

**SHENZHEN Special Economic Zone Real Estate
& Properties (Group) Co., Ltd.
2003 Annual Report (Summary)**

Important:

The Board of Directors of SHENZHEN Special Economic Zone Real Estate & Properties (Group) Co., Ltd. (hereinafter referred to as the Company) hereby confirms that there are no important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents. This summary is extracted from the original of the annual report ,Fore more derail informatioa ,the investors are recommended to refer to the original.This report is written both in Chinese and English. Should there be any difference in interpretation of the text of the two versions, the Chinese version shall prevail.

Chairman of the Board of the Company Shao Zhihe, General Manager Chen Wuhua and Financial manager Chen jin cai hereby confirm that the Financial Report of the Annual Report is true and complete

SECTION II. COMPANY PROFILE

1. Legal Name of the Company

In Chinese: 深圳经济特区房地产(集团)有限公司

In English: SHENZHEN Special Economic Zone Real Estate & Properties (Group) Co., Ltd.

Short Form in Chinese: 深房

Short Form in English: SPG

2. Legal Representative: Shao Zhihe

3. Secretary of the Board of Directors: Chen Ji

Securities Affairs Representative: Tu Zhigang

Contact Address: 47/F, SPG Plaza, Renmin South Road, Shenzhen

Tel.: (0755) 82293000-4718, 4715

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4. Registered Address: 47/F, SPG Plaza, Renmin South Road, Shenzhen

Office Address: 45/F-48/F, SPG Plaza, Renmin South Road, Shenzhen

Post Code: 518001

E-mail: spg@163.net

5. Newspapers for Disclosing the Information:

Domestic: China Securities

Overseas: Ta Kung Pao

Internet Website Designated by CSRC for Publishing the Annual Report:

<http://www.cninfo.com.cn>

The Place Where the Annual Report is Prepared and Placed: 47/F of SPG Plaza, Renmin South Road, Shenzhen

6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Forms of the Stock: SHENSHENFANG A (Stock Code: 000029)

SHENSHENFANG B (Stock Code: 200029)

SECTION III. SUMMARY OF FINANCIAL HIGHLIGHT AND BUSINESS HIGHLIGHT

(I)	In RMB'000
Total profit as of the year 2003	33, 354
Net Profit	33,607
Gross profit	203,464
Profit from operations	69,001
Other income	16,726
Net increase cash flows arising from operating activities	139,301
Net increase/decrease in cash and cash equivalents	72,367

Difference between A-share and B-share:

Impact on net profit and net assets due to IAS and the relevant adjustments:

	Net profit	Net assets
	RMB'000	RMB'000
As reported according to International Financial Reporting Standards	33,607	1,007,303
Reversal of depreciation and amortization charges in investment properties	(16,998)	(71,380)
Adjustment for market value of short-term investments	(627)	(1,903)
Timing difference in recognition of expenses accrued in previous year	(2,006)	(2,217)
Difference in recognition of cost of fixed assets	-	202,149
Goodwill arising from acquisition of subsidiaries	(1,397)	5,696
Others	(1,227)	(266)
As reported under Chinese Accounting Standards for Business Enterprises	<u>11,352</u>	<u>1,139,382</u>

(II) Major accounting data and financial indexes over the past three years:

	2003	2002	2001
Income from core business (RMB'000)	933,935	724,776	593,660
Gross profit (RMB'000)	203,464	146,285	199,965
Net profit	33,607	33,287	(498,295)
Total assets (RMB'000)	2,576,943	2,743,896	3,205,534
Net assets (RMB'000)	1,007,303	879,982	864,115
Earnings per share (RMB)	0.03	0.03	(0.49)
Net assets per share (RMB)	0.99	0.87	0.85
Net cash flows per share arising from	0.14	-0.03	-0.04

operating activities (RMB)

Return on equity (%) 3.31 3.98 -57.67

3. Changes in shareholders' equity in the report period and the reasons

Items	Share capital (0'000 share)	Capital reserve (RMB 0'0000)	Surplus reserve (RMB 0'000)	Including: public welfare funds (RMB 0'0000)	Retained profit (RMB 0'000)	Foreign currency translation reserve (RMB 0'000)	Total (RMB 0'000)
Amount at the period-begin	101,166	95,543.14	11,891.07	11,559.44	-92,794.00	-3,123.00	112,683.20
Increase in this period	0	122.65	0	0	1,135.17		1,257.82
Decrease in this period	0	0	0	0	0	2.81	2.81
Amount at the period-end	101,166	95,665.79	11,891.07	11,559.44	-91,658.83	-3,125.81	113,938.21
Reason for change		Increase of reserve for equity investment			Profit realized as of year 2003		

SECTION IV. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT PRINCIPAL SHAREHOLDERS

I. Changes in Share Capital (Ended Dec. 31, 2003)

	Before the change	Changes (+ / -) in report year						After the change
		Rationed shares	Bonus shares	Capitalization of share capital	Additional shares	Others	Sub- total	
? . Unlisted shares								
1. Sponsors' shares								
Including:								
State-owned shares	743,820,000							743,820,000
Domestic legal person's Shares								
Foreign legal person's Shares								
Others								
2. Legal person shares placed								
3. Inner employees' shares								
4. Preference shares or others								
Including:								
Transferred/allotted shares								
Total unlisted shares	743,820,000							743,820,000
? . Listed shares								
1. RMB ordinary shares	147,840,000							147,840,000
2. Domestically listed foreign shares	120,000,000							120,000,000
3. Foreign shares listed abroad								
4. Others								
Total shares in circulation	267,840,000							267,840,000
? . Total	1,011,660,000							1,011,660,000

II. Issuance and listing of shares

(1) Over the past three years ended the report period, the Company issued neither new shares nor derived securities.

