

The directors present their report together with the audited financial statements of the Company and of the Group for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are primarily property development and investment, the sale of online English learning courses, the leasing of equipment and the provision of telecommunication and other related services to online game developers and other broadband media providers in the Mainland of the People's Republic of China ("Mainland China").

During the year, the Group commenced the provision of telecommunication and other related services to online game developers and other broadband media providers in the Mainland China after its acquisition of Telesuccess International Limited, a company incorporated in the British Virgin Islands, and its subsidiary.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2004 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 17 to 61.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2004.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 62 of the annual report. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets of the Company and of the Group, and of the investment properties of the Group during the year are set out in notes 11 and 12, respectively, to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 28 and 29 to the financial statements.

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.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 30 to the financial statements and in the consolidated summary statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At the balance sheet date, the Company's reserves available for cash distribution and distribution in specie were HK\$73,841,000. In addition, in accordance with the Companies Act 1981 of Bermuda (as amended), the Company's share premium account, in the amount of HK\$303,964,000, may be distributed in the form of fully paid bonus shares.

FINANCIAL RESOURCES AND LIQUIDITY

The Group generally finances its operations with internally generated cash flows and with facilities mainly provided by banks in Mainland China. At the balance sheet date, the Group had cash and bank balances and deposits totalling HK\$107,030,000.

At the balance sheet date, the Group had convertible bond of HK\$30,000,000 and aggregate bank loans of approximately HK\$77,300,000, of which approximately HK\$49,830,000 is repayable within one year from the balance sheet date.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentage of sales and purchases attributable to the Group's major customers and suppliers were as follows:

- (i) The aggregate amount of turnover attributable to the Group's five largest customers represented 97% of the total turnover for the year. The turnover from the Group's largest customer represented 43% of the Group's total turnover for the year.
- (ii) The aggregate amount of purchases attributable to the Group's largest supplier accounted for 100% of the Group's total purchases for the year.

As far as the directors of the Company are aware, neither the directors, their respective associates nor any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Ho Tsam Hung, *Chairman*

Ho Pak Hung, *Deputy Chairman*

Ho Kam Hung, *Managing Director*

Independent non-executive directors:

Zhang Jie

Young Kwok Sui

Ng Kin Sun

(appointed on 23 September 2004)

In accordance with the Company's bye-laws, Mr. Ho Pak Hung and Mr. Young Kwok Sui will retire by rotation, and being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws, Mr. Ng Kin Sun will hold office until the forthcoming annual general meeting and being eligible for re-election at the forthcoming annual general meeting.

In accordance with the Company's bye-laws, the terms of appointment of the independent non-executive directors will expire when they are required to retire by rotation.

The biographical details of the directors as at the date of this annual report are set out in the profile of directors and senior management on pages 12 and 13 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted as at the balance sheet date or at any time during the year.

MANAGEMENT CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the interests of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company

Name of director	<i>Notes</i>	Number of shares held	Percentage of the Company's issued share capital
Ho Tsam Hung	(a)	270,000,000	6.89
Ho Pak Hung	(b)	270,000,000	6.89
Ho Kam Hung	(c)	270,000,000	6.89
		810,000,000	20.67

The above shares are held by the directors through controlled corporation.

The interests of the directors in the share options of the Company are separately disclosed in note 29 to the financial statements.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES (CONTINUED)**Long positions in shares of associated corporations**

Name of director	Name of associated corporation	Relationship with the Company	Shares/equity derivatives	Numbers of shares/equity derivatives held	Capacity and nature of interest	Percentage of the associated corporation's issued share capital
Ho Tsam Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
	China Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
Ho Pak Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
	China Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
Ho Kam Hung	Smart Hero (Holdings) Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13
	China Realty Investment Limited	Company's subsidiary	Non-voting deferred shares	91	Directly beneficially owned	30.13

Notes:

- (a) 270,000,000 shares are held by Morgan Estate Assets Limited, a company beneficially owned by Ho Tsam Hung.
- (b) 270,000,000 shares are held by On Tai Profits Limited, a company beneficially owned by Ho Pak Hung.
- (c) 270,000,000 shares are held by Morcambe Corporation, a company beneficially owned by Ho Kam Hung.

The rights and restrictions attached to the aforementioned non-voting deferred shares are set out in note 15 to the financial statements.

Save as disclosed above, as at 31 December 2004, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed in note 29 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors, their respective spouse or minor children to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

Pursuant to Rule 8.10(2) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), details of the interests held by certain directors in a business, which competes or is likely to compete with the Group, are disclosed as follows:

Certain directors, through a private company, hold interests in a development site located at Jie Fang Nan Road, Yuexiu District, Guangzhou with an intention to develop the site into residential and commercial properties. The site is currently erected with a temporary distribution centre for shoes and related products. The distribution centre is currently managed by a separate management team which is independent from the management of the Group. Given the different location and market segment of the distribution centre, which is situated at Yuexiu District, and of the Group's shopping arcade, which is situated in Chongqing, the directors consider that competition between the two properties is remote and unlikely.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Directors

