

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

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.

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.

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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

Postal 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: Jan. 8, 1980

Registration place: Shenzhen Administration for Industry 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, Shennan Middle Road, Shenzhen

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.

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

II. Major accounting data and financial indexes of the Company in recent 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

III. Changes of shareholders' equity in the report period and the reasons of the changes

Item	Share capital (0'000 share)	Capital reserve (RMB'0000)	Surplus reserve (RMB'0000)	Including: public welfare fund (RMB'0000)	Retained profit (RMB'0000)	Translation balance in foreign currency statement (RMB'0000)	Total (RMB'0000)
Amount at the beginning of the period	101,166	95,665.79	11,891.07	11,559.44	-91,150.64	-3,125.81	114,446.40
Increase in this period	0	0	0	0	0		
Decrease in this period	0	0	0	0	14,230.78	8.69	14,239.46
Amount at the end of the period	101,166	95,665.79	11,891.07	11,559.44	-105,381.42	-3,134.50	100,206.94
Reason of change					Loss incurred in the year		

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 Capitalization of share capital	Additional shares	Others	Sub-total	After the change
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 shares	1,011,660,000							1,011,660,000

II. Issuance and listing of shares

1. Over the past three years ending 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.

III. About shareholders

1. Shares held by the top ten shareholders and the top ten shareholders holding circulating shares

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	-55,852	897,148	0.09%	Circulating	0	A-share institutional shareholder

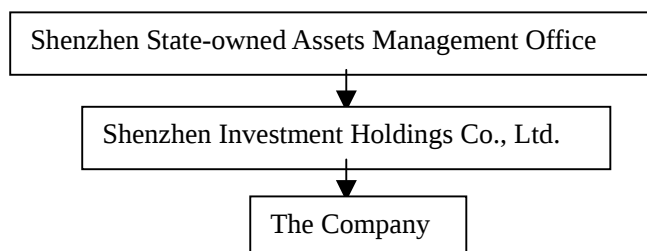
FUNDS						
MA ZE QI	840,200	840,200	0.08%	Circulating	0	A-share personal shareholder
LIN QING XIONG	792,726	792,726	0.08%	Circulating	0	B-share personal shareholder
CHU KOON YUK	0	720,000	0.07%	Circulating	0	B-share personal shareholder
ORE BURNS (AUSTRALIA) PTY. LIMITED	0	600,000	0.06%	Circulating	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			

2. Shenzhen Construction Investment Holdings Corp. was the only shareholder holding more than 10% equity of the Company. This company was founded in 1996, with a registered capital of RMB 1.5 billion and legal representative Zhang Yijun. Its main business scope included general contracting of industrial and civil construction projects; contracting of the construction and design of general-purpose industrial and civil construction projects; management of land block; dealing of commercial housing; development of real estate; foreign economic and technical cooperation; import and export, etc., as well as contracting of the installment of facilities, electrical appliances, instruments and large-scale production equipments of large-scale industrial construction projects; construction of municipal works, labor service export and training; investment, property management, and so on.

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

I. 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	

Note: 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 the back.

II. Particulars about the main working experiences and concurrent posts of the directors, supervisors and senior administrative personnel

1. Shao Zhihe: Aug. 1981 - Sep. 1983, commander, 13th Company, 302 Regiment, Capital Construction Engineer Corps; Sep. 1983 – Oct. 1995, Manager, Installation Branch, Shenzhen Municipal Engineering Corporation; Oct. 1995 – May 1999, Vice General Manager of Shenzhen Tong Group; May 1999 – Dec. 2002, General Manager and Secretary of CPC, Shenzhen Urban Construction Investment & Development Company; Dec. 2002 till now, Secretary of the CPC and Chairman of the Board of the Company. No concurrent posts in other units.

2. Chen Wuhua: Apr. 1983 – Mar. 1989, vice team leader, team leader and engineer, Shenzhen No. 3 Construction Engineering Company; Mar. 1989 – Jun. 1998, Vice Manager, Manager and concurrently Secretary of the CPC, Shenzhen No. 3 Construction Engineering Company; Jun. 1998 – Apr. 1999, Vice General Manager, Shenzhen East Development (Group) Company, and concurrently Chairman of the Board, Construction No. 3 Company; 1999 till now, director, General Manager and Assistant Secretary of the CPC of the Company. No concurrent posts in other units.

3. Peng Naidian: Jul. 1973 – Dec. 1984, section chief, vice minister, and standing member, Secretary Department, Young Farmer Department, Publicity Department, Secretariat, Communist Youth League Guangdong Committee, and concurrently director of the Publicity Department; Jan. 1985 – May 1992, superintendent, and member of the CPC Organization, Guangdong Institute of Foreign Trade & Economic Development; Jun. 1992 – Sep. 1996, Assistant of the General Manager, Chairman of the Labor Union, Shenzhen Huihua Group Co., Ltd.; Sep. 1996 till now, director, Assistant Secretary of the CPC, and Secretary, Commission for Discipline Inspection. No concurrent posts in other units.

