

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

IMPORTANT NOTES

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.

Chairman of the Board of the Company Shao Zhihe, General Manager Chen Wuhua and Director of Financial Dept. Chen Jincai hereby confirm that the Financial Report enclosed in the Annual Report is true and complete.

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.

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SECTION II. COMPANY PROFILE

1. Legal Name of the Company

In Chinese: 深圳经济特区房地产（集团）股份有限公司

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

Short Form in Chinese: 深房集团

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

Fax: (0755) 82294024

E-mail: spg@163.net

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)

7. Other Information of the Company

Initial registration date: On Jan. 8, 1980

Registration place: Shenzhen Municipal Administration Bureau for Industrial and Commerce

Registration number of Business License: 4403011002426

Registration number of Taxation: 440301192179585

Name and address of Certified Public Accountant engaged by the Company:

Name: Shenzhen Nanfang Minhe Certified Public Accountants

Address: 8/F, Electronics Tech. Bldg., No. 2007, Shen Nan Middle Road, Shenzhen

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
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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	11,352	1,139,382

(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 operating activities (RMB)	0.14	-0.03	-0.04
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	0	122.65	0	0	1,135.17		1,257.82

period							
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	
I . 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
II . 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
III . 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.	Name of shareholders	Holding shares (0'000 Share)	Proportion in 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	Chairman of the	Male	49	Jan. 2003-Jan. 2006	0	0

Chuanghui	Supervisory Committee					
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 the 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**

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

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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

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

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>

The notes on pages 6 to 33 form part of these financial statements.

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2003

	<u>Note</u>	<u>2003</u> RMB'000	<u>2002</u> RMB'000
ASSETS			
Non-current assets			
Property, plant & equipment	11	210,521	271,241
Investment properties	12	628,861	628,410
Non-consolidated subsidiaries	13	56,127	144,430
Associates	14	21,147	13,871
Contractual joint ventures	15	168,982	162,231
Long term investments	16	58,599	58,835
Intangible assets	17	707	1,459
Land held for development	18	56,585	42,753
		<u>1,201,529</u>	<u>1,323,230</u>
Current assets			
Properties under development for sale	19	644,978	716,067
Completed properties for sale	20	206,207	242,100
Inventories	21	41,050	36,093
Short term investments	22	3,608	2,951
Accounts receivable		170,035	122,211
Prepayments, deposits and other debtors		46,727	51,903
Cash and bank balances		262,809	249,341
		<u>1,375,414</u>	<u>1,420,666</u>
Current liabilities			
Customers' deposits		210,555	190,913
Accounts payable and accrued expenses	23	493,823	680,773
Dividends payable	24	138,764	138,764
Tax payable	25	4,251	6,063
Bank loans	27	677,007	834,762
		<u>1,524,400</u>	<u>1,851,275</u>
Net current liabilities		<u>(148,986)</u>	<u>(430,609)</u>
Total assets less current liabilities		<u>1,052,543</u>	<u>892,621</u>
Non-current liabilities	26	(53,072)	(18,818)
Minority interests		<u>7,832</u>	<u>6,179</u>
NET ASSETS		<u>1,007,303</u>	<u>879,982</u>
CAPITAL AND RESERVES			
Share capital	28	1,011,660	1,011,660
Reserves		<u>(4,357)</u>	<u>(131,678)</u>
		<u>1,007,303</u>	<u>879,982</u>

The notes on pages 6 to 33 form part of these financial statements.

Approved and authorized for issue by the board of directors on April 27, 2004

DIRECTOR

DIRECTOR

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Note</u>	<u>2003</u> RMB'000	<u>2002</u> RMB'000
OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		984,417	785,711
Other cash received relating to operating activities		141,462	119,832
Cash paid for goods and services		(689,368)	(501,553)
Cash paid to and on behalf of employees		(95,848)	(109,570)
Taxation paid		(47,726)	(103,209)
Cash paid relating to other operating activities		(104,574)	(113,329)
Interest paid		<u>(49,062)</u>	<u>(110,087)</u>
Net cash from /(used in) operating activities		<u>139,301</u>	<u>(32,205)</u>
INVESTING ACTIVITIES			
Cash received from disposal of investments		35,633	322,250
Dividends received and interest received		11,849	23,305
Net cash received from the sale of fixed assets, intangible assets and other long-term assets		9,215	397
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(12,894)	(11,485)
Cash paid to acquire investments		<u>--</u>	<u>(1,800)</u>
Net cash from investing activities		<u>43,803</u>	<u>332,667</u>
FINANCING ACTIVITIES			
Proceeds from borrowings		686,263	728,688
Repayments of borrowings		(797,000)	(1,078,934)
Dividends paid		<u>--</u>	<u>(15,594)</u>
Net cash used in financing activities		<u>(110,737)</u>	<u>(365,840)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year	29	<u>103,132</u>	<u>168,510</u>
Cash and cash equivalents at end of year	29	<u>175,499</u>	<u>103,132</u>

The notes on pages 6 to 33 form part of these financial statements.

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2003

	Share capital RMB'000	Capital reserve RMB'000	Cumulative translation reserve RMB'000	General reserve RMB'000	Staff welfare fund RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at December 31, 2001	1,011,660	686,234	10,164	326,094	115,594	(1,303,591)	846,155
Profit for the year						33,863	33,863
Transfer				(322,777)		322,777	--
Others		74	(110)				(36)
Balance at December 31, 2002	<u>1,011,660</u>	<u>686,308</u>	<u>10,054</u>	<u>3,317</u>	<u>115,594</u>	<u>(946,951)</u>	<u>879,982</u>
Prior year adjustment (see note 35)						93,742	93,742
Profit for the year						33,607	33,607
Others			(28)				(28)
Balance at December 31, 2003	<u>1,011,660</u>	<u>686,308</u>	<u>10,026</u>	<u>3,317</u>	<u>115,594</u>	<u>(819,602)</u>	<u>1,007,303</u>

PRC laws and regulations require PRC companies to provide statutory reserves. General reserve is appropriated at 15% and staff welfare fund at within 10% from net profits after taxation as reported in the financial statements prepared under the Accounting Standards for Business Enterprises of PRC. Provision for the general reserve ceases when the accumulated general reserve amounts to 50% of the share capital. All statutory reserves, including the general reserve fund and staff welfare fund, are for specific purposes and are not distributed in the form of cash dividends.