(2) In the report period, the Company had never been involved in such activities as bonus shares, capitalization of share capital, rationed share and additional issuance of new shares and the total number of shares and share capital structure remained unchanged.

(3) The Company's inner employees' shares were listed for trading through approval dated Aug. 26, 1994. At present, the Company has no inner employees' shares.

3. About shareholders

(1) Ended Dec. 31, 2003, the Company had totally 112,605 shareholders, including 89,254 ones of A-share and 23,351 ones of B-share.

(2) Ended Dec. 31, 2003, the Company had only a shareholder holding over 5% of shares of the Company, namely Shenzhen Construction Investment Holdings Corp.. The share held by Shenzhen Construction Investment Holdings Corp. has neither change nor freezing or pledging.

Name list of the top ten shareholders of the Company (Ended Dec. 31, 2003)

No.	<u>Name of shareholders</u>	Holding shares	Proportion in
		(0'000 Share)	total shares (%)
1	SHENZHEN CONSTRUCTION INVESTMENT HOLDINGS CORP.	74,382.00	73.5247
2	BOSHI YUFU SECURITIES INVESTMENT FUNDS	95.30	0.0942
3	SKANDIA GLOBAL FUNDS PLC	84.22	0.0832
4	CHU KOON YUK	72.00	0.0712
5	SHUM YIP KWAN WING DEVELOPMENT LTD	62.36	0.0616
6	LAI KONG SUNG	62.11	0.0614
7	ORE BURNS (AUSTRALIA) PTY LIMITED	60.00	0.0572
8	PUFENG SECURITIES INVESTMENT FUNDS	57.88	0.0572
9	YANG YAOCHU	44.00	0.0435
10	BEST RELIANCE INVESTMENTS LTD	37.22	0.0368

Note: The No. 1 shareholder holds shares on behalf of the State; the No. 2 and No. 8 are shareholders of circulation A-share; the rest are shareholders of circulation B-shares. Among the top ten shareholders, the Company is unknown whether there exists associated relationship or not.

(3) Ended Dec. 31, 2003, only Shenzhen Construction Investment Holdings Corp. ("Construction Investment Holdings") held over 10% of total shares of the Company. Construction Investment Holdings was founded in 1996, whose registered capital was RMB 1.5 billion, and legal representative was Zhang Yijun. It was mainly engaged in the general contracting of industrial and civil building projects, construction and design of general industrial and civil building projects; management of land site, operation of commercial housing, development of real estate, foreign economic and technical cooperation, import and export, etc. Its concurrent business scope includes contracting the installation/erection of equipment, electrical equipment, instruments and meters of big industrial construction projects, installation of big integrated production equipment; labor services and training for construction of municipal works; investment and property management, etc.

(4) In the report period, the controlling shareholders of the Company remained unchanged.

SECTION V. PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR EXECUTIVES AND EMPLOYEES

I. About directors, supervisors and senior executives

Name	Title	Gender	Age	Office term	Shares held at the year-begin (share)	Shares held at the year-end (share)
Shao Zhihe	Chairman of the Board	Male	53	Jan. 2003-Jan. 2006	5000	5000
Chen Wuhua	Director, General Manger	Male	51	Jan. 2003-Jan. 2006	0	0
Zhuang Chuanghui	Chairman of the Supervisory Committee	Male	49	Jan. 2003-Jan. 2006	0	0
Zhou Daosheng	Chairman of the Labor Union	Male	57	Jan. 2003-	0	0
Yao Ruisheng	Director	Male	60	Jan. 2003-Jan. 2006	0	0
Xu Zhenhan	Director	Male	51	Jan. 2003-Jan. 2006	0	0
Peng Naidian	Director	Male	55	Jan. 2003-Jan. 2006	0	0
Zhou Fushen	Director, Chief Financial Officer	Female	49	Jan. 2003-Jan. 2006	0	0
Liang Song	Director, Deputy General Manager	Male	40	Jan. 2003-Jan. 2006	0	0
Ma Jianhua	Director	Male	39	Jan. 2003-Jan. 2006	0	0
Zheng Tianlun	Independent Director	Male	68	Jun. 2002-Jun. 2005	0	0
Yang Shaojia	Independent Director	Male	71	Jun. 2002-Jun. 2005	0	0
Luo Kunquan	Deputy General Manager	Male	48	Jan. 2003-Jan. 2006	0	0
Shen Yuesheng	Deputy General Manager	Male	44	Jan. 2003-Jan. 2006	0	0
Zhang Yue	Deputy General Manager	Male	45	Jan. 2003-Jan. 2006	0	0
Luo Zichao	Deputy General Manager	Male	43	Aug. 2003-Aug. 2006	0	0
Zhou Hong	Supervisor	Female	36	Jan. 2003-Jan. 2006	0	0
Gan Lu	Supervisor	Male	44	Jan. 2003-Jan. 2006	0	0
Wu Zhiyong	Supervisor	Male	32	Jan. 2003-Jan. 2006	0	0
Chen Ji	Secretary of the Board	Male	32	Jan. 2003-Jan. 2006	0	0

Note: 1. Director Yao Ruisheng and Xu Zhenhan took the position in Shenzhen Construction Investment Holdings Corp., the controlling shareholder of the Company.

II. Annual remuneration

The Company carried out Annual Remuneration System on directors, supervisors and senior executives. The amount of annual remuneration of Chairman of the Board and General Manager is checked and ratified by the Municipal relevant department, while the annual remuneration of other senior executives is determined by the Company according to the relevant system.