4. Liang Song: Jul. 1985 – Aug. 1996, Vice Manager of the Designing Department, Assistant to the Manager of the Engineering Department, Manager of the Engineering Department, SPG; Sep. 1996 – Aug. 1999, Assistant to the General Manager, concurrently Manager of the Engineer Management Department, SPG; Aug. 1999 – Feb. 2003, Vice General Manager, concurrently Manager of the Real Estate Development Department, SPG; Mar. 2003 till now, director, Vice General Manager of the Company. No concurrent posts in other units.

5. Zhou Fushen: Jul. 1983 – Oct. 1988, teacher at Guizhou College of Finance and Economics; Oct. 1988 – Oct. 1992, teacher at Shenzhen Finance and Economics School; Oct. 1992 – Oct. 1994, accountant, vice director, Institution of Asset Evaluation, Shenzhen Investment Management Company; Nov. 1994 – May 1999, Assistant Consultant, vice director, Comprehensive Department, Shenzhen State-owned Assets Management Office; May 1999 – Mar. 2005, chief financial supervisor, director of the Company. No concurrent posts in other units.

6. Ma Jianhua: Jul. 1990 – Dec. 1992, Secretary of the Board, Shenzhen Properties & Resources Development Group; Dec. 1992 – Sep. 1996, Secretary of the Board, Director of the Board Office, Shenzhen Special Economic Zone Real Estate & Properties (Group) Co., Ltd.; Sep. 1996 till now, director and Assistant to the General Manager of the Company. No concurrent posts in other units.

7. Xu Zhenhan: once had been commander-level secretary in charge, 802 Regiment, Capital Construction Engineer Corps; secretary in charge, Assistant Secretary of Commission for Discipline Inspection, director at the CPC Office, Secretary of Commission for Discipline Inspection, Vice Secretary of the CPC Committee, Shenzhen Mechanical Equipment Installation Company; Vice Secretary of Commission for Discipline Inspection, Shenzhen Construction Investment Holdings Company; from Oct. 2004, Vice Secretary of Commission for Discipline Inspection, Shenzhen Investment Holdings Co., Ltd..
8. Yao Ruisheng: once had been Manager of the Financial Department, Shenzhen Xianke Laser Corporation; Manager of the Development Department, Shenzhen Yuanye Industrial Company; Vice Director of the Comprehensive Department, Shenzhen State-owned Assets Management Office; Chief Economist, Shenzhen Construction Investment Holdings Company; director, SPG. Now retired.
9. Zheng Tianlun: had been Secretary, the Communist Youth League Committee and Workers' Committee of Xiamen schools; Director of Teaching and Research Office, Zhongshan University; Dean, Vice President, Shenzhen University; Jun. 1995 – Jun. 2002, director of SPG; Jun. 2002 – Feb. 2005, independent director of the Company.
10. Yang Shaojia: had been teacher at Jilin University; Director of the Consultation Office, Academy of Management, China Non-Ferrous Metals Corporation; Director of the Expert Committee, Beijing Zhongye Management Consulting Company; Professor, Shenzhen Accord Pharmaceutical Group Company; right now professor at the Shenzhen Senior Managers Evaluation and Recommendation Center; financial consultant, Shenzhen Trade Investment Holdings Company; independent director, Hotel Group, Luohu District; expert, Shenzhen Entrepreneurs Association, etc.. Jun. 2002 till now, independent director of the Company.
11. Zong Dechun: Jan. 1981 – Aug. 1983, Director of the Political Department, 304 Regiment, Capital Construction Engineer Corps; Sep. 1983 – Feb. 1986, Secretary of the CPC, Shenzhen No. 5 Construction Engineering Co., Ltd.; Mar. 1986 – Nov. 1996, Section Chief of the HR Department, Chairman of the Labor Union, Chairman of the Supervisory Committee, Shenzhen Construction Group; Dec. 1996 – Jun. 2002, Secretary of the Commission for Discipline Inspection, Chairman of the Supervisory Committee, Shenzhen Construction Investment Holdings Company; Jul. 2002, retired; Jun. 2004, independent director of the Company. No concurrent posts in other units.
12. Hou Liying: Aug. 1982 – Aug. 1984, Assistant Economist, Development & Design Research Institute, China National Offshore Oil Corp.; Sep. 1984 till now, associate professor, masters' instructor, College of Management, Shenzhen University. Jun. 2004, engaged as the independent director of the Company.
13. Zhuang Chuanghui: Feb. 1983 – Mar. 1986, promulgation chief, Cannon Regiment, 42 Army; Mar. 1986 – Dec. 1987, section chief of the Cadre Section, vice director of the Office, Economic Work Department, Huizhou Local CPC Committee; Dec. 1987 – Jul. 1989, vice director of the Office, section chief of the Statistics Section, Huizhou local Administration for Industry & Commerce; Jul. 1989 – Feb. 1997, secretary to the vice director, secretary to the director, discipline inspector of deputy section chief level, vice director of the Office (section chief level), No. 1 Office, Shenzhen Commission for Discipline Inspection; Feb. 1997 – May 1999, Vice Secretary of Commission for Discipline Inspection, Shenzhen Construction Investment Holdings Company; May 1999 – Jan. 2003, Vice Secretary of CPC Committee, director, SPG. Jan. 2003 till now, Vice Secretary of CPC Committee, Chairman of the Supervisory Committee of the Company. No concurrent posts in other units.
14. Deng Kangcheng: Jul. 1991 – Dec. 1991, technician, Shenzhen Luohu Material Trading Center; Dec. 1991- Mar. 1997, Assistant Engineer, deputy section chief, section chief, Shenzhen Construction Earthwork Mechanical Engineering Company; Apr. 1997 – Aug. 2004, supervisor, vice director, director ,Discipline Inspection and Supervision Office, Shenzhen Construction Investment Holdings Company; Sep. 2004 till now, vice director of the Office,

Shenzhen Investment Holdings Co., Ltd.. Jun. 2004, elected as supervisor of the Company.