The Company declares dividends based on the lower of net profit after appropriation to reserves as reported in the financial statements prepared under the Accounting Standards for Business Enterprises and Accounting Systems for Business Enterprises in PRC and as reported in the financial statements prepared under IFRS. For the year ended December 31, 2003, the directors have not declared any dividends to its shareholders.

The notes on pages 6 to 33 form part of these financial statements.

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

7. GENERAL

Shenzhen Special Economic Zone Real Estate and Properties (Group) Co., Ltd. (the "Company") was incorporated in January 1980 in the People's Republic of China (the "PRC") and was reorganized as a joint stock limited company in July 1993. A and B shares were issued by the Company in September 15, 1993 and January 10, 1994 respectively.

The Company and its subsidiaries (the "Group") are principally engaged in property development, investment and management, hotel operations, construction, fitting-out, equipment installation and maintenance, retail operations and trading.

8. BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board under the historical cost basis except for the revaluation of investment properties. The accounting policies adopted by the Company under IFRS differ from the accounting policies used in the financial statements of the Group which were prepared in accordance with Accounting Standards for Enterprise Business and Accounting Systems for Enterprise Business in the PRC. Adjustments to restate the results of operations and the net assets in compliance with IFRS will not be taken up in the accounting books of the companies in the Group. Details of impacts of such adjustments on the net assets as at 31 December 2003 and net profit for the year then ended are included in note 36 to the financial statements.

9. PRINCIPAL ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year, if any, are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. The results of operations of subsidiaries are included in the consolidated income statement and the share attributable to minority interests is excluded from the consolidated net profit. All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries:

For acquisitions before January 1, 2001, positive goodwill is eliminated against reserves.

For acquisitions on or after January 1, 2001, positive goodwill is amortized on a straight-line basis over its estimated useful life. Positive goodwill is stated in Consolidated Balance Sheet at cost less any accumulated amortization and any impairment losses.

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

3 · PRINCIPAL ACCOUNTING POLICIES - (continued)

Goodwill (continued)

On disposal of a subsidiary, any attributable amount of purchased goodwill not previously amortized through the Consolidated Income Statement or which has previously been dealt with as a movement on group reserves is included in the calculation of the profit or loss on disposal.

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less provision, if necessary, for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Subsidiaries not consolidated

In the consolidated balance sheet the unconsolidated subsidiaries are recorded at cost less provision for impairment losses. The consolidated income statement reflects the Group's share of the results of operations of the subsidiaries.

Investments in subsidiaries excluded from consolidation are stated at cost less provision for any impairment losses and the results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Associates

An associate is a company over which the Group is in a position to exercise significant influence, but not control, through participation in the financial and operating policy decisions of the investee.

The consolidated income statement includes the Group's share of the post-acquisition results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates plus the unamortized goodwill less capital reserves on acquisition of the associates.

In the Company's balance sheet the investment in associates are stated at cost less provision, if necessary, for impairment losses.

Contractual joint ventures

A contractual joint venture is a venture which operates under a contractual agreement whereby the Group or Company and at least one other party undertake an economic activity which is subject to control and none of the parties involved unilaterally has control over the economic activity.

The consolidated income statement includes the Group's share of the post-acquisition results of its contractual joint venture for the year. In the consolidated balance sheet, interests in contractual joint venture are accounted under the equity method and are stated at cost, less goodwill, and adjusted for the post acquisition change in the Group's share of the contractual joint venture's net assets.

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

3. PRINCIPAL ACCOUNTING POLICIES - (continued)

Cash and cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, bank balances and time deposits within three months of maturity when acquired.

Property, plant & equipment

Property, plant & equipment except investment properties is stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalized as an additional cost of the asset. When an asset is sold, its cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from the disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in the profit and loss account.

Depreciation is provided to write off the cost of property, plant & equipment over their estimated useful lives on a straight-line basis. Estimated useful lives are summarized as follows:

Land use rights and buildings in the PRC	25 – 30 years
Plant and machinery	7 years
Motor vehicles	6 years
Furniture, fixtures and office equipment	5 years

Construction-in-progress represents plant and properties under construction and includes the costs of construction plus interest charges arising from borrowings used to finance the construction during the construction period. No depreciation is provided for construction-in-progress until they are completed and put in use.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their fair value based on independent professional valuations or directors' valuations at the balance sheet date. Any gain or loss arising from a change in the fair value of investment property should be included in the income statement. Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset and should be recognized as an income or expense in the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

3. PRINCIPAL ACCOUNTING POLICIES - (continued)

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is land or buildings other than investment property carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Completed properties and properties under development

Completed properties and properties under development held for sale are stated at the lower of cost and net realizable value. Cost includes the cost of land, development expenditure, borrowing costs capitalized in accordance with the Group's accounting policy and other attributable expenses. Net realizable value is determined by the management based on prevailing market conditions.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first in first out method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Long-term investments

Long-term investments where the Group is not in a position to exercise significant influence or exert control are stated at cost less provision for impairment losses, where the investment's carrying amount exceeds its estimated recoverable amount.

Short-term investments

Short-term investments are stated in the balance sheet at fair value. Changes in fair value are recognized in the income statement.

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

3. PRINCIPAL ACCOUNTING POLICIES - (continued)

Revenue recognition

Turnover comprises (i) proceeds from sales of properties, (ii) revenue from retail sales of merchandise, (iii) revenue from hotel services, (iv) revenue from sales of goods, (v) billings related to construction, fitting-out, equipment installation and maintenance contracts, and (vi) rental income from investment properties.

Income from sales of properties together with the interest earned on deposits from the installment sales of flats are recognized upon the execution of a binding sales agreement or upon the issuance of an occupation permit completion certificate by the relevant authority, whichever is the later. Deposits received from forward sales of properties are carried in the balance sheet under current liabilities.

Installment sales of developed properties are recognized to the extent that installments are received or become due under the relevant sales contracts.

Revenue from hotel services, property management services and taxi services is recognized when the services are rendered.

Revenue from the sale of goods, other than merchandise, is recognized upon delivery of the goods to customers and entitlement to the sales consideration is obtained.

Profit from construction, fitting-out, equipment installation and maintenance contracts, which are mainly short-term in nature, is recognized under the completed-contract method, whereby billings and costs are accumulated and deferred, together with the related profit, until completion of the work.

Rental income, including rental invoiced in advance from properties under operating leases, is recognized on a straight-line basis over the terms of the relevant leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Retirement benefit costs

In accordance with local government regulations, the Group is required to make contributions to a retirement insurance fund which is administered by the local social security bureau in accordance with government regulations. The amount of contributions is determined at a fixed percentage of the basic salaries of the Group's existing PRC staff.