In 2003, the Company paid the annual remuneration of RMB 1.97 million to directors, supervisors and senior executives. The total amount of annual remuneration of the top three directors drawing the highest payment was RMB 510,000; the total amount of annual remuneration of the top three senior executives drawing the highest payment was RMB 450,000. Of them, 4 enjoy the annual remuneration over RMB 150,000 respectively; 9 enjoy the annual remuneration between RMB 100,000 to RMB 150,000 respectively; 2 enjoy the annual remuneration under RMB 100,000 respectively.

Director Yao Ruisheng and Xu Zhenhan drew their annual remuneration from Shareholding Company.

The Company elected two independent directors in June 2002; in 2003, independent directors received the annual allowance of RMB 36,000 (tax included), except for this, they did not draw other remunerations.

III. In Jan. 2003, the Company engaged the following senior executives: Chen Wuhua was engaged as General Manager; Luo Kunquan, Liang Song, Shen Yuesheng and Zhang Yue were respectively engaged as Deputy General Manager; Zhou Fushen was engaged as Financial Supervisor Officer; Chen Ji was engaged as Secretary of the Board. In Aug. 2003, Luo Zichao was engaged as Deputy General Manager. In the report period, Supervisor Ms. Yu Fang died due to illness.

IV. Number of employees, professional/occupational composition, education background and retired employees

By the end of the year 2003, the Group had totally 2480 employees, including 1109 production personnel, 330 sales personnel, 461 technicians, 243 financial personnel and 337 administrative personnel. Among them, 262 undergraduates or above, 233 graduated from 3-years regular college, 309 from technical secondary school, 1676 from senior high school or below. The Company had 212 retirees.

1. SECTION VI. ADMINISTRATIVE STRUCTURE

(I) Pursuant to PRC Company Law, Securities Law and relevant regulations released by CSRC, the Company has been standardizing its own operation, establishing and continually improving modern enterprise system. The Company has established a series of rules and systems including Articles of Association, Rules of Procedures of the Board of Directors and Rules of Procedures of the Supervisory Committee. The Company has also made self-inspection according to the Administrative Rules for Listed Companies jointly issued by CSRC and State Economy and Trade Commission. Details are as follows:

1. Shareholders and Shareholders' General Meeting

The Company could ensure all shareholders to fully implement their rights, enjoy equal status, and have right of participation and right of knowing facts regarding significant issues. Shareholders are entitled to protect their legal rights by legal means; Holding and voting of the Shareholders' General Meeting are standardized; Correlative transactions are fair and reasonable.

2. The controlling Shareholder and the Listed Company

The control shareholder performed its rights of investor according to law and did not damage the interest of the Company and other shareholders. The control shareholder has realized separation from the listed company in respect of personnel, assets and finance, and business and organization of the Company are independent.

3. Directors and the Board of Directors

The Company elected directors strictly according to the stated procedures in the Articles of Association, adopted accumulative voting system in election of directors; Directors could

comply with relevant laws, legislations and Articles of Association, and could perform obligations in a loyal, honest and reliable manner; The number of the Board and the personnel composing are in line with relevant requirements; The Board of Directors could seriously perform the obligations as stated in relevant laws, legislations and Articles of Association; The Company has established standardized Rules of Procedures of the Board of Directors, and could hold the Board of Directors according to stated procedures; The Company has established independent director system.

4. Supervisors and the Supervisory Committee

The number of the members of the Supervisory Committee and the personnel composing are normative and reasonable; The Company has standardized Rules of Procedures of the Supervisory Committee, safeguarded the right of knowing facts of supervisors, and could provide necessary assistance to supervisors in their normal performing of obligations. The Supervisory Committee operated strictly in accordance with stated procedures, and meetings of the Supervisory Committee could be held regularly with normative meeting records.

5. Performance Evaluations and Encouragement and Binding Mechanism

The Company has established fair and transparent performance evaluation criteria and procedures for directors, supervisors and managers. Salary committee of the Company implemented performance evaluation for directors and executives. The Company engaged executives strictly according to relevant stipulations. The Company has established encouragement mechanism for executives that connect salary with the Company's performance and personal achievements.

6. Beneficiaries

The Company has been respecting the legal rights of creditors and other beneficiaries, cooperating with related beneficiaries actively so as to push the Company to develop in a healthy manner.

7. Information Disclosures and Transparency

The secretary of the Board of Directors is responsible for information disclosure; Strictly according to regulations of laws, legislations and Articles of Association, the Company carried out disclosure of sustained information, administrative information and information regarding shareholder's equity in real, accurate, complete and timely manner so as to ensure equal chance for all shareholders to obtain information.

(II) Implementation of Duties of Independent Directors

Independent directors could perform their duties according to relevant laws and regulations, safeguard the whole interest of the Company and the legal rights and interests of the medium and small shareholders, attend normally the Board of Directors of the Company and execute voting right and issue independent directors on engagement and disengagement of senior executives, transfer of significant assets and etc.

2. SECTION VII. BRIEFINGS ON THE SHAREHOLDERS' GENERAL MEETING

I. In the report period, the Company held two Shareholders' General Meetings in the report year:

(I) The 2003 1st Provisional Shareholders' General Meeting of the Company was held in the meeting room on the 48/F of Shen Fang Plaza at 9:30AM dated Jan. 28, 2003. Director Mr. Chen Wuhua presided the meeting. Shareholder proxies, directors, supervisors and senior executives of the Company, and lawyers etc. attended the meeting. Three present shareholders and proxies attended the meeting, holding 74,382,000 shares, taking 73.52% of the total share capital of the Company, including 74,382,1000 A shares respectively taking 73.52% of the total share capital of the Company. No B-share shareholder attended the meeting. The meeting examined and approved the following proposals:

1. Proposal on Amending the Articles of the Association of the Company;
2. Proposal on Expiration and Change of the Board;
3. Proposal on Expiration and Change of the Supervisory Committee.

