

SHENZHEN Special Economic Zone Real Estate & Properties (Group) Co., Ltd. Annual Report 2004(Summary)

Section I. Important Notes and Contents

The Board of Directors of Shenzhen Special Economic Zone Real Estate & Properties (Group) Co., Ltd. (hereinafter referred to as the Company) and its directors hereby ensure that there are no false records, misleading statements, or significant omissions in the materials of this report, and will assume individual and joint responsibilities concerning the authenticity, accuracy and integrity of its contents.

This summary is extracted from the original of the annual report. For more detailed information, the investors are recommended to refer to the original.

Director Ma Jianhua was absent from the Board meeting, but entrusted director Shao Zhihe to exercise voting on his behalf. Director Xie Guanliang was absent from the Board meeting, but entrusted director Xue Zhenhan to exercise voting on his behalf.

Chairman of the Board Shao Zhihe, General Manager Chen Wuhua, and Financial Minister Chen Jincai hereby ensure the authenticity and integrity of the Financial Report enclosed in the Annual Report.

This report has been compiled in both Chinese and English. Should there be any ambiguities between the two versions, the Chinese version shall prevail.

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)

Section III. Abstract of Accounting Data and Business Data

1. Major accounting data

Unit: RMB

Total profit of the Company realized this report year	-141,695,376.63
Net profit	-142,307,752.60
Net profit after deducting non-recurring gains and losses	-128,551,388.69
Profit from core businesses	27,940,529.86
Profit from other businesses	998,223.39
Operating profit	-114,085,030.36
Investment income	-10,753,238.35
Subsidy income	30,000.00
Net income / expenditure from non-operating activities	-16,887,107.92
Net cash flows arising from operating activities	7,931,483.51
Net increase in cash and cash equivalents	-13,626,764.90

Items of non-recurring gains and losses that had been deducted included gains from the disposal of equity amounting to RMB 3,100,744.01, non-operating profit RMB 833,452.92, non-operating expense RMB 17,720,560.84, and subsidy income RMB 30,000.00, and all these gains and losses totaled RMB 13,756,363.91. Since the Company had accumulatively incurred losses in previous years, and no income tax had to be paid this year, there had been no sum influenced by income tax arising non-recurring gains and losses.

2. Difference between A-share and B-share:

	Net profit for the year	Net assets
	RMB'000	RMB'000
As reported in the consolidated financial statements prepared in accordance with Accounting Standards for Enterprise Business in the PRC	(142,308)	1,002,069
Reversal of depreciation charges in respect of investment properties	21,689	94,516
Adjustment for market value of short-term investments	(548)	1,355
Expenses accrued in previous year	(515)	522
Difference in recognition of cost of fixed assets	--	(202,148)
Goodwill arising from acquisition of subsidiaries	1,397	(4,299)
As reported in the consolidated financial statements prepared in accordance with IFRS	(120,285)	892,015

3.. Major accounting data and financial indexes of the Company in resent 3 years

	2004	2003 (after the adjustment)	2003 (before the adjustment)	2002
Profit from core businesses (RMB'0000)	57,054.17	96,238.35	96,238.36	74,805.21
Net profit (RMB'0000)	-14,230.78	435.61	1,135.17	1,404.41
Total profit (RMB'0000)	251,899.27	275,888.89	274,681.10	300,098.7
Shareholders' equity (excluding minority shareholders' equity, unit: RMB'0000)	100,206.94	114,446.40	113,938.21	112,683.20
Earnings per share - diluted (RMB)	-0.1407	0.0043	0.0112	0.0139
Earnings per share - weighted (RMB)	-0.1407	0.0043	0.0112	0.0139
Earnings per share - deducting non-recurring gains and losses (RMB)	-0.1271	0.01459	0.0215	-0.1638
Net assets per share (RMB)	0.9905	1.1313	1.1263	1.1138
Net assets per share after adjustment (RMB)	0.9304	1.0388	1.0861	1.0994
Net cash flows per share arising from operating activities	0.0078	0.1862	0.1862	0.0769
Rate of return from net assets - diluted (%)	-14.20	0.38	1.00	1.25
Rate of return from net assets - weighted (%)	-13.26	0.38	1.00	1.25

Section IV. Change of Share Capital and Particulars of Shareholders

I. Changes in Share Capital

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

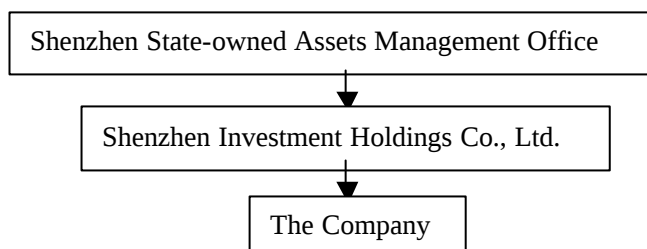
2. About shareholders

Total number of shareholders at the end of the report period						106,237
Shares held by the top ten shareholders						
Name of shareholder (full name)	Increase/decrease in the report year	Shares held at the end of the year	Proportion (%)	Share type (circulating or non-circulating)	Shares frozen or pledged	Nature of shareholder (state-owned shareholder or foreign-funded shareholder)
SHENZHEN CONSTRUCTION INVESTMENT HOLDINGS CORP.	0	743,820,000	73.52%	Non-circulating	0	State-owned shareholder
LIU LIAO YUAN	1,861,400	1,861,400	0.18%	Circulating	0	B-share personal shareholder
BOSHI YUFU SECURITIES INVESTMENT FUNDS	-55,852	897,148	0.09%	Circulating	0	A-share institutional shareholder
MA ZE QI	840,200	840,200	0.08%	Circulating	0	A-share personal shareholder
LIN QING XIONG	792,726	792,726	0.08%	Circulating	0	B-share personal shareholder
CHU KOON YUK	0	720,000	0.07%	Circulating	0	B-share personal shareholder
ORE BURNS (AUSTRALIA) PTY. LIMITED	0	600,000	0.06%	Circulating	0	B-share institutional shareholder
LAI, KONG SUNG	-33,900	587,200	0.06%	Circulating	0	B-share personal shareholder