Retirement benefits are paid directly from the fund and are calculated based upon a retired employee's basic monthly salary and their number of years' service.

The amount charged to the income statement represents the amount of contribution payable to the scheme by the Group.

Deferred income tax

Deferred taxation is provided, using the liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred tax. It is recognized in the financial statements to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

3. PRINCIPAL ACCOUNTING POLICIES - (continued)

Intangible assets

Intangible assets represent the cost of acquisition of taxi licenses and computer software and are stated at cost less amortization and provision, if any, for impairment losses. Amortization is provided to write off the cost of taxi licenses over the license period granted by relevant authorities, namely 10 years, by equal installments. Amortization is provided to write off the cost of computer software over 5 years.

Foreign currency translation

Foreign currency transactions are converted at exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences arising in these transactions are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries maintained in foreign currencies are translated at exchange rates ruling on the balance sheet date. Exchange difference arising on consolidation, if any, are dealt with in reserves.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs eligible for capitalization.

All other borrowing costs are recognized in net profit or loss in the period in which they are incurred.

Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognized but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

For management purposes, the Group is organized into five major operating divisions – property, retailing and trading, transportation and catering services, construction technical support and others. The divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property	- construction and development, sales, leasing and management of properties
Retailing and trading	- sale of general merchandise
Transportation and catering service	- hotel and restaurant operation and provision of taxi services
Construction technical support	- construction, fitting out and equipment installation and maintenance
Others	- corporate financing, etc.

The Group's business is principally conducted in the People's Republic of China (PRC) with its turnover for the year ended December 31, 2003 identified by geographical segments as follows:

	RMB ('000)
PRC	925,877
Hong Kong	7,310
The United States of America	748
	<u>933,935</u>

Segment information relating to the businesses for the year ended December 31, 2003 is presented below:

	<u>Properties</u>	<u>Retailing and trading</u>	<u>Transportation and catering services</u>	<u>Construction technical support</u>	<u>Others</u>	<u>Eliminations</u>	<u>Consolidated</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE							
External sales	415,566	409,823	11,994	82,238	14,314	--	933,935
Inter-segment sales	22,116	--	--	10,540	2,400	(35,056)	--
Total revenue	<u>437,682</u>	<u>409,823</u>	<u>11,994</u>	<u>92,778</u>	<u>16,714</u>	<u>(35,056)</u>	<u>933,935</u>

Inter-segment sales are charged at prevailing market rates.

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS - (continued)

	<u>Properties</u>	<u>Retailing and trading</u>	<u>Transportation and catering services</u>	<u>Construction technical support</u>	<u>Others</u>	<u>Eliminations</u>	<u>Consolidated</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS							
Segment results	<u>69,276</u>	<u>13,966</u>	<u>1,671</u>	<u>16,381</u>	<u>7,594</u>	<u>(16,384)</u>	92,504
Unallocated corporate expenses							<u>(23,503)</u>
Profit from operation							69,001
Finance costs							(49,062)
Share of profit of non-consolidated subsidiaries, associates, and contractual joint ventures							<u>14,860</u>
Profit before tax							34,799
Taxation							<u>(2,445)</u>
Profit after tax							32,354
Minority interests							<u>1,253</u>
Net profit for the year							<u>33,607</u>
OTHER INFORMATION							
Segment assets	<u>1,472,457</u>	<u>78,771</u>	<u>67,453</u>	<u>21,428</u>	<u>13,055</u>		1,653,164
Non-consolidated subsidiaries	41,635	--	--	1,812	12,680		56,127
Associates	14,098	--	--	--	7,049		21,147
Contractual joint ventures	28,214	3,012	88,649	--	49,107		168,982
Unallocated corporate assets							<u>677,523</u>
Consolidated total assets							<u>2,576,943</u>
Segment liabilities	<u>812,215</u>	<u>146,529</u>	<u>87,387</u>	<u>24,526</u>	<u>30,215</u>		1,100,872
Unallocated corporate liabilities							<u>476,600</u>
Consolidated total liabilities							<u>1,577,472</u>
Capital expenditure	7,132	1,019	4,153	589	--		
Depreciation	8,131	5,430	8,879	580	28		
Non-cash expenses other than depreciation	17,904	--	745	--	--		

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS - (continued)

The Group's business is principally conducted in the People's Republic of China (PRC) with its turnover for the year ended December 31, 2002 identified by geographical segments as follows:

	RMB ('000)
PRC	720,795
Hong Kong	3,189
The United States of America	792
	<u>724,776</u>

Segment information about these businesses for the year ended December 31, 2002 is presented below:

	<u>Properties</u>	<u>Retailing and trading</u>	<u>Transportation and catering services</u>	<u>Construction technical support</u>	<u>Others</u>	<u>Eliminations</u>	<u>Consolidated</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE							
External sales	342,068	299,418	17,528	53,798	11,964	--	724,776
Inter-segment sales	6,146	--	--	19,349	1,300	(26,795)	--
Total revenue	<u>348,214</u>	<u>299,418</u>	<u>17,528</u>	<u>73,147</u>	<u>13,264</u>	<u>(26,795)</u>	<u>724,776</u>

Inter-segment sales are charged at prevailing market rates.

	<u>Properties</u>	<u>Retailing and trading</u>	<u>Transportation and catering services</u>	<u>Construction technical support</u>	<u>Others</u>	<u>Eliminations</u>	<u>Consolidated</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS							
Segment results	<u>110,908</u>	<u>15,791</u>	<u>3,518</u>	<u>9,076</u>	<u>20,618</u>	<u>(2,766)</u>	157,145
Unallocated corporate expenses							<u>(165,089)</u>
Loss from operation							(7,944)
Finance costs							(110,087)
Share of losses of non-consolidated subsidiaries, associates, and contractual joint ventures							(27,302)
Gain from the disposal of contractual joint venture							<u>180,343</u>
Profit before tax							35,010
Taxation							<u>(1,723)</u>
Profit after tax							33,287
Minority interests							<u>576</u>
Net profit for the year							<u>33,863</u>

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS - (continued)