15. Wu Zhiyong: Jul. 1996 – Aug. 1999, secretary, Enterprise Development Department, SPG; Aug. 1999 – Apr. 2004, Vice Secretary, Communist Youth League SPG Committee; Apr. 2004, supervisor, vice Office director, concurrently Secretary to the General Manager, SPG; Apr. 2004 till now, Chairman of the Board, Secretary of the CPC Branch, Shenzhen Haiyan Hotel, SPG; Jan. 2003, supervisor of the Company. No concurrent posts in other units.

16. Lin Huimei: Jul. 1986 – Oct. 1990, Manager of the Financial Department, Vice General Manager, Nanyang Hotel, SPG; Oct. 1990 – Aug. 1995, Manager of the Financial Department, Hong Kong Xinfeng Enterprise Company, SPG; Aug. 1995 – Aug. 1999, Manager of the Planning & Finance Department, SPG; Aug. 1999 – Mar. 2000, Manager of the Securities Department, SPG; Mar. 2000 – Aug. 2003, working at the Investment Management Department, SPG; Aug. 2003 till now, Manager of the Audit Department, SPG. From Jun. 2004, supervisor of the Company. No concurrent posts in other units.

17. Xiong Xingnong: Jan. 1982 – Jan. 1983, trainee, Party school, Guangzhou Railway Administration; Jan. 1983 – Dec. 1995, office secretary, consultant, section chief, Guangzhou Railway Administration; Jan. 1996 – Mar. 2004, office director, SPG; Mar. 2004 till now, Vice Director, Office of the Supervisory Committee. From Jun. 2004, supervisor of the Company. No concurrent posts in other units.

18. Luo Kunquan: Oct. 1987 – Sep. 1990, vice factory director, Brewage Machinery Factory, Xingning County, Guangdong; Sep. 1990 – Jul. 1993, Manager, Foreign-Invested Enterprise Resources Company, Xingning County, Guangdong; Aug. 1993 – Dec. 1993, General Manager, Shenzhen Communist Youth Industrial Park Industrial Company; Dec. 1993 – Jun. 1994, Manager, Shenzhen Shenhua Enterprise Company; Jun. 1994 – Nov. 1998, Manager, Shenzhen Shenhua Property Development Company; Nov. 1998 – Dec. 2002, Vice General Manager, Shenzhen Shenhua Group Company; Dec. 2002 till now, Vice General Manager of the Company. No concurrent posts in other units.

19. Shen Yuesheng: Sep. 1983 – Apr. 1984, technician of the 1st team, Shenzhen No. 3 Construction Engineering Company; Apr. 1984 – Oct. 1987, technician of the Development Department, Shenzhen Eastern Development (Group) Company; Oct. 1987 – May 1991, Vice Director, Director of the Engineering Technology Department, Shenzhen Eastern Engineering Company; May 1991 – Dec. 1993, Vice General Manager, Shenzhen Eastern Engineering Company; Dec. 1993 – May 1999, Vice General Manager, Standing Director, General Manager, concurrently Secretary of the CPC Branch, Chairman of the Board, Shenzhen Eastern Industrial Co., Ltd.; May 1999 till now, Vice General Manager of the Company. No concurrent posts in other units.

20. Luo Zichao: Oct. 1984 – May 1993, assistant, office director, chief assistant, Shenzhen Design & Decoration Engineering Company; May 1993 – Jul. 2003, General Manager, Vice Secretary of the CPC Committee, Shenzhen Design & Decoration Engineering Company; May 1999 – Jul. 2003, General Manager, Shenzhen Construction Engineering Contractor Corporation; May 1999 – Jul. 2002, Chairman of the Board, Shenzhen Architectonic Industrial Co., Ltd.; Jul. 2003 till now, Vice General Manager of the Company. No concurrent posts in other units.

21. Chen Ji: Jul. 1995 – Jul. 1996, secretary in charge of the Comprehensive Office, Tonge Truck Transportation Company; Jul. 1996 – Mar. 2001, secretary of the CPC Committee Office, Shenzhen Construction Investment Holdings Company; Mar. 2001 – Dec. 2002, director of the CPC Committee Office, Shenzhen Urban Construction Investment Development Company; Dec. 2002 till now, Secretary of the Board, Director of the Board Office of the Company. No concurrent posts in other units.

III. 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.

IV. In the report period, supervisor Gan Lu and Zhou Hong had resigned from their posts of supervisor due to work shifts, and Vice General Manager Zhang Yue had been transferred out of the Company.