SHUM YIP KWAN WING DEVELOPMENT LTD	-120,000	503,600	0.05%	Circulating	0	B-share institutional shareholder
YANG YAO CHU	37,000	477,000	0.05%	Circulating	0	B-share personal shareholder
Shares held by the top ten shareholders holding circulating shares						
Name of shareholder (full name)			Shares held at the end of the year		Share type (A-share, B-share, H-share or others)	
LIU LIAO YUAN			1,861,400		B-share	
BOSHI YUFU SECURITIES INVESTMENT FUNDS			897,148		A-share	
MA ZE QI			840,200		A-share	
LIN QING XIONG			792,726		B-share	
CHU KOON YUK			720,000		B-share	
ORE BURNS (AUSTRALIA) PTY. LIMITED			600,000		B-share	
LAI, KONG SUNG			587,200		B-share	
SHUM YIP KWAN WING DEVELOPMENT LTD			503,600		B-share	
YANG YAO CHU			477,000		B-share	
ZHU LI RONG			397,800		B-share	
Explanation on the associated relationships or consistent action of the aforesaid shareholders			Unknown			

3. On Oct. 13, 2004, Shenzhen Investment Holdings Co., Ltd. became the controlling shareholder of the Company. Shenzhen Investment Holdings Co., Ltd. was a wholly state-funded company of limited liability. It was founded on Oct. 13, 2004, with a registered capital of RMB 4 billion and legal representative Chen Hongbo. Its business scope included: providing guarantees for municipal state-owned enterprises, management of state-owned equity, and assets restructure, system reform, capital operation and equity investment of enterprises, etc.. The ultimate controller of the Company was Shenzhen State-owned Assets Management Office. The office address of Shenzhen State-owned Assets Management Office was Investment Building, Shennan Blvg., Futian District, Shenzhen, and the postal code 518029.]

Block diagram of the equity and controlling relationships between the actual controller and the Company:



Section V. Particulars of Directors, Supervisors, Senior Administrative Personnel and Employees

1. Changes of shares held by directors, supervisors and senior administrative personnel

Name	Position	Gender	Age	Office term	Shares held at the beginning of the year	Shares held at the end of the year	Reason of the change
Shao Zhihe	Chairman of the Board	Male	54	Jan. 28, 2003 till now	5,000	5,000	
Chen Wuhua	General Manager	Male	52	Jan. 28, 2003 till now	0	0	
Zhuang Chuanghui	Chairman of the Supervisory Committee	Male	50	Jan. 28, 2003 till now	0	0	
Zhou Daosheng	Chairman of the Labor Union	Male	58	Jan. 28, 2003 till now	0	0	
Yao Ruisheng	Director	Male	61	Jan. 28, 2003 to Feb. 1, 2005	0	0	

Xu Zhenhan	Director	Male	51	Jan. 28, 2003 till now	0	0	
Peng Naidian	Director	Male	56	Jan. 28, 2003 till now	0	0	
Zhou Fushen	Director	Female	50	Jan. 28, 2003 till now	0	0	
Liang Song	Director	Male	41	Jan. 28, 2003 till now	0	0	
Ma Jianhua	Director	Male	40	Jan. 28, 2003 till now	0	0	
Zheng Tianlun	Independent director	Male	69	Jun. 28, 2002 to Feb. 1, 2005	0	0	
Yang Shaojia	Independent director	Male	72	Jun. 28, 2002 till now	0	0	
Zong Dechun	Independent director	Male	63	Jun. 28, 2004 till now	0	0	
Hou Liying	Independent director	Female	50	Jun. 28, 2004 till now	0	0	
Zhou Hong	Supervisor	Female	37	Jan. 28, 2003 to Jun. 28, 2004	0	0	
Gan Lu	Supervisor	Male	45	Jan. 28, 2003 to Jun. 28, 2004	0	0	
Wu Zhiyong	Supervisor	Male	33	Jan. 28, 2003 till now	0	0	
Lin Huimei	Supervisor	Female	49	Jun. 28, 2004 till now	0	0	
Xiong Xingnong	Supervisor	Male	48	Jun. 28, 2004 till now	0	0	
Deng Kangcheng	Supervisor	Male	38	Jun. 28, 2004 till now	0	0	
Luo Kunquan	Vice General Manager	Male	49	Jan. 28, 2003 till now	0	0	
Shen Yuesheng	Vice General Manager	Male	45	Jan. 28, 2003 till now	0	0	
Zhang Yue	Vice General Manager	Male	46	Jan. 28, 2003 to Aug. 13, 2004	0	0	
Luo Zichao	Vice General Manager	Male	44	Aug. 12, 2003 till now	0	0	
Chen Ji	Secretary of the Board	Male	32	Jan. 28, 2003 till now	0	0	

2. director Yao Ruisheng and Xu Zhenhan, and supervisor Deng Kangcheng held positions in shareholding units. As to their positions and office terms, please look up at their main experiences .

