed a series of restructuring agreements. Our shareholders have voted to support this plan on 16 April 2004. It is expected that the Court's approval will be granted in mid-2005, and the restructuring will then be completed.

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This strategic business transformation and structural reorganization will allow the Company to focus more on the core business, to maximize our technology strength, better allocate corporate resources, to achieve better efficiency and marginal return. With CE Dongli as the flagship, together with Xinnet, Easy-Trade, Shihua, Huaxia, will form a IT group, to lay the strong foundation for the Company to become China's top IT application service provider. We believe that upon completion of the restructuring, our core business units will become more focused and continue to leverage its strength in the IT application services, financial information services, and long distance education and application software services; with stronger competitive advantage to achieve higher marginal benefit, increase market share in respective industries, and profit from China's rapid growing information technology trend.

The successful implementation of the restructuring plan will optimize both companies' core businesses, each with more focused direction, which will in turn increase investors' understanding and trust in each of the company's businesses and facilitate investor funds and individual investors to better evaluate share value. This will benefit our improvement and upgrade of the Group's financial environment.

The Company has submitted a petition for capital reduction and distribution to the High Court, and estimate the shareholding restructure will be completed in mid-2005. Due to some technical arrangements with shareholders and bank creditors, the restructuring plan was delayed. All such technical issues have been resolved, and the Company will expedite the restructure in 2005.

In the coming year, the Company will further integrate internal resources, build an all-in-one sales, research, operation, information, administration, human resource and financial management platform. We believe that centralized group management will achieve internal resource integration and sharing, comprehensive marketing strategy that will bring about cooperation and communication amongst subsidiaries, and lead to more variety of services and ultimately enhance the Company's image.

The Company will increase investment in the enterprise IT service sector. Besides improving operation and management to increase income and profit, we will continue to merge and acquire corporations in the related areas, develop more strategic partners, advance product line, increase market share to substantiate our market leadership position.



The Company plans to build a LINUX Research and Development Centre, to lead a stronger technology Research & Development (R&D) team. This centre will integrate the technology resources of all subsidiaries into a technology strong force. The LINUX R&D Centre, based on its free, open platform characteristics, will provide users more reliable, advanced and customized applications. The LINUX R&D Centre will progressively track and participate in domestic and international open source projects. Meanwhile, we will invest more in project management, quality control, and testing procedures, in order to achieve maximum quality assurance.

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In the financial information service sector, we believe China will further strengthen her economic reform efforts in 2005. Under this economic environment, Shihua will continue to develop financial information services, seeking to become a key impetus in the positive and standardization development of the information sector.

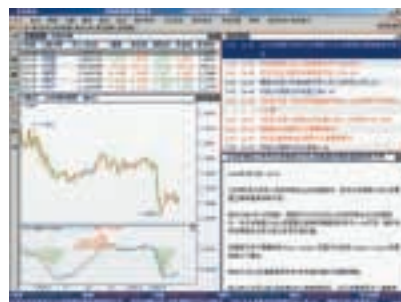
Shihua will enter the equity information market, with emphasis in bonds and funds, with more in-depth information and analysis, advanced technology and a brand new platform in 2005. We will firstly launch series of information products targeting raw material suppliers, producers. In order to meet the requirements of professionals, Shihua will base on the Global Industry Classification Standard for categorization of products, focusing on industries most relevant to the domestic economy, and designing end products, network products and services.

China's rapidly growing economy has led to high demand for international products. Therefore, the international community closely monitors trends and movements in key industries in China. In 2005, Shihua will debut its industry product line, which will consist of industry highlights and analysis, domestic and global macroeconomic policies, supply and demand data, price data, futures and commodity analysis, listed company updates within each industry. Shihua is currently providing services for corporations in various industries, including domestic corporations, foreign enterprises and businessmen from Hong Kong, Macau and Taiwan.

Shihua will continue to advance its comprehensive financial information platform, and will add intelligent and interactive functions as well as multimedia contents in 2005. Shihua's technology development will adopt the latest development direction by applying cross-platform, cross-language, program efficient, and reliable capabilities of CORBA technology, to provide a LINUX based advanced multimedia platform. This platform will allow for product scalability, and provide low cost, high reliability, security and functionality services that will be easy for Shihua product line expansion, and for providing better services to customers.

Based on our management's domestic and international experiences, Shihua's information and analysis team will continue to raise their information standards, and seek to work with other information providers to build an open, fair and objective market environment, link to international standards, create positive competition, against offensive acts, and protect investors' interests.

In the distance learning education and application software service sector, China's rapid development in cultural education and professional training has led to rising demand for distance learning education services. Huaxia will therefore experience even broader business development opportunities. The Company will leverage its technology as well as combined online operation and distance learning service experience, to further expand the distance learning application service sector, and achieve market leadership status.



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Huaxia has achieved revenue and development growth, and its industry sector structure within the Group has already achieved independent operation capability. Therefore, once the market environment and other criteria are up to par, we plan to enter Huaxia into independent operation mode.

The Group will set up its human resource training policy in 2005 to integrate human resource training experiences amongst the subsidiaries, to further advance and implement an across-the-board training system to meet the requirements of the Group. It will effectively plan the management training and development, succession of crucial positions, employee career development policy, project development, efficiency management training, and ultimately achieve overall employee advancement in professional knowledge and management skills. This will in turn support each subsidiary's training program, advance the Group's overall competitiveness, strengthen the corporate culture and cohesion, ultimately achieving our strategic goals.

Based on the Group's current human resource requirements and experience, we will initiate project training programs, combining internal and external training; tutorial training; and on-the-job training, which focus on the required attributes and qualities of personnel in junior, intermediate and senior levels. By establishing a human resource development system to complement the Group's long-term development strategy. The planned training programs will be fine-tuned during implementation, as it is a long-term investment that will bring about great rewards to the Group in the near future.

As the Group expands rapidly, it will continue to carry out internal personnel management reform. In early 2005, though the reallocation and reorganization of the Group's management resources have not yet completed, it proves to be effective. Efforts to enhance internal management have been recognized as a step forward in our strategy to properly allocate management resources. Based on actual development, we will expedite our process to achieve management improvement so as to establish a foundation for the Group's long-term comprehensive development.

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The Company is now constructing its own headquarters in the Beijing Economic-Technological Development Zone. The overall planning and architectural design have been completed, and construction will be taken place in the second half of 2005. The headquarters will encompass office and technology development facilities in one area, with high-quality office and operation facility, strengthen technology

development and application, which in turn will advance the Company's operation efficiency and capability. This will also reduce management cost and expenditures, contributing to the Company's overall development. The new headquarters will be representative of its strong leadership foundation in the marketplace and conducive to the overall image of the Company.

I would like to thank all shareholders for your confidence in our management, and sincerely look forward to your continuous support in the future.

Yu Pun Hoi

Chairman

Hong Kong, 25 April 2005