The relevant resolutions of the Shareholders' General Meeting were published in Securities Times, China Securities and Ta Kung Pao dated Jan. 29, 2003.

(II) The 11th Shareholders' General Meeting of the Company was held in the meeting room on the 48/F of Shen Fang Plaza at 9:00AM dated Jun.30, 2003 on schedule. Chairman Shao Zhihe presided the meeting. Shareholder proxies, directors, supervisors, Chairman of the labor union, and senior executives of the Company, and lawyers etc. attended the meeting. One present shareholder attended the meeting, holding 743,820,000 shares, taking 73.52% of the total share capital of the Company, including 743,820,000 A shares respectively taking 73.52% of the total share capital of the Company. No B-share shareholder attended the meeting. The lawyer of Shenzhen Sinda Law Office witnessed the meeting and presented law opinion paper. The meeting examined and approved the following proposals:

1. Report of the Board 2002;
2. Financial Settlement Report 2002 and Profit Distribution Proposal 2002;
3. Report of the Supervisory Committee;
4. Proposal on the Allowance Standard of the Independent Directors;
5. Proposal on Revising the Articles of the Association.

The relevant resolutions of the Shareholders' General Meeting were published in Securities Times, China Securities and Ta Kung Pao dated Jul. 1, 2003.

II. The Shareholders' General Meeting on Jan. 28, 2003 approved proposal on the expiration of the Board and the Supervisory Committee. The newly elected Board composed of 10 members including Shao Zhihe, Chen Wuhua, Xu Zhenhan, Yao Ruisheng, Peng Naidian, Liang Song, Zhou Fushen, Ma Jianhua, Zheng Tianlun and Yang Shaojia etc.. The newly elected Supervisory Committee composed of 5 members including Zhuang Chuanghui, Gan Lu, Yu Fang, Wu Zhiyong, and Zhou Hong etc.. Chairman of the Supervisory Committee is Zhuang Chuanghui.

SECTION VIII. REPORT OF THE BOARD OF DIRECTORS

I. Operation of the Company

(I) Scope of core business and status

1. The Company belongs to real estate industry and is engaged in the development of real estate and sales of commercial house, lease and management of property, construction decoration and installation, retail and trade of commodities and hotel and meal and eating service. According to the results audited by Shenzhen Planning and State Land & Resources Bureau, the Company ranked 43rd in the comprehensive development companies of Shenzhen in 2003. In the report period, the consolidated statements reflected an income from core business of RMB 962,380,000, which increased by RMB 214,330,000 compared with RMB 748,050,000 in the same period of the previous year, an increase of 28.65%; The total amount of profit was RMB 12.54 million, which decreased by RMB 2.65 million, an decrease of 17.45%; and the net profit was RMB 11.35 million, which decreased by RMB 2.69 million compared with the same period of the previous year, an decrease of 19.16%

2. Particulars about business of various industries: (Unit: RMB)

Industries	Operating Income		Operating Cost		Gross Profit	
	The amount in this year	The amount in the previous year	The amount in this year	The amount in the previous year	The amount in this year	The amount in the previous year
Real estate	324,939,204.42	218,666,854.34	217,504,777.08	163,795,154.91	107,434,427.34	54,871,699.43
House lease	76,850,372.81	91,246,445.62	27,335,775.02	32,453,744.99	49,514,597.79	58,792,700.63

Construction and Installment	92,777,723.35	73,147,158.43	83,084,763.59	64,070,801.35	9,692,959.76	9,076,357.08
Property management	64,341,831.57	62,322,291.49	58,055,974.55	57,559,536.93	6,285,857.02	4,762,754.56
Travel, Hotels and Eating Service	11,993,595.37	17,527,905.98	13,562,670.34	14,009,990.78	(1,569,074.97)	3,517,915.20
Commodity Circulation	409,822,827.62	299,417,848.86	395,803,174.47	283,626,745.47	14,019,653.15	15,791,103.39
Others	16,713,905.32	12,518,977.38	3,728,866.96	3,506,018.71	12,985,038.36	9,012,958.67
Counteracting between each other among industries	35,055,907.42	26,795,389.12	52,495,258.28	24,029,640.97	(17,439,350.86)	2,765,748.15
Total	962,383,553.04	748,052,092.98	746,580,743.73	594,992,352.17	215,802,809.31	153,059,740.81

Particulars about the income from core business of every industry:

(1) Real Estate industry increased RMB 106,270,000, mainly because:

The storefronts of the division of the group this year sold increased a lot and the houses sold payment of Nanyang Building and Xinhua Garden 2nd Period were carried forward;

Zhonghuan Garden 3rd Period, which belonged to the subsidiary Baoan Development Co., Ltd., was finished and the selling rate attained to 91%. The sales revenue of the whole year was carried forward RMB 37,880,000, increasing RMB 22.74 million compared with the same period of the previous year RMB 15.14 million.

(2) The revenue of house lease decreased RMB 14,400,000 due to the increase in lease revenue of the subsidiaries, Property Management Co., Ltd. and Parking Lot Co., Ltd. and Digital Port Investment Co., Ltd..

(3) The revenue of construction and installment increased RMB 19,630,000 mainly because the revenue of the subsidiary, Zhentong Engineer Co., Ltd. increased.

(4) The revenue of property management increased RMB 2.02 million mainly because the business revenue of the subsidiary, Property Management Co., Ltd. increased.