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

By the end of the year 2004, the Group had totally 2103 employees, including 1007 production personnel, 223 sales personnel, 401 technicians, 203 financial personnel and 269 administrative personnel. Among them, 210 undergraduates or above, 253 graduated from 3-years regular college, 293 from technical secondary school, 1347 from senior high school or below. The Company had 233 retirees.

Section VI. Administrative Structure of the Company

I. Compared with the standardized documents concerning the management of listed companies issued by CSRC, the management status of the Company had some non-conforming parts. The CSRC had made a patrolling inspection to the Company in July 2004, and pointed out lots of irregularities. According to the requests of Shenzhen Securities Regulatory Office, the Company had made rectifications. Problems in the Company's management structure as well as the rectification status of the Company were as follows:

1. The Company had introduced the property representative report system, resulting in its independence being influenced.

According to the regulations of property report management system, the Company had to ask the Shareholders' General Meeting for instructions concerning the resolutions of important issues, such as the setting of the Board and the Supervisory Committee, amendments to the articles, and significant assets transfer. This had influenced negatively the independence of the Listed Company. Since Oct. 2004, the Company had stopped executing the property representative report system.

2. Operation of the Shareholders' General Meeting

(1) The authorization furnished by the Shareholders' General Meeting was irregular, which had mainly been reflected in the lack of period of validity and concrete voting indicators, etc.. In the future, the Company would specially reminded and required shareholders to furnish authorizations strictly according to regulations in the notices of the Shareholders' General Meeting. As to the irregular authorizations, the Company would submit them to the witness lawyers to judge their validity first, and then decide whether they have voting rights or not.

(2) The ballot counting procedure the Shareholders' General Meeting with only one shareholder present of was irregular.

In the Shareholders' General Meeting held in the future, if only one shareholder has attended, the Meeting would ask lawyers to join in the ballot counting to ensure its fairness and openness.

(3) The Shareholders' General Meeting had not made full use of their rights.

In the event of the Company's selling the equity of Chaofei Company, the Shareholders' General Meeting had not made full use of their rights. The Board of the Company would amend the proposals of the Articles. Clauses concerning the power division of the examination and deliberation of investment and assets transfer between the Board and the Shareholders' General Meeting would be added into the Articles. Moreover, directors and senior administrative personnel would be surged to execute relevant clauses of the Articles strictly according to regulations.

3. Problems in the operation of the Board of Directors

(1) Irregular cases had existed, such as a small part of the directors having no meeting notice or record, meeting notices sent to part of the directors not 10 days ahead, irregular joint signing of the resolutions made by the Board, etc. To this, the Company would strengthen management, and put an end to such kind of cases.

(2) The composition of the Board had not conformed to the regulations stipulated in the Instructing Opinions on the Establishment of Independent Director System by the Listed Company.

At the Shareholders' General Meeting held on Feb. 1, 2005, the Company had elected independent directors majored in Accounting.

(3) An independent director had not attended the Board meeting for 7 successive times.

This independent director had often stayed abroad, and had not enough time to perform the duties of independent directors, thus had resigned from the post of independent director.

4. Some of the important assets sales programs were irregular.

There existed some irregularities in the processes of the important assets transfers of Wuhan No. 1 Town, equity of Chaofei Company, and SP Shanghai Company, etc.. The Company would make rectifications in the following aspects: firstly, perfecting each system. The Company had set and amended the council regulation of important problems of the Board and the management team, and provisional measures of assets property management, etc.. It would also continue to perfect relevant systems about the assets transfer, making the whole assets transfer process could be carried out according to concrete regulations; secondly, strengthening implementation. The Company would cultivate the concept of standardized operation, and change the decision-making personnel's ideas of stressing efficiency and lightening regulation during the assets transfer process, to prevent the systems from just being formalities; thirdly, establishing team system in the project operation from this time on. The Company would establish work teams in which decision-making people, and personnel of assets management, law, finance and information disclosure, etc. would all join, so that information could flow in all relevant departments and the operation from planning to decision-making and to operation could be coordinated smoothly.

5. Problems existed in the Supervisory Committee.

(1) There was no worker supervisor in the members of the Supervisory Committee elected democratically by the workers.

The Supervisory Committee would increase or reelected the workers' representative supervisor taking up not less than one third of the total number of the supervisors in the next changing election.

(2) The Supervisory Committee had introduced the supervisor report system set by the holding shareholder, and lacked independence.

The Supervisory Committee has not practiced the notice of the supervisor report system.

6. Problems existed in the Articles of Association of the Company.

There existed some clauses, which had not conformed to the present company management regulations, in the Articles of Association. The Board of Directors of the Company would submit the proposals concerning the amendment to the articles at the Shareholders' General Meeting in 2005, amend these clauses and supplement contents required by the documents of company management newly issued by CSRC.

II. Performance of duties by independent directors

Having no time to perform duties, independent director of the Company Zheng Tianlun had resigned. Other independent directors could prudently perform their duties according to relevant laws and regulations, safeguard the legal rights and interests of small and medium shareholders and the overall interest of the Company, normally attend the Board meetings and exercise voting, and express independent opinions concerning the engagement and disengagement of senior administrative personnel and important equity transfer, etc.. No independent director had ever had any objections on relevant issues of the Company.