3. Annual remunerations

Annual payment system had been introduced into the rewards for directors, supervisors and senior administrative personnel, of which the salaries for Chairman of the Board and General Manager had been checked and set by relevant municipal sections, while those for other senior administrative personnel had been set according to relevant systems of the Company.

The total sum of salaries paid to directors, supervisors and senior administrative personnel amounted to RMB 1.94 million in 2004. The total sum of salaries paid to the top 3 directors withdrawing the highest salary amounted to RMB 370 thousand, that to the top 3 senior administrative personnel withdrawing the highest salary amounted to RMB 440 thousand. Of the directors, supervisors and senior administrative personnel, 2 people withdrew an annual salary of more than RMB 150 thousand, 11 people an annual salary between RMB 100 thousand and RMB 150 thousand, and 3 people an annual salary below RMB 100 thousand.

Director Yao Ruisheng, Xu Zhenhan, and supervisor Deng Kangcheng withdrew salaries from shareholding companies, not from the Company.

Subsidy for independent directors in 2004 was RMB 36 thousand (including tax), and they withdrew no other rewards besides this.

Section VI. Report of the Board Of Directors

I. Operation of the Company in the report period

In 2004, the Company realized income from core business amounting to RMB 570.54 million, with a decrease of RMB 391.84 million compared with RMB 962.38 million, (the consolidation scope of the report period decreased, which resulted in the decrease of the income from core business amounting to RMB 168.09 million), by 40.71%; profit from core business amounting to RMB 27.94 million, decreasing sharply compared with RMB 180.36 million in the same period of last year, and the total profit RMB -141.695 million, with a decrease of RMB 147.243 million compared with that in the same period of last year; net profit amounting to RMB -142.308 million, with a decrease of RMB 146.663 million with that in the same period of last year. Particulars about income from core business of every industry: income from real estate industry decreased by a big margin, mainly because: the headquarters of the Group in the report period just introduced a new building, Cuiqin Pavilion, and disposed partial old buildings; leasing expense of houses decreased because consolidation scope changed. In this period, the Company had no leasing expenses from Park Co., Ltd., Digital Port Investment Co., Ltd, SF Department Store Co., Ltd.; income from construction, implementation and installment increased, mainly because income from core business of Zhentong Engineering Co., Ltd. increased year-on-year; Management income from property management, mainly because business income of subsidiary Property Management Co., Ltd. increased, resulted from management sections of new buildings; income of hotel service increased, because the housing rate of Petrel Hotel Co., Ltd. increased income of guest houses; income from commodities circulation industry decreased by a big margin, mainly because in the period operating business of agent import & export of SF Department Store Co., Ltd. stopped.

II. 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.

2. Particulars about constitutions of income from core business and profit from core business according to industries:

(Unit: RMB'0000)

Main operations classified according to industries						
Classified according to industries or products	Income from main operations	Cost of main operations	Gross profit ratio (%)	Increase/decrease in income from main operations over the last year (%)	Increase/decrease in cost of main operations over the last year (%)	Increase/decrease in gross profit ratio over the last year (%)
Development and operation real estate	17,634.11	17,628.58	0.03%	-45.73%	-18.95%	-33.03%
Other real estate industry	6,732.22	3,046.96	54.74%	-18.54%	11.45%	-147.63%
Property Management	7,006.64	6,319.17	9.81%	8.89%	8.85%	0.06%
Fitment and Decoration	10,994.08	10,118.23	7.97%	-4.27%	3.51%	-8.40%
Other wholesaling and retailing trade	13,993.21	14,809.17	-5.83%	-65.72%	-63.23%	-7.25%
Other industries	1,547.12	1,050.13	32.12%	29.02%	-22.57%	58.90%

3. Particulars about constitutions of income from core business and profit from core business according to areas:

Unit: RMB' 0000

Areas	Income from core business	Increase/decrease of income from core business over last year (%)
Domestic sales	58,128.22	-41.25%
Overseas sales	424.75	-47.29%

4. Explanation on change of profitability of core business

In the report period, profit from core business of the Company was amounting to RMB 27.94 million, which decreased sharply compared with RMB 180.36 million in the same period of last year, mainly because income from core business and decreased by 40.71% and gross profit ratio by 13% year-on-year. The decrease of gross profit ratio year-on-year mainly because In real estate industry, gross profit of new buildings Cuiqin Pavilion of the headquarters of the Group sold in the period was relatively low; Costs of old buildings sold in the period were relatively high and market prices were relatively low.

In commodities circulating industry, costs for importing toluene of Bonded Trade Company increased.