(5) The revenue of hotels and eating service decreased RMB 5.54 mainly because the income from core business of the subsidiary Haiyan Hotel Co., Ltd. decreased compared with the same period of the previous year due to the effects of SARs.

(6) The revenue of commodity circulation increased RMB110.4 million, mainly because the export-import business of the subsidiaries, Shen Fang Department Store Co., Ltd. and Tax & Trade Co., Ltd. increased.

(7) The revenue of other industries increased

Profit from core business RMB 187.35 million, increased RMB 58.37 million, compared with the same period of the previous year RMB 128.98, an increase of 31.15%. The main reason was income from core business increased 28.65% compared with the same period of the previous year and the gross profit ratio increased 1.96% compared with the same period of the previous year.

3. In the report period, the Company's core business and its structure remained unchanged compared with the previous report period.

(II) Operations and achievements of main holding and share-holding companies of the Company (Unit: RMB)

Names of companies	Income from main operations	Total profit	Net profit
Shenzhen SP Department Store Co., Ltd.	269,325,724.81	-4,154,816.40	-4,154,816.40
Shenzhen SP Bonded Trade Co., Ltd	151,833,237.19	863,658.97	863,658.97

Shenzhen Huazhan Construction and Supervision Co., Ltd.	3,175,960.00	152,190.39	83,558.74
Shenzhen Zhentong Engineering Co., Ltd.	92,777,723.35	1,999,934.31	1,905,321.03
Shenzhen Petrel Hotel Co., Ltd.	11,993,595.37	-6,614,577.40	-6,452,207.69
Shenzhen SPG Bao'an Development Co., Ltd.	37,883,025.00	11,705,395.35	9,957,972.70
Shenzhen Special Economic Zone Real Estate (Group) Guangzhou Real Estate Co., Ltd.	1,574,368.00	101,646.86	67,819.15
America Great Wall Estate Co., Ltd	747,872.00	-490,876.00	-490,876.00
Shenzhen Digital Port Investment Co., Ltd.	5,480,813.96	-2,425,786.69	-2,377,924.06
Shenzhen Zhu Yuan Tong Mini-bus Rent Co., Ltd.	1,862,327.00	154,929.77	154,929.77
Shenzhen SP Parking Co., Ltd.	1,527,267.60	-20,113.29	-21,382.21
Shenzhen Estate Management Co., Ltd.	76,001,012.02	4,630,671.19	3,969,284.96
Xin Feng Property Co., Ltd.	36,765,201.72	-2,847,135.80	-2,847,135.80
Xin Feng Enterprise Co., Ltd.	7,310,294.29	2,888,920.52	2,888,920.52
Shenzhen SP Investment Co., Ltd.	-	-80,499.40	-80,499.40
Beijing Xinfeng Real Estate Development and Operation Co., Ltd.	22,143,460.45	-23,211,259.18	-23,211,259.18

(III) Sales of the top five customers

In the report period, total sales income from the top five customers was RMB 169,197,758.76, accounting for 17.58% in total income.

List of Income from the Top Five Customers

Customers	Amount (RMB)
Liu Mubiao etc.	40,406,235.00
Zheng Yide etc.	26,599,999.00
Zengcheng Xintang Golden Spinning Garments Co., Ltd.	31,672,452.97
Shenzhen Jiadeli Garments Manufacture Co., Ltd.	33,056,032.93
Dongguan Decheng Electronics	37,463,038.86
Total	169,197,758.76

(IV) Problems and difficulties in the operation and their solutions

The Company's main problems existing in the operation in the report period was that profitability capability was relatively low. Though the income and profit from main

operations realized in the report period increased by a great margin compared with the last year, earnings rate of net assets was only 1%. The main problems faced were: Firstly, assets fluidity was not strong with relatively low turnover rate and relatively intense assets. Secondly, land reserve was not enough; development and sales scale of new projects was relatively small; profit rate of new projects was relatively low. Thirdly, liquidization of deposit assets was relatively large; the cost of overstock buildings and deposit projects was relatively high; losses from liquidization of assets impacted relatively large influence on the Company's achievements; fourthly, financing condition in the real estate industry became more and more strict and difficulties in financing was enlarged, which impacted the sustainable development on the development business of main operations; fifthly, SARS epidemic impacted relatively great strike on the operation of such enterprises as commerce, trade, hotel and restaurant and food involved. The Company actively faced the said difficulties, timely adopted the effective replying measures and gained relatively obvious effects mainly through such means as improving liability structure and reducing the financial expense; effectively planning and using capital and speeding up the development of new projects; reinforcing the cost control and reducing the management expense; fully liquidizing deposit assets and reducing the burden of historical losses; strengthening property management and enlarging operating management responsibility and achievements assessment of enterprises involved etc.. In the report period, the Company's financial expense and management expense all decreased by a great margin; cash flow position was improved by a relatively great margin; income and profit from main operations all increased by a great margin; enterprises involved also basically overcame the influence of SARS epidemic; operating achievements kept steady basically; shareholders' interests increased somewhat.

II. Investments in the report period

(I) Use of the raised proceeds

In the report period, the Company had no raised or the use of the proceeds raised through previous shares offering continuing to the report period.

(II) The projects invested with the proceeds not raised through shares offering

For the details of projects invested with the proceeds not raised through shares offering and their progresses.