OTHER
INFORMATION

Segment assets	<u>1,306,557</u>	<u>170,571</u>	<u>92,450</u>	<u>19,655</u>	<u>76,331</u>	1,665,564
Non-consolidated subsidiaries	107,219	--	--	4,665	32,546	144,430
Associates	8,891	--	--	--	4,980	13,871
Contractual joint ventures	24,115	2,851	83,908	--	51,357	162,231
Unallocated corporate assets						<u>757,800</u>
Consolidated total assets						<u>2,743,896</u>
Segment liabilities	<u>948,029</u>	<u>107,720</u>	<u>69,750</u>	<u>9,367</u>	<u>79,497</u>	1,214,363
Unallocated corporate liabilities						<u>655,730</u>
Consolidated total liabilities						<u>1,870,093</u>
Capital expenditure	2,683	2,172	1,533	2,719	2,377	
Depreciation	8,255	5,106	9,408	526	242	
Non-cash expenses other than depreciation	1,593	--	741	--	646	

The average number of employees for the year for each of the Group's principal divisions was as follows:

	<u>2003</u>	<u>2002</u>
Properties	1,363	1,421
Retailing and trading	247	283
Transportation and catering services	217	239
Construction technical support	254	184
Others	<u>34</u>	<u>33</u>
	<u>2,115</u>	<u>2,160</u>

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

5.	PROFIT/ (LOSS) FROM OPERATIONS	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
	Profit / (Loss) from operations is stated after crediting and charging the following:		
	Crediting:		
	Interest income	6,414	107,647
	Rental income	251	94,849
	Exchange gain	1,046	1,374
	Gain on disposal of property, plant & equipment	553	139
	Charging:		
	Depreciation	23,048	23,538
	Amortization	18,649	11,786
	Staff costs (note 6)	95,848	99,276
	Exchange loss	788	935
	Provision for impairment losses of assets (note 7)	6,825	33,903
6.	STAFF COSTS	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
	Salaries and bonus	77,263	80,026
	Retirement benefit costs and provision for other welfare	<u>18,585</u>	<u>19,250</u>
		<u>95,848</u>	<u>99,276</u>
7.	PROVISION FOR IMPAIRMENT LOSSES OF ASSETS	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
	Contractual joint venture	--	352
	Completed properties for sale	--	365
	Accounts receivable, other debtors and amount due from non-consolidated subsidiaries	<u>6,825</u>	<u>33,186</u>
		<u>6,825</u>	<u>33,903</u>
8.	FINANCE COSTS	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
	Interest expenses		
	- bank borrowings	<u>49,062</u>	<u>110,087</u>

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

9. TAXATION

	<u>2003</u>	<u>2002</u>
	RMB' 000	RMB'000
The charge comprises:		
PRC income tax for the year	<u>2,445</u>	<u>1,723</u>

Domestic income tax is calculated in accordance with applicable income tax regulations and at 15% (2002: 15%) of the estimated assessable profit determined in accordance with the accounting principles and the relevant financial regulations applicable to enterprises in the PRC. Taxation for other jurisdictions is calculated at rates prevailing in the respective jurisdictions, details of which are as follows:

	<u>2003</u>	<u>2002</u>
	RMB' 000	RMB'000
PRC enterprises income tax		
- enterprises in Shenzhen	15%	15%
- enterprises outside Shenzhen	33%	33%
Hong Kong profits tax	17.50%	16%

Reconciliation to the domestic tax expense as follows:

	<u>2003</u>	<u>2002</u>
	RMB' 000	RMB'000
Accounting profit under IFRS	34,799	35,010
Difference arising from accounting policies based on IFRS	<u>(22,255)</u>	<u>(19, 819)</u>
Accounting profit under Accounting Standards for Enterprise Business of the PRC	<u>12,544</u>	<u>15,191</u>
Tax at the domestic rate of 15%	1,882	2,279
Net tax effect of expenses not deductible for tax purposes and other factors	<u>563</u>	<u>(556)</u>
Tax expense	<u>2,445</u>	<u>1,723</u>

In respect of tax profit carried forward in the amount of RMB4,501,000 (2002: tax losses RMB3,672,000), no deferred tax asset was recognized because, from a current perspective, a tax benefit will probably not be realizable within a reasonable period. Events in future business years may require an adjustment to deferred tax assets.

10. EARNINGS PER SHARE

- (a) The calculation of basic earnings per share is based on the consolidated profit of RMB32,380,000 (2002: profit of RMB33,863,000) and on the 1,011,660,000 shares (2002: 1,011,660,000 shares) in issue during the year.
- (b) During the year ended 31 December 2003 and 2002, there were no dilutive potential shares. Fully diluted earnings per share are not applicable.

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

11. PROPERTY, PLANT & EQUIPMENT

	Land and buildings RMB'000	Plant and machinery RMB'000	Motor Vehicles RMB'000	Office equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At January 1, 2003	256,031	55,077	35,774	31,917	38,257	417,056
Addition of subsidiaries	304	1,151	--	538	--	1,993
Additions	7,370	1,781	--	2,187	--	11,338
Disposal of assets	(75,347)	(13,997)	(1,272)	(1,171)	--	(91,787)
At December 31, 2003	<u>188,358</u>	<u>44,012</u>	<u>34,502</u>	<u>33,471</u>	<u>38,257</u>	<u>338,600</u>
Depreciation						
At January 1, 2003	84,216	13,594	27,312	19,248	--	144,370
Addition of subsidiaries	261	1,083	--	421	--	1,765
Charge for the year	20,780	1,960	779	1,588	--	25,107
Disposal of assets	(31,084)	(11,993)	(488)	(1,043)	--	(44,608)
At December 31, 2003	<u>74,173</u>	<u>4,644</u>	<u>27,603</u>	<u>20,214</u>	<u>--</u>	<u>126,634</u>
Provision for impairment losses						
At January 1, 2003	1,313	68	48	16	--	1,445
Additions	--	--	--	--	--	--
At December 31, 2003	<u>1,313</u>	<u>68</u>	<u>48</u>	<u>16</u>	<u>--</u>	<u>1,445</u>
Net book value						
At December 31, 2003	<u>112,872</u>	<u>39,300</u>	<u>6,851</u>	<u>13,241</u>	<u>38,257</u>	<u>210,521</u>
At December 31, 2002	<u>170,502</u>	<u>41,415</u>	<u>8,414</u>	<u>12,653</u>	<u>38,257</u>	<u>271,241</u>

The Group's leasehold land and buildings including investment properties (note 12) are located in the People's Republic of China under medium term leases. Certain properties have been pledged as security for the Group's bank borrowings (see note 30).

12. INVESTMENT PROPERTIES

	2003 RMB' 000	2002 RMB'000
At January 1, 2003	628,410	602,622
Disposal of properties	(45,114)	(8,234)
Additions	<u>45,565</u>	<u>34,022</u>
At December 31, 2003	<u>628,861</u>	<u>628,410</u>

The investment properties have been revalued as at 31 December 2003 by the directors and certain investment properties have been pledged as security for the group's bank borrowings (see note 30).