III. Operations and achievements of main holding and share-holding companies of the Company

Names of companies	Operating scope	Income from main operations (RMB)	Total profit (RMB)	Net profit (RMB)	Registered capital (RMB'0000)	Total assets (RMB'0000)
Shenzhen Petrel Hotel Co., Ltd.	Hotel Service	24,189,286.94	-1,672,019.01	-1,672,019.01	3000	1138
Shenzhen Estate Management Co., Ltd.	Property management service	77,645,456.86	1,145,693.85	462,721.21	725	9796
Shenzhen Zhentong Engineering Co., Ltd.	Installment and maintenance of projects	109,940,750.27	148,617.00	77,837.34	1000	3986
Shenzhen Zhu Yuan Tong Mini-bus Rent Co., Ltd.	Leasing cars	2,478,987.80	264,492.57	264,492.579	1029	1460
Shenzhen SP Bonded Trade Co., Ltd	Import & Export trade and bonded business	139,932,079.13	-16,095,234.02	-16,095,234.02	500	798
Shenzhen Special Economic Zone Real Estate (Group) Guangzhou Real Estate Co., Ltd.	Development and operation of real estate	3,524,373.00	669,438.11	488,689.82	2000	2822
Xin Feng Property	Investment and holding	36,442,061.67	-5,363,835.39	-5,363,835.39	HKD100	23081

Co., Ltd.						
Xin Feng Enterprise Co., Ltd.	Investment, management, and consultancy	8,949,693.33	-35,881,323.66	-36,475,592.02	HKD100	38317
Shenzhen SP Investment Co., Ltd.	Investment, setting up industries, domestic commerce		-749,724.42	-749,724.42	1000	894

IV. Main suppliers and customers

RMB'0000

Total amount of purchase of the top five suppliers	2,342.51	Proportion in the total amount of purchase	4.10%
Total amount of sales of the top five sales customers	3,105.94	Proportion in the total amount of sales	5.44%

V. Problems, difficulties, and dissolution plans in operation

1. Main problems arising from operation: burden from heavy historical problems and losses from disposing bad assets became main reasons for operating losses; unbalance product structure and low operating efficiency was direct reason for resulting in losses; more fierce market competition and conflict in product adjustment resulted in severe losses of partial subsidiaries of the Company; enterprise management level was not improved in essence.

2. Difficulties encountered in present operation of the Company mainly were: firstly shortage of key competitive edge seriously restricted enhancement of assets operating efficiency and return on equity; secondly, industry structure and enterprise structure were not reasonable, and present development pattern couldn't stand; thirdly, resources reserve were not sufficient, and development space were restricted; fourthly, macro-control and increase in GNP entered into new cycle, which brought macro environment of operation of the Company into a more complicated environment. At the same time, analyzed in reality, strategy of whole state-ownership withdrawn from the Company promulgated by Shenzhen Municipal Government produced certain influence on present operating team, staff morale, operating decisions.

3. With respect to the above problems and difficulties, the answering and resolution plan of the Company were:

Firstly, develop activities of management benefit year deeply and promote enterprise management level in earnest way; Secondly, propel management system of project department, reorganize deposit resources and improve development capabilities; Thirdly, grasp management of bad assets, improved capital liquidity to enhance income of capita operation; fourthly, grasp all-around budget management and cut down various expenses and expenditures.

VI. Investment

1. In the report period, the Company had no raised proceeds, nor raised proceeds lasting to the report period.

2. Investment with non-raised proceeds

Unit: RMB' 0000

Name of projects	Amount of projects	Rate of progress of projects	Income from projects
Bitong Haiyuan	10,000.00	At the end of 2004, main body structure has been accomplished. Equipment installment and maintenance projects begun	Not settled
Xinhu Garden 3 ^d Period	23,000.00	In 2004, projects have been accomplished basically. Equipments had began debugging and been ready for check and accepting.	Not settled
Cuiqin Pavilion	12,390.00	In July 2004, it was entered fro dwelling.	Sales income transferred-in amounting

			to RMB 109,268,900 and gross profit amounting to RMB 539,900
Yitai Center	53,172.00	It was accomplished but wasn't sold.	Not settled
Total	98,562.00		

VII. In the report period, analysis on financial status and operating results

(I) Analysis of financial status

1. Ended Dec. 31, 2004, total assets of the Group was RMB 2518.99 million, with a decrease of RMB 239.9 million compared with RMB 2758.89 million in the year beginning by 8.7%. Main reason for affecting change of total assets were:

(1) Current assets amounting to RMB 1913.65 million, with a decrease of RMB 207.79 million compared with RMB 2121.44 million in the year-beginning by 9.79%. Including:

Monetary funds amounting to RMB 197.62 million, with a decrease of RMB 65.19 million compared with that in the year-beginning by 24.8%.

Balance of accounts receivable in the report period decreased 69.26% compared with that in last period, mainly because this period, the Company called back payments by a big margin and consolidated scope of statements decreased. Bad Debts reserve increased 319.24% compared with that in last period, mainly because the Company withdrew bad debts reserve the total creditors' rights of Hanjiang Development Co., Ltd. translated into RMB 12,659,730.67.

The balance of other accounts receivable in the report period increased compared with that in last period by 45.92%, and bad debts reserve increased by 32.73% compared with that in last period, mainly were as stated in Note VIII (I) 1, transferred payment of Guoxing Building amounting to RMB 166,109,047 originally accounted in inventory to be accounted in other receivables, and reserve for inventory price-falling amounting to RMB 69,907,107.00 withdrawn originally to be accounted in bad debts reserve.

In the report period, balance of prepaid accounts decreased 93.34% compared with that in last period, mainly because consolidation scope of statements decreased.

Matters affecting change of inventory: Headquarters of the Group carried forward sales costs of new buildings, Cuiqin Pavilion, and accomplished input in new projects, Xinhua Garden and Bitong Haiyuan as scheduled; based on the progress and implementation of the case that the Company indicted Baoxing Company, the Company adjusted houses payment of Guoxing building amounting to RMB 166,109,047 accounted in inventory to be accounted in other account receivables, and inventory price-falling reserve withdrawn amounting to RMB 69,907,107 to be accounted in bad debts reserve, payment received which was originally accounted in other payables and implementation payment received this year totaled RMB 68,720,773.33 to be accounted in prepaid accounts.