III. Financial position in the report period

(I) Ended Dec. 31, 2003, the total assets of the Group was RMB 2,746.81 million, a decrease of 8.5%, namely RMB 254.18 million, than that amounting to RMB 3,000.99 million at the beginning of the year with reasons of changes as follows:

1. Current assets was RMB 2,109.36 million, a decrease of 5.3%, namely RMB 118.17 million, than that amounting to RMB 2,227.53 at the beginning of the year, which was mainly due to the decrease in other receivables and inventories, of which:

In the period, balance of other receivables decreased by 34.84% over the last period and provision for bad debts decreased by 31.07% over the last period, which was mainly because that the Company transferred out the equity and credit of Shenzhen SPG Shanghai Real Estate Development Company, resulting in the decrease in balance of credit amounting to RMB 148.92 million and provision for bad debts amounting to RMB 103.92 million to this company.

In the report period, decrease in inventories was mainly because that the Company transferred the land in the project of Wuhan. The original book balance in the said land was RMB 227.83 and provision for losses in price falling of inventories amounting to RMB 113.64 million.

2. Long-term investment was RMB 246.10 million, a decrease of 21.29%, namely RMB 66.56 million, than that amounting to RMB 312.66 million at the beginning of the year, which was mainly because that:

Since Ronghua Electric Engineering Co., Ltd. and Xinfeng Property Transaction Appraisal Co., Ltd. implemented the restructure of shares held by internal employees, the equity of these two companies held by the Company decreased.

Since Guangzhou Suixin Real Estate Company was cleared due to expiration of its cooperative operating term in the report period, the Company has withdrawn the investment from the said company.

Since the Company planned to transfer the equity of Beijing Xinfeng Real Estate Development and Operation Co., Ltd. in the previous years and did not consolidate it. However, in the year, since the Company changed to transfer the assets of this company, the Company increased to consolidate its accounting statements in the year.

3. Fixed assets totally amounted to RMB 328.67 million, a decrease of RMB 81.32 million than that amounting to RMB 409.99 million at the beginning of the year, which was mainly because that partial housing constructions were transferred into inventories and depreciation of fixed assets was appropriated in the period.

4. Intangible assets was RMB 57.29 million, an increase of 29.59%, namely RMB 13.08 million, than that amounting to RMB 44.21 million at the beginning of the year, which was supplemental input into land of Jinye Island, Shantou by the affiliated Shantou Hualin Property Development Co., Ltd..

5. In list of impairment loss of assets:

RMB 103.92 million in “Transferred-back amount of provision for bad debts in the period—transferred-out amount for other reasons” amounting to RMB 105.60 million was the provision for bad debts appropriated by the Company to its subsidiary called Shenzhen SPG Shanghai Real Estate Development Company in the last year. In the year, the Company cancelled out the amount due to whole transfer of equity and credit of this company.

“Transferred-back amount of provision for price falling of inventories—Transferred-out amount for other reasons” was the originally appropriated provision for price falling of inventories cancelled caused by whole transfer of inventories by Xinfeng Real Estate Development Construction (Wuhan) Co., Ltd. in the year, where the Company held 55% equity.

(II) Ended Dec. 31, 2003, the total liability of the Group was RMB 1,615.26 million, a decrease of 14.1%, namely RMB 265.07 million, than that amounting to RMB 1,880.33 million at the beginning of the year with details mainly as follows:

Decrease of RMB 122.75 million in long-term and short-term loans of banks.

Decrease of 67% in long-term payables, which was mainly because that the Company has conducted financial disposal on Guangzhou Suixin Real Estate Company due to its expiration on cooperative operating term in the report period.

According to the provisions in Item XIV in Circular on Implemented Decision of Reinforcing Land Market Management and Further Liquidizing and Standardizing Real Estate Market (Hereinafter referred to as Decision) released by Shenzhen Planning and Land Resources Bureau on Aug. 7, 2001 with SGT [2001] No. 314 document, in Item XV of Decision, about land value-added expense in the 2nd and 3rd graded market of real estate, it

will not be turned back for those has been turned in while it can be exempted for those to be turned in or owed. After accounts clearing, the Company confirmed book balance of “Other payables—Land value-added expense” amounting to RMB 93,742,251.23, which was land value-added expense appropriated by the Company in previous years. Since the on account has not changed for several years, according to the said regulations, the said land value-added expense can be confirmed as no payment any more. Thus, the Company transferred it into capital reserve and adjusted the amount at the beginning of the year in comparative accounting statements by adopting retroactive adjustment method.

(III) Ended Dec. 31, 2003, the shareholders’ interests of the Group were RMB 1,139.38 million, an increase of 1.11%, namely RMB 12.55 million, than that amounting to RMB 1,126.83 million at the beginning of the year, which was capital reserve increased by adjustment of net profit and accounts payable that can not to be paid in the period.

IV. Business plan of the Company in the new year

In the new year, the Company would correctly understand and treat the reform measure of retreat in state-owned shares in companies and reinforced the operating work concretely; actively dig the potential of exiting resources, ensure the development progress of constructions in progress and try hard to strive for new projects to consolidate the core business; further speed up the liquidization of deposit assets and overcome all difficulties to realize the realization of assets; continue to reinforce the cost control and enhance operating management efficiency so as to ensure the accomplishment of all planned operating indexes and strive for enhancing the management level and operating achievements of the enterprise as a whole as much as possible to return the vast shareholders. Thus, the Company would emphasize on the following tasks in the new year:

1. Really consolidating the development scale and capability so as to found a solid foundation for the Company’s sustainable development

Along with the accomplishment of basic clearing of investment projects outside the city, the emphasis of the operating work in the future would be put in the recovery and enhancement of scale of development investment in real estate so as to ensure its position of main operations and main sources of profits. In 2004, the Company would accomplish the development and sales of Xinghu Garden and Bitong Haiyuan as scheduled and speed up the development in projects in Huangpu, Guangzhou and Jinye Island, Shantou.