III. The Company had separated with the present holding shareholder in the aspects of business, personnel, assets, institution and finance, etc., and the Company had independent and complete business and self-operation capacity.

Section VII. Particulars about the Shareholders' General Meeting

In the report period, the Company held one Shareholders' General Meeting:

I. The Board published the meeting notice of the 12th Shareholders' General Meeting in China Securities and Ta Kung Pao on May 28, 2003, and the meeting was held in the meeting room on the 48th floor of Shen Fang Plaza, at 9 am on Jun. 28, 2004. The meeting was presided by Chairman of the Board Shao Zhihe, and shareholders' representative, lawyers, and the Company's directors, supervisors, Chairman of the Labor Union, and senior administrative personnel had attended this meeting. One shareholder had attended this Shareholders' General Meeting. It held 743,820,000 shares of the Company, taking up 73.52% of the Company's total share capital, of which 743,820,000 were A-shares, taking up 73.52% of the Company's total share capital. No shareholders holding B-shares had attended the meeting. Verified by Shenzhen Xinda Certified Public Accountants, the holding procedures of this meeting were legal and valid.

II. Proposals examined and approved by the Shareholders' General Meeting:

1. Report of the Board of Directors 2003
2. Financial Final Report 2003 and Profit Appropriation Plan
3. Report of the Supervisory Committee 2003
4. Proposal on the Amendment to the Articles of Association
5. Electing 2 new independent directors
6. The meeting had elected 3 new supervisors

Resolutions of this Shareholders' General Meeting had been published in China Securities and Ta Kung Pao dated Jun. 29, 2004.

III. This Shareholders' General Meeting had elected and supplemented 2 independent directors: Mr. Zong Dechun and Ms. Hou Liying had been elected independent directors with full votes; elected and supplemented 3 supervisors: former supervisor Yu Fang had died of illness, and Gan Lu and Zhou Hong had resigned due to work shifts. Through electing and voting, Deng Kangcheng, Lin Huimei and Xiong Xingnong had been elected supervisors of the Company.

Section VIII. 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 ① 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. ② 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 Co., Ltd.	Investment and holding	36,442,061.67	-5,363,835.39	-5,363,835.39	HKD100	23081
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

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 rd 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:

① 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%.

② 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.

③ 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.

④ In the report period, balance of prepaid accounts decreased 93.34% compared with that in last period, mainly because consolidation scope of statements decreased.

⑤ 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:

① 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.

② Shenzhen Intermediate People's Court put 2.45% of Guangdong Development 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: ① decreased bank loan amounting to RMB 19.02 million; ② 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. ③ 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 ① 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. ② 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. Routine work of the Board

(I) In the report year, particulars about meeting of the Board and contents of the resolutions

In 2004, particulars about holding of meetings of the Board were as follows:

1. 1st meeting was held in the meeting room of the Group Company on Apr. 27. 9 directors attended the meeting, and one director entrusted other directors to voting. The meeting examined and approved proposals including 2003 Annual Report and 2004 1st Quarterly Report etc..

Relevant resolutions of the Board were published in China Securities and Ta Kung Pao on Apr.

30.

2. 2nd meeting was held on May 26. 9 directors attended the meeting, and one director entrusted other directors to voting. The meeting examined and approved proposals including Proposal on Supplementing Independent Directors and Proposal on Revising Articles of the Association etc..

Relevant resolutions of the Board were published in China Securities and Ta Kung Pao on May 28.

3. 3rd meeting was held on Aug. 23. 10 directors attended the meeting, 2 were absent and one director entrusted other directors to voting. The meeting examined and approved proposals including 2004 Semi-annual Report, Rectification Summary on Problems found by Inspection Branch of Shenzhen Inspection bureau of CSRC etc..

Relevant resolutions of the Board were published in China Securities and Ta Kung Pao on Aug. 25.

4. The 4th meeting was held on Oct. 26, 9 directors attended, while 3 were absent, among which 1 director had entrust another director to exercise voting. The meeting examined approved the 3rd Quarterly Report of 2004, and proposals such as the Proposal on the Company Transferring the Equity of Jilin Pharmaceutical Company Limited and the Corresponding Transfer of Ownership, etc..

Resolutions of this Board meeting had already been published in China Securities and Ta Kung Pao dated Oct. 28.

5. The 5th meeting was held on Dec. 31, 10 directors attended, while 2 were absent. The meeting examined and approved proposals such as the Proposal on Recruiting New Independent Directors, Proposal on Changing Directors, etc..

Resolutions of this meeting had been published in China Securities and Ta Kung Pao dated Jan. 1, 2005.

(II) The Board's implementation of the resolutions made by the Shareholders' General Meeting

The 11th Shareholders' General Meeting of the Company had made resolutions concerning the profit appropriation of 2003, subsidy standards for independent directors, amendments to the Articles of Association of the Company, and so on. Authorized by the Shareholders' General Meeting, the Board had strictly carried out the aforesaid resolutions. In the report period, the Company had no plans of profit appropriation or conversion of public reserve into share capital, nor was there any rationed share or share reissue.

X. 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.

XI. The newspapers chosen by the Company for information disclosure had not changed, China Securities domestic and Ta Kung Pao overseas.