(2) Main matters affecting the change of long-term investment:

Change of consolidation scope of statements: Baoan Development Co., Ltd. of SF Group, SF Department Store Co., Ltd., SF Park Co., Ltd. Digital Port Investment Co., Ltd. and its subsidiaries. The Company didn't consolidate accounting statements this year for the above subsidiaries. The net assets influenced changes of long-term investment of the Company.

Shenzhen Intermediate People's Court put 2.45% of Guangdong Development Securities Securities Co., Ltd. held by the Company on open auction on Mar. 23, 2004. Guangzhou Gerui Industrial Co., Ltd. bid it with the highest price of RMB 37.7 million. The book costs was amounted to RMB 30.88 million and investment income carried forward was amounting to RMB 6.82 million. The payment was used to pay for "contract expenses and interest of oriental rainbow shopping mall" of the Company.

(3) Main reason for big change of fixed assets was balance of fixed assets of the Company

in the period beginning was transferred out due to decrease of consolidation scope.

2. Ended Dec. 31, 2004, the total amount of liabilities of the Group was amounting to RMB 1531.61 million, with a decrease of RMB 90.95 million compared with RMB 1622.56 million in the year beginning, by 5.6%, mainly because: decreased bank loan amounting to RMB 19.02 million; accounts in advance decreased by 19% mainly due to sales payment of Cuiqin Pavilion carried forward and payment of commodities in advance carried forward into income. Accrued expenses decreased by 53.2% mainly project auxiliary payment paid and losses of lawsuits and arbitrations.

3. Ended Dec. 31, 2004, shareholders' equity (net assets) of the Group was amounting to RMB 1002.07 million, decreasing by 12.44% compared with RMB 1144.46 million, the losses of net profit in the period.

4. Net increase in cash and cash equivalents was RMB - 13.627 million, with a decrease of RMB 85.966 million over the same period of last year, mainly because the summation of net amount of cash flow arising from operating activities and net amount of cash flow arising from investment activities couldn't make up the deficits of net amount of cash flow from financing activities.

(II) Analysis of operating results

1. In 2004, the Group realized total profit amounting to RMB -141695000, with a decrease of RMB 136147000 over the same period of last year; net profits amounting to RMB -142308000, with a decrease of RMB 137952000 over the same period of last year.

2. The Company realized profit from core business amounting to RMB 570.54 million in 2004, with a decrease of RMB 391.84 million compared with RMB 962.38 million in the same period of last year, (consolidation scope in this period decreased, which resulted in income from core business amounting to RMB 168.09 million), by 40.71%;

3. The Company realized profit from core business amounting to RMB 27.94 million, with a sharp decrease over the same period of last year amounting to RMB 180.36 million, mainly because income from core business decreased by 40.71% and gross profit ratio decreased by 13% year-on-year. Decrease in gross profit ratio year-on-year mainly because gross profit of new buildings Cuiqing Pavilion sold in the period of headquarters of the Group in real estate industry was very low, and partial old buildings were disposed to liquidize capital. In commodities circulation industry, costs of export toluene in bonded trade company increased.

4. Profit from other business lines

Profit from other business lines decreased RMB 9781100 year-on-year, mainly due to change of consolidation scope of statements and decrease of expenses for water and electricity of subordinate Property Company.

5. Financial expenses

Financial expenses of the report period decreased 45.89% compared with that of last period, mainly because amount and time of capital occupied in the period decreased, and interest rate decreased due to readjustment of loan, compared with that in last period.

6. The Company realized investment income amounting to RMB -10.75 million, decreasing sharply compared with the same period of last year, mainly because losses of subordinate enterprises increased.

(III) Significant correction of accounting errors

Please refer to Note II. No. 21 to Financial Report and Provisional Public Notice disclosed at the same time with the Annual Report.

VIII. Analysis of influences on the Company being produced by changes of production and operating environment

At the beginning of 2005, it happened changes of two aspects in operating environment of core business of the Company, namely real estate operating business: firstly the State

would continuously adopt series of policies to restrict too rapid increase of houses prices, secondly, interest rate of mortgage loan of financial institutions would be adjusted upward. The influence on the Company produced by operation of the Company by the two factors was not all the same. Because the presently developed projects, basically were middle and small style of economic houses for person purchasing property in the first time, and the sales objects were mainly consumers purchasing it for its own use, less consumers for investment, it's estimated policies of restricted speculation and houses' prices rapid increasing promulgated by the government didn't cause significant influence on the operation of the Company; although interest rate of mortgage loan was not adjusted upwards by a big margin, provided that loan interest consistently rose up, the need of houses consumption would be restricted ultimately, which would produce adverse influences on the operation of the Company.

IX. Profit appropriation preplan of this report year

Calculating according to the domestic accounting rules as to the year 2004, the audited net profit of the Company was RMB -142,307,752.60 in accordance with domestic accounting rules, and RMB -120,285,000 according to international accounting standards. The distributable profit was RMB -1,053,814,164.31. After deliberation, the Board decided that the Company would not appropriate profit of 2004.