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

13. SUBSIDIARIES

At December 31, 2003, the Company had interests in the following principal subsidiaries which have been included in the consolidated financial statements:

<u>Subsidiaries</u>	<u>Place of equity establishment/incorporation</u>	<u>Principal activities</u>	<u>Interest held</u>	
			<u>Direct</u> %	<u>Indirect</u> %
Great Wall Estate Co., Inc.	U.S.A.	Property development	70	--
Shenzhen Special Economic Zone Real Estate (Group) Guangzhou Property and Estate Co., Ltd.	PRC	Property development, decoration and construction design	100	--
Skill Elite Ltd.	Hong Kong	Corporate financing	100	--
Shenzhen City SPG Bao An Development Ltd.	PRC	Property development and sales	95	5
Shenzhen City Shenfang Free Trade Trading Ltd.	PRC	Trading of construction materials	95	5
Shenzhen City Shenfang Investment Ltd.	PRC	Investment and management	90	10
Shenzhen City Bamboo Garden Car Rental Ltd.	PRC	Car rental	100	--
Shenzhen Shenfang Car Park Ltd.	PRC	Develop and operate car park	70	30
深圳市罗湖区社会信息资讯服务 中心	PRC	Information service	--	100
深圳市数码港信息技术培训中心	PRC	Training	--	100
深圳市数码港通信有限公司	PRC	Product development and sales of web and computer	--	90
北京新峰房地公司	PRC	Property development and management	75	25

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE & PROPERTIES (GROUP) CO., LTD.

13. SUBSIDIARIES - (continued)

<u>Subsidiaries</u>	<u>Place of equity establishment/incorporation</u>	<u>Principal activities</u>	<u>Interest held</u>	
			<u>Direct %</u>	<u>Indirect %</u>
Shenzhen City Wa Gen Construction Management Ltd.	PRC	Construction project management	75	--
Shinnying Tongxin Real Est. Dev. Co. Ltd.	PRC	Real estate development	--	93.1
Barenie Co. Ltd.	Hong Kong	Properties investment	--	80
Openice Ltd.	Hong Kong	Investment holding	20	80
Shantou SEZ Wellam Fty Bldg., Dev. Co.	PRC	Factory building, sales and rental	--	82
Xin-Feng Real Estate Dev. Construction (Wuhan) Co. Ltd.	PRC	Real estate management and rental service	--	55
Fresh Peak Investment Ltd.	Hong Kong	Properties investment	--	55
Wellam Ltd.	Hong Kong	Investment holding	--	82
Shenzhen Petrel Hotel Co. Ltd.	PRC	Hotel operations	68.1	31.9
Shenzhen Cyber Port Co., Ltd	PRC	Property investment and information technology consultancy	70	--
Shenzhen Shenfang Department Store Co. Ltd.	PRC	Commercial goods supplier	95	5
Shenzhen City Property Management Ltd.	PRC	Property management	95	5
Shenzhen Zhen Tung Engineering Ltd.	PRC	Fitting-out contracting and maintenance	73	27
Fresh Peak Holdings Ltd.	Hong Kong	Investment, management and consultation	100	--
Fresh Peak Enterprise Ltd.	Hong Kong	Investment holding	82	--
广州黄埔新邨房地产有限公司	PRC	Property development and sale	--	100
Keyear Development Ltd.	Hong Kong	Investment holding	--	100

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13. SUBSIDIARIES - (continued)

The non-consolidated subsidiaries involved have either been terminated or liquidated, are in the process of liquidation or not intended to be held for long term. The Group already made appropriate provision therefore and consequently they have not been consolidated in the Group's financial statements for the year but included as non-consolidated subsidiaries as follows:

	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
Unlisted Investments, at cost	308,868	427,996
Share of post-acquisition losses	<u>(109,576)</u>	<u>(199,961)</u>
	199,292	228,035
Less: Provision for impairment losses	<u>(186,498)</u>	<u>(189,942)</u>
	12,794	38,093
Add: Amounts due from non-consolidated subsidiaries	<u>43,333</u>	<u>106,337</u>
	<u><u>56,127</u></u>	<u><u>144,430</u></u>

Details of the non-consolidated subsidiaries are summarized in the following:

<u>Subsidiaries</u>	<u>Place of Establishment/ incorporation</u>	<u>Principal activities</u>	<u>Equity interest held</u>	
			<u>Direct</u> %	<u>Indirect</u> %
Shenzhen Shen Fang Industrial Development Co., Ltd.	PRC	Property management, investment holding	100	--
Shenzhen Real Estate Consolidated Service Co., Ltd.	PRC	Construction material, consume goods	100	--
Shenzhen Tefa Real Estate Consolidated Service Co., Ltd.	PRC	Construction and decoration	100	--
Guangdong Province Fengkai Lian Feng Cement Manufacturing Co., Ltd.	PRC	Manufacturing and trading in cement products	--	90
Shenzhen City Zhen Tung New Electronic and Electrical Development Ltd.	PRC	Investing on electronic and electrical engineering project	95	5

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13. SUBSIDIARIES - (continued)

<u>Subsidiaries</u>	<u>Place of equity establishment/ incorporation</u>	<u>Principal activities</u>	<u>Equity interest held</u>	
			<u>Direct %</u>	<u>Indirect %</u>
Fidelity Development Limited	Canada	Property Development	75	--
Bekaton Property Limited	Australia	Property Development	60	--
Beijing SPG Property Management Limited	PRC	Property management	100	--
Dergetta Company Limited	HK	Dormant	--	70
Shenzhen City Shenfang Construction and Decoration Materials Ltd.	PRC	Retailing/trading of construction materials	100	--
Shenzhen City SPG Long Gang Development Ltd.	PRC	Property development, sales, management and rental	100	--
Shenzhen Lian Hua Industry and Trading Co. Ltd.	PRC	Trading of equipment and provision of renovation material	100	--
Paklid Limited	HK	Property construction and trading of construction materials	100	--

14. ASSOCIATES

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Unlisted investments, at cost	47,847	38,077
Share of post-acquisition losses	<u>(8,616)</u>	<u>(1,800)</u>
	39,231	36,277
Less: Provision for impairment losses	<u>(23,483)</u>	<u>(22,406)</u>
	15,748	13,871
Add: Amounts due from associates	<u>5,399</u>	<u>--</u>
	<u>21,147</u>	<u>13,871</u>