Section IX. 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 X. Significant Events

I. Significant lawsuits and arbitrations

As to the significant lawsuits and arbitrations in which the Company had been involved in the report period, please refer to Annotation 8 of the Accounting Statements.

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

III. Please refer to Annotation 7 of the Accounting Statements for related parties of and related transactions of the Company.

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. The Company had engaged Shenzhen Nanfang Minhe Certified Public Accountants to take care of the auditing work of the year 2004 of the Company. This Certified Public Accountants had provided annual auditing services to the Company since 2001. According to agreement, the Company would pay RMB 0.88 million to Shenzhen Nanfang Minhe Certified Public Accountants as the auditing fee.

VIII. From Jul. 5 to Jul. 9, 2004, Shenzhen Securities Regulatory Bureau made a patrolling inspection of the Company and gave some opinions on rectification. The Board of the Company had drafted a rectification plan according to the rectification requests (For the rectification report, please refer to China Securities and Ta Kung Pao dated Aug. 25, 2004.). The Company had finished part of the rectification according to the rectification report, while the remaining items needing rectification, such as amendment to the Articles of Association, would be accomplished in 2005.

IX. For other important issues, please refer to the notifications of the Board in China Securities and Ta Kung Pao dated Feb. 10, Aug. 18, Oct. 21 and Nov. 4, 2004.

Section XI. Financial Report

(Accounting Statements and Auditors' Report attached at the back)

Section XII. Documents Available for Reference

1. Accounting Statements carrying the signatures and seals of the Legal Representative, person in charge of accounting work, and person in charge of accounting sections;
2. Original of the Auditors' Report carrying the seal of the Certified Public Accountants, as well as the signatures and seals of the CPAs;
3. Originals of all the notifications, and original copy of all the documents of the Company ever disclosed in China Securities, Securities Times and Ta Kung Pao in the report period.

**Board of Directors of
SHENZHEN SPECIAL ECONOMIC ZONE
REAL ESTATE & PROPERTIES (GROUP) CO., LTD.
Apr. 26, 2005**

SHENZHEN SPECIAL ECONOMIC ZONE REAL ESTATE
& PROPERTIES (GROUP) CO., LTD.
Report and Financial Statements
for the year ended December 31, 2004

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

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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, 2004 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 34 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, 2004 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 22, 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>(120,285)</u>	<u>33,607</u>
(Loss) / earnings per share			
Basic	10	<u>(RMB0.12)</u>	<u>RMB0.03</u>
Diluted	10	<u>N/A</u>	<u>N/A</u>

The notes on pages 6 to 34 form part of these financial statements.

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2004

	<u>Note</u>	<u>2004</u> RMB'000	<u>2003</u> 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>

The notes on pages 6 to 34 form part of these financial statements.

Approved and authorized for issue by the board of directors on April 22, 2005

DIRECTOR

DIRECTOR

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			
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>

The notes on pages 6 to 34 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, 2004

	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, 2002	1,011,660	686,308	10,054	3,317	115,594	(946,951)	879,982
Prior year adjustment	--	--	--	--	--	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>
Prior year adjustment (see note 35)	--	--	--	--	--	5,083	5,083
Profit for the year	--	--	--	--	--	(120,285)	(120,285)
Others	--	--	(86)	--	--	--	(86)
Balance at December 31, 2004	<u>1,011,660</u>	<u>686,308</u>	<u>9,940</u>	<u>3,317</u>	<u>115,594</u>	<u>(934,804)</u>	<u>892,015</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, 2004, the directors have not declared any dividends to its shareholders.

The notes on pages 6 to 34 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

GENERAL

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

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 on September 15, 1993 and January 10, 1994 respectively.

With the approval of State-owned Assets Supervision and Administration Commission of Shenzhen Government, Shenzhen Construction Investment Holding Corporation, the majority shareholder controller of the Company, merged with other two assets supervision and administration companies into an exclusively state-owned limited company, Shenzhen Investment Holding Corporation, on October 13, 2004. Till now the combination is in process and the change of equity is waiting for the authorization of the government and has not comply with a formality in China Securities Depository & Clearing Corporation Limited Shenzhen Branch.

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.

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.

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.

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

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

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 that operates under a contractual agreement whereby the Group or Company and at least one other party undertake an economic activity that 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.

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 that 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.

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 January 1 of the current year. 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.

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, 2004 identified by geographical segments as follows:

	RMB
	'000
PRC	544,813
Hong Kong	3,469
The United States of America	779

549,0

61

Segment information relating to the businesses for the year ended December 31, 2004 is presented below:

	<u>Proper</u> <u>ties</u> RMB' 000	<u>Retaili</u> <u>ng and</u> <u>trading</u> RMB' 000	<u>Transport</u> <u>ation and</u> <u>catering</u> <u>services</u> RMB'000	<u>Constr</u> <u>uction</u> <u>technical</u> <u>support</u> RMB'000	<u>Others</u> RMB'000	<u>Elimin</u> <u>ations</u> RMB'000	<u>Consoli</u> <u>dated</u> RMB'000
REVENUE							
External sales	300,017	139,932	8,086	96,022	5,004	--	549,061
Inter-segment sales	2,380	--	--	10,558	2,050	(14,988)	--
Total revenue	302,397	139,932	8,086	106,580	7,054	(14,988)	549,061