Name	Age	Position	Number of years of service with the Group	Business experience
Ho Tsam Hung	52	Chairman	14	Over 14 years' experience in property development and investment in Mainland China
Ho Pak Hung	54	Deputy Chairman	14	Over 14 years' experience in property development and investment in Mainland China
Ho Kam Hung	50	Managing Director	14	Over 14 years' experience in property development and investment in Mainland China
Young Kwok Sui	47	Independent Non-Executive Director	2	Over 17 years' experience in accountancy and management consultancy services
Zhang Jie	43	Independent Non-Executive Director	2	Over 22 years' experience in commercial management in Mainland China
Ng Kin Sun	35	Independent Non-Executive Director	Newly-appointed on 23 September 2004	Over 10 years' experience in accountancy and treasury management

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Senior management

Name	Age	Position	Number of years of service with the Group	Business experience
Yam Ka Yin, Rebecca	29	Group Financial Controller and Company Secretary	4	Over 8 years' experience in accounting and corporate finance
Chun Wai Yin, Alex	39	Accounting Manager	13	Over 17 years' experience in accounting and treasury management

EMPLOYEES AND REMUNERATION POLICY

The Group employed approximately 53 full-time staff in Hong Kong and Mainland China as at 31 December 2004. Employees are remunerated according to the nature of their job and market trends, with built-in merit components incorporated in the annual increment to reward and motivate individual performance. In Mainland China, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, other staff benefits include medical schemes, the Mandatory Provident Fund scheme and an employees' share option scheme.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2004, the following interests of 5% or more of the issued share capital and convertible bonds of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long position

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
High Rank Enterprises Limited (Note 1)	Directly beneficially owned	983,000,000	25.08
Cheer Faith Limited (Note 2)	Directly beneficially owned	475,000,000	12.12
Tso Hon Sai, Bosco	Controlled corporation	475,000,000	12.12
Ng Lai Shan, Emily (Note 2)	Spouse	475,000,000	12.12
Morgan Estate Assets Limited (Note 3)	Directly beneficially owned	270,000,000	6.89
On Tai Profits Limited (Note 4)	Directly beneficially owned	270,000,000	6.89
Morcambe Corporation (Note 5)	Directly beneficially owned	270,000,000	6.89
Yeung Ching Yi (Note 3)	Spouse	270,000,000	6.89
Liang Gui Fen (Note 4)	Spouse	270,000,000	6.89
Ye Jia Li (Note 5)	Spouse	270,000,000	6.89

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (CONTINUED)

Notes:

1. Each of Ho Tsam Hung, Ho Pak Hung and Ho Kam Hung, being the executive directors, is interested in approximately 31.58% of the issued share capital of High Rank Enterprises Limited. Ho Tsam Hung, Ho Pak Hung and Ho Kam Hung are brothers.
2. Cheer Faith Limited is wholly-owned by Tso Hon Sai, Bosco ("Mr. Tso"). As Ng Lai Shan, Emily is the spouse of Mr. Tso, she is deemed to be interested in the 475,000,000 shares held by Cheer Faith Limited.
3. Morgan Estate Assets Limited is wholly-owned by Ho Tsam Hung. As Yeung Ching Yi is the spouse of Ho Tsam Hung, she is deemed to be interested in the 270,000,000 shares held by Morgan Estate Assets Limited.
4. On Tai Profits Limited is wholly-owned by Ho Pak Hung. As Liang Gui Fen is the spouse of Ho Pak Hung, she is deemed to be interested in the 270,000,000 shares held by On Tai Profits Limited.
5. Morcambe Corporation is wholly-owned by Ho Kam Hung. As Ye Jian Li is the spouse of Ho Kam Hung, she is deemed to be interested in the 270,000,000 shares held by Morcambe Corporation.

Pursuant to the subscription agreement dated 16 July 2004 entered into between CNC Broadband Entertainment Corporation ("CNCBE") and the Company in relation to the issue of a convertible bond in a principal amount of HK\$30,000,000 (the "Bond") to CNCBE, assuming full conversion of the Bond at the initial conversion price of HK\$0.15 per share, subject to adjustment from time to time, the maximum number of ordinary shares of HK\$0.02 each in the capital of the Company which may be newly issued is 200,000,000 shares. As at 31 December 2004, the conversion rights are not exercised.

Save as disclosed above, as at 31 December 2004 no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 35 to the financial statements.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, which was in force prior 1 January 2005, throughout the accounting period covered by the annual report, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's Bye-laws.

The Company has received, from each of its independent non-executive directors, an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers all of the independent non-executive directors are independent.

MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of the Directors, the Company confirmed that the Directors have complied with the required standard set out in the Model Code for the year under review.

SUFFICIENCY OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the Directors, at least 25% of the Company's issued share capital were held by members of the public as at 26 April 2005 (being the latest practicable date prior to the printing of this annual report).

AUDIT COMMITTEE

The Company has an audit committee (the "Committee") which was established in accordance with the requirements of the Code, for the purposes of reviewing and supervising the Company's financial reporting process and internal controls. The Committee comprises the three independent non-executive directors of the Company. The Group's financial statements for the year ended 31 December 2004 have been reviewed by the Committee, who are of the opinion that such statements comply with the applicable accounting standards and legal requirements and that adequate disclosures have been made.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Ho Kam Hung

Managing Director

Hong Kong

26 April 2005