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14. ASSOCIATES - (continued)

At December 31, 2003 the Company had interests in the following principal associates:

<u>Associates</u>	<u>Place of Establishment/ incorporation</u>	<u>Principal activities</u>	<u>Equity interest held</u>	
			<u>Direct</u> %	<u>Indirect</u> %
Yunnan Kun Peng Aviation Service Ltd.	PRC	Aviation service	25	--
Tung Yick Property Co., Ltd.	Hong Kong	Property development	20	--
深圳赛博数码广场有限公司	PRC	Property management and leasing	45	--
Shenzhen Fresh Peak Real Estate Trading and Revaluation Co. Ltd.	PRC	Property trading agency	30	--
Shenzhen City Wing Wah Engineering Ltd.	PRC	Repairs and maintenance of machinery	25	--

15. CONTRACTUAL JOINT VENTURES

	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
Unlisted Investments, at cost	314,149	314,764
Share of post-acquisition profits	<u>(16,022)</u>	<u>24,868</u>
	298,127	339,632
Provision for impairment losses	<u>(143,073)</u>	<u>(143,073)</u>
	155,054	196,559
Amounts due from /(due to) contractual joint ventures	<u>13,928</u>	<u>(34,328)</u>
	<u>168,982</u>	<u>162,231</u>

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15. CONTRACTUAL JOINT VENTURES - (continued)

Particulars of the principal contractual joint ventures are set out as follows:

<u>Contractual Joint venture</u>		Joint venture registered <u>capital</u> (‘000)	Group committed capital <u>contribution</u> (‘000)	<u>Principal activity</u>	<u>Method of Participation in earnings</u>
Guangzhou Sui Xin Property and Estate Co Ltd.	5 years from 14 October 1992	RMB30,000	RMB71,000	Construction and sales of properties	36% of profits from Da De Plaza
Xian Fresh Peak Building Co. Ltd.	30 years from 6 July 1993	RMB20,000	RMB600,000	Construction and sales of properties	All profits after tax and appropriation commercial buildings to statutory reserves are to be used first to repay the capital contributions and interest on capital. Thereafter 67% of net profits.
Harbin Jianfeng Technology Development Co. Ltd.	30 years from 26 June 1993	RMB20,000	RMB30,000	Technology development	All profits of Harbin after tax and Jianfeng appropriation Technology to statutory Building reserves are to be used first to repay the capital contributions. Thereafter 50% of net profits.

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15. CONTRACTUAL JOINT VENTURES - (continued)

<u>Contractual joint venture</u>		<u>Joint venture registered capital (‘000)</u>	<u>Group committed capital contribution (‘000)</u>	<u>Principal activity</u>	<u>Method of Participation in earnings</u>
Jiangmen Xinjian Real Estate Co. Ltd.	10 years from 19 May 1993	US\$6,600	US\$6,000	Property development	33% of net of Jianmen profits, Xinjian commercial building.
Kunshan Diao Feng Electricity Power Co. Ltd.	20 years from 29 November 1993	US\$7,200	US\$9,000	Supply of electricity	Profit distributions and appropriation to statutory reserves are to be determined by the board of directors annually.
罗浮山旅游开发公司	30 years from January 1985	RMB30,000,000	RMB30,000,000	Tourism development	Profits net of taxation will be distributed to the extent of 70% to the Company. The remaining 30% will be shared by the Company and the other venturer by the proportion of 55% and 45% respectively.

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16. LONG TERM INVESTMENTS

	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
PRC legal entity shares, at cost	16,825	16,825
Unlisted equity investments, at cost less provision for impairment losses	41,774	42,010
	<u>58,599</u>	<u>58,835</u>

17. INTANGIBLE ASSETS

	<u>Vehicle licenses</u> RMB' 000	<u>Computer software</u> RMB' 000	<u>Total</u> RMB' 000
At January 1, 2003	1,304	155	1,459
Addition	--	--	--
Amortization for the year	<u>(712)</u>	<u>(40)</u>	<u>(752)</u>
At December 31, 2003	<u>592</u>	<u>115</u>	<u>707</u>

18. LAND HELD FOR DEVELOPMENT

	RMB' 000
Cost	
At January 1, 2003	46,923
Addition	14,603
Amortization	<u>(771)</u>
At December 31, 2003	<u>60,755</u>
Provision for impairment	
At January 1, 2003	4,170
Addition	<u>--</u>
At December 31, 2003	<u>4,170</u>
Net book value	
At December 31, 2003	<u>56,585</u>
At December 31, 2002	<u>42,753</u>

* The land has been developed and transferred to properties under development for sale during the year.

19. PROPERTIES UNDER DEVELOPMENT FOR SALE

	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
Cost	1,141,501	1,358,116
Less: Provision for impairment losses	<u>(496,523)</u>	<u>(642,049)</u>
	<u>644,978</u>	<u>716,067</u>

Included in properties under development for sale is a piece of land awaiting development held in the United States at a cost of RMB122,635,954 against which provision for impairment of RMB104,723,917 was made in prior years. In 2000, the Group brought a lawsuit over an unauthorized sale of the land. Please refer to note 33 point 4 for information.

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20.	COMPLETED PROPERTIES FOR SALE		
		<u>2003</u>	<u>2002</u>
		RMB' 000	RMB'000
	Cost	224,608	260,501
	Less: Provision for impairment losses	<u>(18,401)</u>	<u>(18,401)</u>
		<u>206,207</u>	<u>242,100</u>
21.	INVENTORIES		
		<u>2003</u>	<u>2002</u>
		RMB' 000	RMB'000
	Raw materials	4,275	4,661
	Work-in-progress	6,789	5,853
	Finished goods	30,559	26,216
	Less: Provision for impairment losses	<u>(833)</u>	<u>(833)</u>
	Consumables	<u>260</u>	<u>196</u>
		<u>41,050</u>	<u>36,093</u>
22.	SHORT-TERM INVESTMENTS		
		<u>2003</u>	<u>2002</u>
		RMB' 000	RMB'000
	Listed equity investments, at market value	3,605	2,944
	Debentures, at market value	<u>3</u>	<u>7</u>
		<u>3,608</u>	<u>2,951</u>
23.	ACCOUNTS PAYABLE AND ACCRUED EXPENSES		
		<u>2003</u>	<u>2002</u>
		RMB' 000	RMB'000
	Accounts payable	405,261	582,084
	Accrued expenses		
	Project cost	30,914	39,044
	Losses for litigation and arbitration	53,391	51,022
	Interests for bank borrowings	1,666	6,677
	Land use fee	544	544
	Water and electricity	1,357	726
	Other	<u>690</u>	<u>676</u>
		<u>493,823</u>	<u>680,773</u>
24.	DIVIDENDS PAYABLE		

The item of dividends payable resulted from dividends declared and not paid by the directors in prior year. In respect of the current year, the directors have not declared dividends to its shareholders.