Inter-segment sales are charged at prevailing market rates.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS - (continued)

	<u>Proper</u> <u>ties</u> RMB' 000	<u>ng and</u> <u>trading</u> RMB' 000	Transport ation and catering services RMB'000	Constr uction technical support RMB'000	<u>Others</u> RMB'000	<u>Elimin</u> <u>ations</u> RMB'000	<u>Consoli</u> <u>dated</u> RMB'000
RESULTS							
Segment results	<u>(61,300)</u>	<u>(10,529)</u>	<u>(700)</u>	<u>(127)</u>	<u>(27,687)</u>	<u>39,597</u>	(60,746)
Unallocated corporate expenses							(16,857)
Loss from operation							(77,603)
Finance costs							(32,107)
Share of losses of non-consolidated subsidiaries, associates, and contractual joint ventures							(9,962)
Loss before tax							(119,672)
Taxation							(1,529)
Loss after tax							(121,201)
Minority interests							916
Net loss for the year							(120,285)
OTHER INFORMATION							
Segment assets	<u>1,357,046</u>	<u>28,557</u>	<u>48,228</u>	<u>27,114</u>	<u>11,629</u>		1,472,574
Non-consolidated subsidiaries	20,804	--	27,065	--	6,074		53,943
Associates	14,071	--	--	352	15,624		30,047
Contractual joint ventures	41,392	2,918	63,747	--	35,116		143,173
Unallocated corporate assets							606,296
Consolidated total assets							2,306,033
Segment liabilities	<u>865,784</u>	<u>28,557</u>	<u>48,228</u>	<u>27,114</u>	<u>27,365</u>		997,048
Unallocated corporate liabilities							431,652

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

Consolidated total liabilities						1,428,700
Capital expenditure	6,115	6	274	17	8	
Depreciation	6,943	150	8,420	550	35	
Non-cash expenses other than depreciation	7,186	3,229	32	120	--	

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, 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 about these businesses for the year ended December 31, 2003 is presented below:

	<u>Properties</u> RMB'000	<u>Retailing and trading</u> RMB'000	<u>Transportation and catering services</u> RMB'000	<u>Construction technical support</u> RMB'000	<u>Others</u> RMB'000	<u>Eliminations</u> RMB'000	<u>Consolidated</u> 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.

	<u>Properties</u> RMB'000	<u>Retailing and trading</u> RMB'000	<u>Transportation and catering services</u> RMB'000	<u>Construction technical support</u> RMB'000	<u>Others</u> RMB'000	<u>Eliminations</u> RMB'000	<u>Consolidated</u> 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

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Finance costs	(49,062)
Share of profit of non-consolidated subsidiaries, associates, and contractual joint ventures	14,860
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>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS - (continued)

	<u>Proper ties</u> RMB' 000	<u>Retaili ng and trading</u> RMB' 000	<u>Transport ation and catering services</u> RMB'000	<u>Constr uction technical support</u> RMB'000	<u>Others</u> RMB'000	<u>Elimin ations</u> RMB'000	<u>Consoli dated</u> RMB'000
OTHER INFORMATION							
Segment assets	<u>1,472</u> <u>,457</u>	<u>78,77</u> <u>1</u>		<u>21,42</u> <u>8</u>	<u>13,05</u> <u>5</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							677,523
Consolidated total assets							<u>2,576,943</u>
Segment liabilities	<u>812.2</u> <u>15</u>	<u>146.5</u> <u>29</u>		<u>24,52</u> <u>6</u>	<u>30,21</u> <u>5</u>		1,100, 872
Unallocated corporate liabilities							476,600
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	--	--		

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

	<u>2004</u>	<u>2003</u>
Properties	1,317	1,363
Retailing and trading	25	247
Transportation and catering services	208	217
Construction technical support	123	254
Others	<u>27</u>	<u>34</u>
	<u>1,700</u>	<u>2,115</u>

(LOSS) / PROFIT FROM OPERATIONS

	<u>2004</u> RMB' 000	<u>2003</u> RMB' 000
(Loss) / profit from operations is stated after crediting and charging the following:		
Crediting:		
Interest income	7,084	6,414
Rental income	1,268	251
Exchange gain	785	1,046
Gain on disposal of property, plant & equipment	(28)	553
Charging:		
Depreciation	16,097	23,048
Amortization	6,061	18,649
Staff costs (note 6)	74,586	95,848
Exchange loss	337	788
Provision for impairment losses of assets (note 7)	<u>4,507</u>	<u>6,825</u>

STAFF COSTS

	<u>2004</u> RMB' 000	<u>2003</u> RMB' 000
Salaries and bonus	67,873	77,263
Retirement benefit costs and provision for other welfare	<u>6,713</u>	<u>18,585</u>
	<u>74,586</u>	<u>95,848</u>

PROVISION FOR IMPAIRMENT LOSSES OF ASSETS

	<u>2004</u> RMB' 000	<u>2003</u> RMB' 000
Contractual joint venture	--	--
Completed properties for sale	--	--
Accounts receivable, other debtors and amount due from non-consolidated subsidiaries	<u>4,507</u>	<u>6,825</u>
	<u>4,507</u>	<u>6,825</u>