Constructions in progress:

(1) Xinghu Garden in Nigang: Locating in Nigang Road, Luohu District, Shenzhen with occupation area amounting to 12,112 sq. m. and construction area amounting to 54,000 sq. m.. It included two high houses with 28 floors and one relatively high house with 12 floors. In the report period, the high houses were accomplished its main body of 18 floors. At present, the construction progress was normal and it was predicted that it would be accomplished and sold as scheduled within year 2004.

(2) Bitong Haiyuan (The former Binhai Building): Locating in cross between Wutong Mountain and Binhai Road, Yantian District, Shenzhen with occupation area amounting to 5,314 sq. m. and construction area amounting to 49,021 sq. m.. It included two high houses with 29 floors. In the report period, the main body was accomplished. At present, the construction progress was normal and it was predicted that it would be accomplished and sold as scheduled within year 2004.

2. Reinforcing the liquidization of stock assets and improving the cash flow position

The Company would further reinforce the sales, reduce the stock as much as possible and try hard to enhance the assets turnover. At the same time, the Company would strengthen the

lease of property and adopt workable measures to reduce the property vacancy rate and enhance the recovery rate of contract rental based on carrying out sales optimization. The Company would further speed up the transfer and disposal of stock projects based on gaining achievements in liquidization of stock assets in last year. The Company would emphasize on reinforcing the implementation of recovering lawsuits, reduce the quantity of accounts receivable and try hard to avoid the losses from lawsuits.

3. Properly reinforcing the financing and effectively using the financial lever

Considering the capital need of operating business and development trend of capital market, the Company would properly adjust the financing strategy and reasonably enlarge the loan scale so as to ensure the consolidation of development of main operations through the reasonable enlargement of credit scale.

4. Seriously reducing all expenses and expenditures and trying hard to strengthen the cost control

The Company would continue to implement all measures of cost control in the report period, enhance the profitability capability and level of main operations through enhancement of management level and improvement of cost control mechanism, especially further reinforce the planning demonstration and design inspection of new development projects, carry out the cost control to the whole flow of development work and emphasize on the prophase control and dynamic supervision.

V. Routine work of the Board of Directors

(I) Meetings and content of resolutions of the Board of Directors in the report year

Holding of the Board of Directors in 2003 is as follows:

1. The 1st meeting is held in the meeting room of Group Company on Jan. 28. 10 directors were present at the meeting and the meeting elected Chairman of the 1st Board of Directors and examined the proposal on engagement of senior executives.

Relevant resolutions of the Board of Directors were published on Securities Times, China Securities Times and Ta Kung Pao dated Jan. 29.

2. The 2nd meeting was held on Apr. 15 and 10 directors were present at the meeting. The meeting examined and approved “Annual Report 2002 of A-share and B-share and Summary and Profit Distribution Proposal 2002”.

Relevant resolutions of the Board of Directors were published on Securities Times, China Securities Times and Ta Kung Pao dated Apr. 19.

3. The 3rd meeting was held on May 30 and 10 directors were present at the meeting. The meeting examined and approved Proposal on Relevant Events of Holding the Shareholders’ General Meeting and Proposal on Amendment of Articles of Association of the Company.

Relevant resolutions of the Board of Directors were published on Securities Times, China Securities Times and Ta Kung Pao dated May 31.

4. The Board of Directors examined the 1st Quarterly Report of 2003 by means of communication on Apr. 15.

5. The Board of Directors examined Semiannual Report of 2003 by means of communication on Aug. 25.

Relevant resolutions of the Board of Directors were published on Securities Times, China Securities Times and Ta Kung Pao dated Aug. 27.

(II) Implementation of resolutions of the Shareholders’ General Meeting by the Board of Directors

The 10th Shareholders’ General Meeting of the Company formed resolutions on profit

distribution 2002 and engagement of independent directors and the Board of Directors strictly executed the aforesaid resolutions according to the authorization of the Shareholders' General Meeting. In the report period, the Company has neither proposal on profit distribution and transfer from capital public reserve into share capital nor share allotment and issuance of new shares.

VI. Profit distribution preplan in this year

The Company calculated as the domestic accounting rule in 2003. The net profit audited as the domestic accounting rule and international accounting rule was respectively RMB 11,351,725 and RMB 33,607,000. The distributable profit was RMB -916,588,313. As discussed and decided by the Board of Directors of the Company, the Company has no profit distribution for 2003.

VII. The newspapers designated for information disclosure by the Company remained unchanged. Domestic newspapers were Securities Times and China Securities and overseas newspaper was Ta Kung Pao.

3. SECTION IX. REPORT OF THE SUPERVISORY COMMITTEE

In 2003, in order to carry through Company Law and Articles of Association of the Company, the Supervisory Committee honestly implemented the duties of supervision stated in laws and regulations, seek the truth from facts and creatively carried out work according to the work policy of "being able to supervise, being brave to supervise and being skilled to supervise". In the report period, the Supervisory Committee attended the meetings of the Board of Directors as non-voting delegates, periodically examined the operation and running of the Board of Directors and the Company, asked and supervised over the significant operation activities of the Company, strengthened the supervision of the legal right and interest of the shareholders, played a better role in internal supervision and binding and pushed the health development of the legal person administration structure of the Company.