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25. TAX PAYABLE

	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
Corporation tax	(2,337)	(147)
Personal income tax	236	965
Business tax	5,823	4,157
Value added tax	(319)	(1,548)
Property tax	515	2,592
Others	<u>333</u>	<u>44</u>
	<u>4,251</u>	<u>6,063</u>

26. NON-CURRENT LIABILITIES

	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
Bank loans (note 27)	35,000	--
Other liabilities	<u>18,072</u>	<u>18,818</u>
	<u>53,072</u>	<u>18,818</u>

Included in other liabilities was RMB12,889,000 borrowed from minority shareholders of a subsidiary of the Company and the remaining balance is the accruals for property management and maintenance fees. These liabilities are non-interest bearing and do not have fixed terms for repayment.

27. BANK LOANS

	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
Bank loans		
Secured	609,123	709,209
Guaranteed	<u>102,884</u>	<u>125,553</u>
	<u>712,007</u>	<u>834,762</u>
Bank loans repayable:		
Within one year or on demand	677,007	834,762
In the second year	15,000	--
In the third to fifth years, inclusive	<u>20,000</u>	<u>--</u>
	<u>712,007</u>	<u>834,762</u>
Portion classified as current liabilities	677,007	834,762
Long term portion	<u>35,000</u>	<u>--</u>
	<u>712,007</u>	<u>834,762</u>

Particulars of assets which are pledged to secure bank loans and other facilities are set out in note 30. The guarantees are provided by third parties and certain group companies.

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28. SHARE CAPITAL

	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
Registered, issued and paid-in 891,660,000 A shares par value	891,660	891,660
120,000,000 B shares	<u>120,000</u>	<u>120,000</u>
	<u>1,011,660</u>	<u>1,011,660</u>

'A' shares are issued to Chinese national investors resident in the PRC and 'B' shares are issued to foreign investors. Chinese national investors resident in the PRC have been entitled to purchase and sell 'B' shares since June 2001. 'A' and 'B' shares have a par value of RMB 1 per share and rank pari passu.

29. CASH AND CASH EQUIVALENTS

	<u>2003</u> RMB' 000	<u>2002</u> RMB'000
Cash and bank balances	262,809	249,341
Less: deposits secured over 3 months	<u>(87,282)</u>	<u>(146,648)</u>
	175,527	102,693
Effect of foreign exchange rate changes	<u>(28)</u>	<u>439</u>
Restated cash and cash equivalents	<u>175,499</u>	<u>103,132</u>

30. PLEDGE OF ASSETS

At December 31, 2003, certain of the Group's investment properties, leasehold land and buildings, properties under development and properties held for sale with an aggregate net carrying value of RMB769,462,200 and fixed deposits amounting to RMB49,987,900 were pledged to secure bank loans of RMB609,123,000 granted to the Group.

Bank loans are repayable in various installments up to 31December 2003. Interest is charged on the outstanding balances at rates ranging from 3.38% to 11.25% per annum.

31. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS

In addition to subsidiaries, associates and contractual joint ventures stated in notes 13, 14 and 15 respectively, the following entities have also been defined as related parties with whom the Group has had significant transactions during the year or with whom a significant balance exists at the year end.

	<u>Nature of relationship</u>
Shenzhen Construction Investment Holding Corporation	Ultimate holding company

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31. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS - (continued)

The following is a summary of the significant transactions with related parties during the year.

Shenzhen City Wing Wah Engineering Ltd.

	<u>2003</u>	<u>2002</u>
	RMB' 000	RMB'000
Construction and development expenses	<u>459</u>	<u>272</u>

The expenses were made based on the market price.

Shenzhen Construction Investment Holding Corporation

	<u>2003</u>	<u>2002</u>
	RMB' 000	RMB'000
Guarantees accepted for banking and credit facilities	<u>60,000</u>	<u>--</u>

The Company has paid RMB177,000 for the above guarantees to Shenzhen Construction Investment Holding Corporation during the year.

Some net balances due from / (due to) related parties at December 31, 2003 and 2002 are stated in notes 13, 14 and 15, and included in the balance sheet of the Group as non-consolidated subsidiaries, associates and contractual joint venture, the remaining balances are summarized as follows:

	<u>2003</u>	<u>2002</u>
	RMB' 000	RMB'000
Shenzhen Construction Investment Holding Corporation	<u>(188,764)</u>	<u>(188,764)</u>

The above amounts are included in the balance sheet of the Group in the following classifications:

	<u>2003</u>	<u>2002</u>
	RMB' 000	RMB'000
Accounts payable and accrued expenses	(50,000)	(50,000)
Dividends payable	<u>(138,764)</u>	<u>(138,764)</u>
	<u>(188,764)</u>	<u>(188,764)</u>

Both these balances are unsecured and non-interest bearing.

Directors' emoluments

There are nine directors in the Company. Six of the directors received emoluments totaling RMB862,792 for the year ended December 31, 2003. Three directors did not receive any salary or other benefits from the Company.

32. CONTINGENT LIABILITIES

	<u>2003</u>	<u>2002</u>
	RMB' 000	RMB'000
Guarantees given for banking and credit facilities granted to:		
- contractual joint ventures	7,290	9,293
- third parties	<u>159,352</u>	<u>156,054</u>
	<u>166,642</u>	<u>165,347</u>

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33. LITIGATION AND ARBITRATION