Section VII. Significant Events

I. Significant lawsuits and arbitrations

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. But the outstanding purchase consideration of RMB100,000,000 and the construction cost of RMB15,000,000 have still not been settled while the property right of Guo Xin Building has been transferred to Baoxin. 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 the interests to the Company. Upon a second hearing of the case, the outcome remained unchanged and in the favour of the company. Up to December 31, 2004, parts of the outstanding purchase consideration have been received. For prudence purposes, the Company has not recognize any income on the above transaction. The Company altered the construction cost of RMB166,109,047 of Guo Xin Building which was once treated as properties under development for sale to other receivable and adjust the provision for diminution in value of RMB 69,907,107 to provision for doubtful accounts. The deposit and purchase consideration received amount to RMB 68,720,773.33 which was once treated as other payable was altered to customers' deposits.

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, as such 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). According to 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. On October, 16 2004, the Heilongjiang Province High People's Court has resolved the above two disputes by the issuance of a Civil Mediation Report. The Court has decided on the following:

- 1) that the two disputes shall be resolved concurrently
- 2) that all relevant contracts between the parties shall be terminated
- 3) that liabilities shall be shared between the Company and Harbin Industry University in accordance with their respective investment ratio
- 4) that Harbin Industry University shall repay the Company its investment of RMB77,410,000 within one month upon the approval of this Mediation Report
- 5) that assets of the cooperation shall belong to Harbin Industry University and
- 6) that upon the approval of this Mediation Report, the relevant contracts and agreements between the parties shall be terminated.

As at December 31, 2004, the outcome for the above disputes is still pending.

For prudence purpose, RMB95, 601,809.41 was included in contractual joint ventures and a provision of RMB75, 775,014.13 has been made.

3. On August 20, 2001, the Company applied to China International Economic Arbitration Committee for 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. In 2003, first inquisition was completed and Bamboo Garden Enterprise Ltd. was liable to pay the Company RMB35,800,000 in total for principal and interest. On June 18, 2004, the Company and the Fresh Peak Holding Ltd. signed a contract with the former Shenzhen Investment Holding Ltd. to sell to the latter all the equity in and payables and receivables with the Bamboo Garden Enterprise Ltd. As a result of that, the Company and the Fresh Peak Holding Ltd. signed an accord on the same day on the complaint mentioned above. As the rights and interests have not been transferred completely, the complaint has not been withdrawn at last.

4. 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 and 2) the department of Xian government is jointly liable for the interest payment. This case is still in the process of execution. During this year RMB11,500,000.00 has been received and the left will be received in the future. Up to 31 December, 2004, RMB52,111,929.50 was included in contractual joint ventures and a provision of RMB21,823,177 has been made.

5. On June 23, 1993, the Shantou branch of the Company ("Shantou Branch") signed a cooperation contract with Shantou Special Economic Zone Songshan Workshop Development Co., Ltd ("Songshan Company"). Subsequently, on May 8, 1996, the Company signed with Songshan Company a supplement on the implementing of the contract. Because this object had not been put into practice yet, the Company and the Songshan Company came to an agreement on January 20, 2000 to build a

temporary market which in fact has been in operation till now. On August 16, 2004, Songshan Company took a claim against Shantou Branch to the Shantou Intermediate People's Court to claim that 1) to terminate the contract, 2) Shantou Branch should pay it the compensation of about RMB7,510,000 and 3) Shantou Branch should transfer to it all the licenses and management rights of the Fresh Peak Building and the temporary market authorized by the government. Subsequently, on October 15, 2004, Shantou Branch took a counter-claim against Songshan Company to the Shantou Intermediate People's Court to claim that 1) the relative contracts and agreements have no legal effect and 2) Songshan Company should pay back the amount of HKD41,774,110.00, RMB1,000,000.00 and the interests bearing. The case is still in progress. Up to December 31, 2004, RMB69,204,798.99 was included in long term investment in the ledger and a provision of RMB58,547,652.25 has been made.

6. Guangdong Province Fengkai Lian Feng Cement Manufacturing Co., Ltd ("Fengkai Company") is a non-consolidated subsidiary because of the uncertainty of the ability of continuing operation. As a result of the borrowing dispute, Shenzhen Intermediate People's Court issued a civil mediation on July 8, 2004 to confirm that up to April 20, 2004, "Fengkai Company" own a debt of amount RMB137,648,612.50 to the Company. Meanwhile, Fengkai Rural Credit Cooperative and Fengkai Branch of Agricultural Bank of China are also creditors of Fengkai Company and they took an action against Fengkai Company to the Court. As sentenced by the Zhaoqing Intermediate People's Court on June 23, 2004 and June 3, 2004, Fengkai Company should repay to Fengkai Rural Credit Cooperative the principle of RMB16,368,000.00 and the interest of RMB11,906,938.70.00, and repay to Fengkai Branch of Agricultural Bank of China the principle of RMB6,000,000.00 and the interest of RMB4,263,180.00. The courts ordered the seizure of most of Fengkai Company's tangible assets, including land use right, plant, equipment and inventory, and will put those up for sale. Up to December 31, 2004, RMB192,871,055.06 was included in non-consolidated subsidiaries and a provision of RMB178,565,570.16 has been made.