I. Meetings of the Supervisory Committee

1. The 1st meeting was held on Jan. 28, 2003 and unanimously elected Zhuang Chuanghui as Chairman of the 4th Supervisory Committee.
2. The 2nd meeting was held on Apr. 15, 2003 and examined and approved Annual Report 2002 of the Company and Work Report of the Supervisory Committee in 2002.
3. The 3rd meeting was held on June 30, 2003 and researched the information disclosure problem in transfer of Wuhan No.1 Town.
4. The 4th meeting was held on Aug. 26, 2003 and examined and approved Semiannual Report 2003 of the Company and its Summary.

In addition, the Supervisory Committee attended the Board of Directors as non-voting delegates four times and attended the Shareholders' General Meeting two times.

II. Independent opinion of the Supervisory Committee

1. The Company operated according to Company Law and Articles of Association of the Company in 2003. The internal management was perfect, the business operation is normative and the procedure of decision-making was legal. The directors and senior executives such as members of operation team had no behaviors of breaking laws and principles and obviating the interest of the Company and the shareholders when implementing duties. The Board of Directors patiently implemented the resolutions of the Shareholders' General Meeting and the level of decision-making had a clear improvement. But the strength of the operation and management of the Company needs to be strengthened further.
2. Taking financial supervision as core and combining the supervision of enterprise's financial status and implementation of state laws, the Supervisory Committee patiently checked the financial system of the Company and financial status and strengthened the audit

management of financial and accounting. The Supervisory Committee believed that the financial structure status of the Company in 2003 was legal.

In the report period, the unqualified auditor's report issued by Nanfang Minhe Certified Public Accountants was true and accurate and reflected objectively the financial status and operation result of the Company.

3. In the report period, the Company disposed the purchase and sale of assets according to relevant state regulations, obeying the principle of fairness, equivalence and reasonableness and patiently audited, issued opinion after assessment and ensured the reasonable price basis by agent institutions. There found neither internal transaction nor behaviors of damaging right and interest of partial shareholders or causing the assets run-off.

4. SECTION X. SIGNIFICANT EVENTS

I. Significant lawsuit and arbitration

Concerning the significant lawsuits and arbitrations interfered with the Company in the report period, please read Note VIII in financial statements.

II. Sale of assets of the Company in the report period

The Company finished the transfer of "Wuhan No. 1 Town" of the share-controlling subsidiary of the Company, Xinfeng Property Development Construction (Wuhan) Co., Ltd. in Apr. 2003. Relevant information was disclosed in Annual Report 2002, the 1st Quarterly Report of 2003 and the public notice of the Board of Directors dated July 19, 2003. The transfer had no small influence on the consistency of business, the stability of management team, the last and current gains or losses.

III. For related transactions of the Company in the report period, please refer to Note VII in financial statement.

IV. In the report year, the Company had neither signed any significant contract of trusteeship, contracting, leasing and etc., nor contract of guarantee for external parties and entrusting financing.

V. The Company or shareholders holding over 5% of the total shares had no promised event in the report year or promised event carried down to the report year.

VI. The Company engaged Shenzhen Nanfang Minhe Certified Public Accountants in charge of the annual audit of the Company of 2003. The Certified Public Accountants has provided annual audit of the Company of 2001 and 2002. According to agreement, the Company will pay audit expense of RMB 0.88 million to Shenzhen Nanfang Minhe Certified Public Accountants.

VII. For other significant events, please refer to Note X in financial statement.

5. SECTION XI. FINANCIAL REPORT

(Financial report and auditor's report are attached hereafter.)

6. SECTION XII. DOCUMENTS FOR REFERNECE

1. The financial statement carried with signatures and seals of the legal representative, the person in charge of accounting work, and the person in charge of accounting institution.

2. The original of auditors' report carried with seal of Certified Public Accountants as well as signatures and seals of certified public accountants.

3. Originals of all documents and manuscripts of public notices that had been disclosed in China Securities, Securities Times and Ta Kung Pao in the report year.

**Board of Directors of
SHENZHEN SPECIAL ECONOMIC ZONE
REAL ESTATE & PROPERTIES (GROUP) CO., LTD.
Apr. 30, 2004**

REPORT OF THE AUDITORS
TO THE SHAREHOLDERS OF
SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.
(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated balance sheet of Shenzhen Special Economic Zone Real Estate & Properties (Group) Co., Ltd. (the "Company") and its subsidiaries (the "Group") as of December 31, 2003 and the related consolidated statements of income, cash flows and changes in equity for the year then ended. These financial statements set out on pages 2 to 33 are the responsibility of the Group's management. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2003 and of the results of operations and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens Shenzhen Nanfang Minhe
Certified Public Accountants

April 27, 2004

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Note</u>	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Turnover	4	933,935	724,776
Cost of sales		<u>(730,471)</u>	<u>(578,491)</u>
Gross profit		203,464	146,285
Other operating income		<u>16,726</u>	<u>40,179</u>
		220,190	186,464
General and administrative expenses		(124,213)	(165,089)
Other operating expenses		<u>(26,976)</u>	<u>(29,319)</u>
Profit / (loss) from operations	5	69,001	(7,944)
Finance costs	8	(49,062)	(110,087)
Share of profits / (losses) of non-consolidated subsidiaries, associates, and contractual joint ventures		14,860	(27,302)
Gain from the disposal of contractual joint venture		<u>--</u>	<u>180,343</u>
Profit before taxation		34,799	35,010
Taxation	9	<u>(2,445)</u>	<u>(1,723)</u>
Profit after taxation		32,354	33,287
Minority interests		<u>1,253</u>	<u>576</u>
Net profit for the year		<u><u>33,607</u></u>	<u><u>33,863</u></u>
Earnings per share			
Basic	10	<u><u>RMB0.03</u></u>	<u><u>RMB0.03</u></u>
Diluted	10	<u><u>N/A</u></u>	<u><u>N/A</u></u>