1. On March 21, 1997, the Company executed an agreement with Baoxin Real Estate Development (Shenzhen) Company Limited (“Baoxin”) to sell its share of 68% interests in Guo Xin Building at a consideration of RMB145,000,000. In addition, the construction cost for the building of RMB15,000,000 was undertaken by Baoxin. Baoxin has paid a deposit of RMB45,000,000. The outstanding purchase consideration of RMB100,000,000 and the construction cost of RMB15,000,000 have still not been settled. So the Company lodged a claim. As sentenced by the Guangdong High People’s Court on September 28, 2002, Baoxin should pay the outstanding purchase consideration of RMB98,948,060 and its interests to the Company. During the year, second inquisition was completed and the judgement was for the Company. Up to the year end, the case is in the process of execution. For prudence purposes, the Company has not taken up any income on the above transaction. The deposit that has been received was included as other payable. Up to December 31, 2003, the construction cost for Guo Xin Building included in properties under development for sale in the balance sheet amounted to RMB166,109,047. As the title of Guo Xin Building was in the name of Baoxin, the Company has made a provision of RMB69,907,107 for loss in the construction of this building.
- 2 . On June 26, 1993, the Company and the former Harbin Construction Engineering College (merged into Harbin Industry University now) have signed a cooperative agreement. Under the agreement, the Company has advanced a loan of RMB22,120,500, which was used for another purpose by the former Harbin Construction Engineering College and not yet repaid up till now, so the Company took an action against Harbin Industry University for repayment of the loan in Harbin Intermediate People’s Court and the case was accepted to proceed on December 16, 2002. At the same time, on June 26, 1993, Fresh Peak Holding Ltd. (“Fresh Peak”), a wholly-owned subsidiary of the Company, and the former Harbin Construction University Science and Technology Development Head Office (named Harbin Industry University Science and Technology Development Head Office now, hereafter referred to as the former Head Office and Head Office respectively) have signed a contract called Harbin Jianfeng Science and Technology Development Co., Ltd. (“Jianfeng”) Under the contract, Fresh Peak and the Company have paid to Jianfeng RMB55,960,000 of its investment cost. Subsequently, on May 15, 1996, they have signed an operating contract guaranteed by the former Harbin Construction University (merged into Harbin Industry University now). Under this contract, the former Head Office will operate Jianfeng for 13 years and should together with the former Harbin Construction University pay the contract fee to Fresh Peak every period for the purpose of settlement of the above investment cost and its interest. As the former Head Office and the former Harbin Construction University have never paid the contract fee, Fresh Peak lodged a claim against Head Office and Harbin Industry University to Heilongjiang Province High People’s Court and the case was accepted to proceed on January 21, 2003. Up to year end, the legal proceedings for these tow cases are still in progress. The investment cost for Jianfeng included in contractual joint ventures in the balance sheet amounted to RMB95,601,809 and a provision for impairment of RMB75,775,014 has been made.

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33. LITIGATION AND ARBITRATION - (continued)

3. On August 20, 2001, the Company applied to China International Economic Arbitration Committee for an arbitration against Ju Bang Co Limited, the joint venture partner, for the compensation on early redemption of the land use rights. The arbitration is still in progress. Subsequently, on December 16, 2002, the Company lodged a complaint to the Shenzhen Intermediate People's Court to make Bamboo Garden Enterprise Ltd., the contractual joint venture, repay a construction advance of RMB37,330,000 and its interest. During the year, first inquisition was completed and Bamboo Garden Enterprise Ltd. was liable to pay the Company RMB35,800,000 in total for principal and interest (from 1 April, 1997 based on loan interest rate for similar transaction up to the date of repayment). This complaint is still in progress of the second inquisition. Up to December 31, 2003, the construction cost for this project amounting to RMB38,256,853 was included in construction in progress in the balance sheet and this construction was built under the capacity of Bamboo Garden Enterprise Ltd. The construction work has been terminated. In the opinion of the Company, the construction advance or the corresponding compensation can be reasonably estimated to be recovered, so no provision for impairment against this construction in progress has been made.
4. A subsidiary, Great Wall Estate Company Inc., incorporated in the United States, took a law suit against several parties including a bank for the ownership of a piece of land in Los Angeles, California which was unlawfully transferred by the defendants without the consent of the Company. The transfer was executed in August 2000. Subsequently, the land was mortgaged to a bank for a loan of US\$650,000. The Company has applied for the court's adjudication to restore the legal title thereof to the Company. In April 2003, the judgement in of the court in the United States was that Great Wall Company Inc. is the legal owner of the piece of land in Los Angeles and accordingly can claim the court fees of US\$54,125 from the several parties. Up to December 31, 2003, the carrying value of the land is RMB122,635,954 and the Company has made a provision of RMB104,723,917 for impairment against the cost of this land.
5. A subsidiary, Fresh Peak Holdings Limited ("Fresh Peak"), entered into a joint venture agreement with a third party to establish a contractual joint venture, Xian Fresh Peak Estate Commercial Company Limited ("Xian Fresh Peak") in Xian. Its principal activities are the development and management of commercial buildings in Xian. Pursuant to the aforesaid agreement, Fresh Peak hold 84% of Xian Fresh Peak and the third party provide the land for development and hold 16% of Xian Fresh Peak. The development of the commercial building started in November 1995 and suspended in 1996 due to disagreement between Fresh Peak and the third party. In 1997, the Xian government decided to receive the project of Xian Fresh Peak and transferred to an enterprise under a department of the Xian government. Xian Fresh Peak then lodged a litigation regarding the compensation. Subsequently, the court judgement in Xian was that 1) the enterprise of the department of Xian government has to pay compensation to Xian Fresh Peak of RMB36,620,000 plus interest (calculated from 14 September, 1998 to the date of judgement based on the loan interest rate offered by the China People's Bank for the same period) and 2) the department of Xian government is jointly liable for the interest payment. This case is still in the process of execution. Up to 31 December, 2003, RMB46,888,652 was included in contractual joint ventures and a provision of RMB21,823,177 has been made.

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34. COMMITMENTS

At December 31, 2003, the Group also has outstanding capital commitments for property development projects as follows:

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Authorized but not contracted	206,274	327,968
Contracted for	<u>309,411</u>	<u>422,914</u>
	<u>515,685</u>	<u>750,882</u>

35. PRIOR YEAR ADJUSTMENT

This related to the written back of accounts payable of RMB93,742,000 for the land appreciation tax payable provided by the company in previous year. This is made in accordance with the official decision to waive the land appreciation tax by the PRC authority in 2001. The amount should be written back in 2001 but the company had not adopted the decision. Accordingly, this is recorded as a prior year adjustment in the current year.

36. IMPACT OF IFRS AND OTHER ADJUSTMENTS ON NET PROFIT AND SHAREHOLDERS' EQUITY

	<u>Net profit</u> <u>for the year</u> RMB'000	<u>Net assets</u> RMB'000
As reported in the consolidated financial statements prepared in accordance with Accounting Standards for Enterprise Business in the PRC	11,352	1,139,382
Reversal of depreciation charges in respect of investment properties	16,998	71,380
Adjustment for market value of short-term investments	627	1,903
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	<u>1,227</u>	<u>266</u>
As reported in the consolidated financial statements prepared in accordance with IFRS	<u>33,607</u>	<u>1,007,303</u>