7. On July 22, 1999, the Company signed an agreement with Jilin Mingri Industry Co., Ltd ("Jilin Mingri") to sell its 18,507,500 equity shares in Jinlin Pharmaceutical Limited Company at a consideration of RMB27,762,000,000. Up to December 31, 2004, the Company has received all the consideration. But because the equity has not been transferred to Jinlin Mingri, the Company did not recognize any income, and RMB16,825,000.00 was included in PRC legal entity shares in the Balance Sheet. Jinlin Mingri brought an accusation against the Company to Shenzhen Intermediate People's Court in 2005, and as mediated by the court on March 16, 2005, the Company consent to transfer the equity shares to Jilin Mingri within 10 days after the mediation works, and the accomplishment of the transferring means the agreement is completely executed. Till now the case is in progress.

II. The Company had not made any important purchases or sales of assets in the report period.

III. Related parties of and related transactions of the Company.

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

Shenzhen City Wing Wah Engineering Ltd.

	<u>2004</u> RMB' 000	<u>2003</u> RMB' 000
Construction and development expenses	<u>662</u>	<u>4,962</u>

The expenses were made based on the market price.

Shenzhen Construction Investment Holding Corporation

	<u>2004</u> RMB' 000	<u>2003</u> RMB' 000
Guarantees accepted for banking and credit facilities	<u>100,000</u>	<u>60,000</u>

Some net balances due from / (due to) related parties at December 31, 2004 and 2003 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:

	2004 RMB' 000	2003 RMB' 000
Shenzhen Construction Investment Holding Corporation	(188,671)	(188,764)
The above amounts are included in the balance sheet of the Group in the following classifications:		
	2004 2003 RMB' 000 RMB' 000	
Accounts payable and accrued expenses	(49,907)	(50,000)
Dividends payable	(138,764)	(138,764)
	(188,671)	(188,764)

Both these balances are unsecured and non-interest bearing.

IV. The Company had not signed any important contracts of entrustment, contracting or leasing in the report period, nor had it entrusted others with assets management.

V. Guarantees

Unit: RMB'0000

External guarantees of the Company (excluding guarantees for holding subsidiaries)						
Name of the guarantee	Date of happening (the agreement-signing day)	Amount of guarantee	Type of guarantee	Guarantee term	Accomplished or not	For related parties or not
Xi'an Xinfeng Property Trading Co., Ltd.	Jun. 18, 2003	200.00	General guarantee	1year	No	Yes
Total guarantee amount in the report period			-4,370.05			
Total guarantee balance at the end of the report period			12,294.15			
Guarantees for holding subsidiaries of the Company						
Total guarantee amount for holding subsidiaries in the report period			-6,564.00			
Total guarantee balance for holding subsidiaries at the end of the report period			3,914.00			
Total guarantee amount of the Company (including guarantees for holding subsidiaries)						
Total guarantee amount			16,208.15			
Total guarantee amount taking up the net assets of the Company			16.17%			
Irregular guarantees of the Company						
Amount of the guarantees for holding shareholders and other related parties of which the Company held less than 50% shares			0.00			
Amount of the debt guarantees directly or indirectly for guarantees with an asset-liability ratio exceeding 70%			0.00			
Guarantee amount exceeding 50% of the net assets or not (yes or no)			no			
Total irregular guarantee amount			0.00			

In the report period, there was a mortgage guarantee for the owner's building amounting to RMB 120,941,500 still remaining unaccomplished. As to this kind of guarantee, the possibility of shouldering joint-payment responsibility is relatively small.

VI. Neither the Company nor shareholders holding more than 5% shares had any commitments made in the report period or made previously and lasing into the report period.

VII. Performance of duties by independent directors

Attended metting of independent directors

Name	Times of should present this year	Present by himself(times)	Entrusted other director(times)	Absent (times)
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Zhen tian lun	5	0	5	5
Yang shao jia	5	5	0	0
Zhong de chun	3	3	0	0
Hou li ying	3	2	0	1

Section VIII. Report of the Supervisory Committee

In accordance with regulations of the Securities Law, Company Law and Articles of Association of the Company and with the support of the Board, the administration team and the general shareholders, the Supervisory Committee had dutifully performed the supervisory obligations endowed by laws and regulations in 2004. In the report period, the Committee had held 4 meetings of the Supervisory Committee, presented at 2 Shareholders' General Meetings and attended 5 meetings of the Board as non-voting delegates.

I. Meetings held in the report period

1. On Apr. 27, 2004, the 1st meeting was held, which had examined and approved the Report of the Board 2003 and its Summary, Report of the Supervisory Committee 2003, Financial Report, as well as the Profit Appropriation Plan and the 1st Quarterly Report of the Board.
2. On May 26, 2004, the 2nd meeting was held, which had examined and approved the resignation of supervisor Gan Lu and supervisor Zhou Hong from their positions of supervisor; examined and approved 3 persons, namely Deng Kangcheng, Lin Huimei and Xiong Xingnong, as supervisor candidates, and submitted to the Shareholders' General Meeting for examination.
3. On Aug. 23, 2004, the 3rd meeting was held, which had examined and approved the Yearly Interim Report of the Board and the report concerning the rectifications according to the CSRC's opinions given after inspection.
4. On Oct. 26, 2004, the 4th meeting was held, which had examined and approved the 3rd Quarterly Report of the Board of 2004.

II. Independent opinions of the Supervisory Committee

1. In the report period, the decision-making processes of the Company had been legal, and the inner control system further perfected. While performing their duties, the directors and senior administrative personnel of the Company had no deeds that were against laws, regulations or Articles of Association of the Company, or had done harm to the interests of the shareholders or the Company.
2. In the report period, the financial management of the Company had been further strengthened. Effects had been achieved in non-operating expenditure control, a large-margin decrease made in cost expenditure compared with the previous year, and the audit and management to financial affairs also further strengthened. However, due to the decrease of actual profit, the situation of being unable to make end meet worsened. In the report period, the unqualified report furnished by Nanfang Minhe Certified Public Accountants had been true and accurate, and its analyses practical. It had objectively reflected the financial status and the present operation of the Company.
3. Transactions of purchases and sales of assets made by the Company in the report period had all been conducted according to relevant state regulations and the principles of being fair, equivalent and reasonable. No insider dealings had ever been discovered, nor cases that had done harm to the shareholders' interests or led to loss of the Company's assets. In the report period, the Company had not raised any funds, nor had it made any related transactions.

Section IX. Financial Report

(Accounting Statements attached at the back)

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

Apr. 26, 2005

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Note</u>	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Turnover	4	549,061	933,935
Cost of sales		<u>(499,431)</u>	<u>(730,471)</u>
Gross profit		49,630	203,464
Other operating income		<u>9,004</u>	<u>16,726</u>
		58,634	220,190
General and administrative expenses		(125,558)	(124,213)
Other operating expenses		<u>(10,679)</u>	<u>(26,976)</u>
(Loss) / profit from operations	5	(77,603)	69,001
Finance costs	8	(32,107)	(49,062)
Share of (losses) / profits of non-consolidated subsidiaries, associates, and contractual joint ventures		<u>(9,962)</u>	<u>14,860</u>
(Loss) / profit before taxation		(119,672)	34,799
Taxation	9	<u>(1,529)</u>	<u>(2,445)</u>
(Loss) / profit after taxation		(121,201)	32,354
Minority interests		<u>916</u>	<u>1,253</u>
Net (loss) / profit for the year		<u><u>(120,285)</u></u>	<u><u>33,607</u></u>
(Loss) / earnings per share			
Basic	10	<u><u>(RMB0.12)</u></u>	<u><u>RMB0.03</u></u>
Diluted	10	<u><u>N/A</u></u>	<u><u>N/A</u></u>

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2004

	<u>Note</u>	2004 RMB'000	2003 RMB'000
ASSETS			
Non-current assets			
Property, plant & equipment	11	143,362	210,521
Investment properties	12	686,957	628,861
Non-consolidated subsidiaries	13	53,943	56,127
Associates	14	30,047	21,147
Contractual joint ventures	15	143,173	168,982
Long term investments	16	27,482	58,599
Intangible assets	17	68	707
Land held for development	18	60,103	56,585
		<u>1,145,135</u>	<u>1,201,529</u>
Current assets			
Properties under development for sale	19	605,110	644,978
Completed properties for sale	20	171,933	206,207
Inventories	21	22,440	41,050
Short term investments	22	3,060	3,608
Accounts receivable		32,069	170,035
Prepayments, deposits and other debtors		128,665	46,727
Cash and bank balances		197,621	262,809
		<u>1,160,898</u>	<u>1,375,414</u>
Current liabilities			
Customers' deposits		171,227	210,555
Accounts payable and accrued expenses	23	403,729	493,823
Dividends payable	24	138,764	138,764
Tax payable	25	2,752	4,251
Bank loans	27	525,988	677,007
		<u>1,242,460</u>	<u>1,524,400</u>
Net current liabilities		<u>(81,562)</u>	<u>(148,986)</u>
Total assets less current liabilities		<u>1,063,573</u>	<u>1,052,543</u>
Non-current liabilities			
	26	(186,240)	(53,072)
Minority interests		<u>14,682</u>	<u>7,832</u>
NET ASSETS		<u>892,015</u>	<u>1,007,303</u>
CAPITAL AND RESERVES			
Share capital	28	1,011,660	1,011,660
Reserves		<u>(119,645)</u>	<u>(4,357)</u>
		<u>892,015</u>	<u>1,007,303</u>

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>Note</u>	<u>2004</u> RMB'000	<u>2003</u> RMB'000
OPERATING ACTIVITIES			
Cash received from sales of goods or rendering of services		588,912	984,417
Other cash received relating to operating activities		125,572	141,462
Cash paid for goods and services		(491,206)	(689,368)
Cash paid to and on behalf of employees		(71,099)	(95,848)
Taxation paid		(30,753)	(47,726)
Cash paid relating to other operating activities		(113,495)	(104,574)
Interest paid		<u>(40,712)</u>	<u>(49,062)</u>
Net cash (used in) / generated from operating activities		<u>(32,781)</u>	<u>139,301</u>
INVESTING ACTIVITIES			
Cash received from disposal of investments		20,001	35,633
Dividends received and interest received		1,127	11,849
Net cash received from the sale of fixed assets, intangible assets and other long-term assets		48	9,215
Cash paid to acquire fixed assets, intangible assets and other long-term assets		<u>(6,420)</u>	<u>(12,894)</u>
Net cash generated from investing activities		<u>14,756</u>	<u>43,803</u>
FINANCING ACTIVITIES			
Proceeds from borrowings		508,206	686,263
Repayments of borrowings		<u>(504,256)</u>	<u>(797,000)</u>
Net cash generated from / (used in) financing activities		<u>3,950</u>	<u>(110,737)</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS			
		(14,075)	72,367
Cash and cash equivalents at beginning of year	29	<u>175,499</u>	<u>103,132</u>
Cash and cash equivalents at end of year	29	<u><u>161,424</u></u>	<u><u>175,499</u></u>