FINANCE COSTS

	<u>2004</u> RMB' 000	<u>2003</u> RMB' 000
--	-------------------------	-------------------------

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Interest expenses		
- bank borrowings	<u>32,107</u>	<u>49,062</u>

TAXATION

	<u>2004</u>	<u>2003</u>
	RMB' 000	RMB'000
The charge comprises:		
PRC income tax for the year	<u>1,529</u>	<u>2,445</u>

Domestic income tax is calculated in accordance with applicable income tax regulations and at 15% (2003: 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>2004</u>	<u>2003</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%	17.50%

Reconciliation to the domestic tax expense as follows:

	<u>2004</u>	<u>2003</u>
	RMB' 000	RMB'000
Accounting profit under IFRS	(119,672)	34,799
Difference arising from accounting policies based on IFRS	<u>(22,023)</u>	<u>(22,255)</u>
Accounting profit under Accounting Standards for Enterprise Business of the PRC	<u>(141,695)</u>	<u>12,544</u>
Tax at the domestic rate of 15%	(21,254)	1,882
Net tax effect of expenses not deductible for tax purposes and other factors	<u>22,783</u>	<u>563</u>
Tax expense	<u>1,529</u>	<u>2,445</u>

EARNINGS PER SHARE

- (a) The calculation of basic earnings per share is based on the consolidated loss of RMB120,285,000 (2003: profit of RMB33,607,000) and on the 1,011,660,000 shares (2003: 1,011,660,000 shares) in issue during the year.
- (b) During the year ended 31 December 2004 and 2003, there were no dilutive potential shares. Fully diluted earnings per share are not applicable.

PROPERTY, PLANT & EQUIPMENT

	<u>Land and buildings</u>	<u>Plant and machinery</u>	<u>Motor Vehicles</u>	<u>Office equipment and others</u>	<u>Construction in progress</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost						
At January 1, 2004	188,358	44,012	34,502	33,471	38,257	338,600
Reclassification	(76,269)	44,193	--	32,076	--	--

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Additions	748	8	1,156	642	694	3,248
Decrease of subsidiaries	(44,300)	(56,811)	(2,658)	(8,005)	--	(111,774)
Disposal of assets	<u>(1,145)</u>	<u>--</u>	<u>(720)</u>	<u>(502)</u>	<u>--</u>	<u>(2,367)</u>
At December 31, 2004	<u>67,392</u>	<u>31,402</u>	<u>32,280</u>	<u>57,682</u>	<u>38,951</u>	<u>227,707</u>

Depreciation

At January 1, 2004	74,173	4,644	27,603	20,214	--	126,634
Reclassification	(18,172)	10,190	--	7,982	--	--
Charge for the year	13,109	19	1,341	1,145	--	15,614
Decrease of subsidiaries	(42,639)	(7,231)	(1,609)	(6,198)	--	(57,677)
Disposal of assets	<u>(311)</u>	<u>--</u>	<u>(720)</u>	<u>(596)</u>	<u>--</u>	<u>(1,627)</u>
At December 31, 2004	<u>26,160</u>	<u>7,622</u>	<u>26,615</u>	<u>22,547</u>	<u>--</u>	<u>82,944</u>

Provision for impairment losses

At January 1, 2004	1,313	68	48	16	--	1,445
Additions	--	--	--	--	--	--
Disposal	<u>(44)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(44)</u>
At December 31, 2004	<u>1,269</u>	<u>68</u>	<u>48</u>	<u>16</u>	<u>--</u>	<u>1,401</u>

Net book value

At December 31, 2004	<u>39,963</u>	<u>23,712</u>	<u>5,617</u>	<u>35,119</u>	<u>38,951</u>	<u>143,362</u>
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>

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).

INVESTMENT PROPERTIES

	<u>2004</u>	<u>2003</u>
	RMB' 000	RMB' 000
At January 1, 2004	628,861	628,410
Disposal of properties	(2,055)	(45,114)
Additions	<u>60,151</u>	<u>45,565</u>
At December 31, 2004	<u>686,957</u>	<u>628,861</u>

The investment properties have been revalued as at 31 December 2004 by the directors and certain investment properties have been pledged as security for the group's bank borrowings (see note 30).

SUBSIDIARIES

At December 31, 2004, 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>Direct</u>	<u>Interest held</u>
				<u>Indirect</u>
				%
				%

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Great Wall Estate Co., Inc.	U.S.A.	Property development	7 0	- -
Shenzhen Special Economic Zone Real Estate (Group) Guangzhou Property and Estate Co., Ltd.	PRC	Property development, decoration and construction design	1 00	- -
Skill Elite Ltd.	Hong Kong	Corporate financing	- -	1 00
Shenzhen City Shenfang Free Trade Trading Ltd.	PRC	Trading of construction materials	9 5	5
Shenzhen City Shenfang Investment Ltd.	PRC	Investment and management	9 0	1 0
Shenzhen City Bamboo Garden Car Rental Ltd.	PRC	Car rental	1 00	- -
北京新峰房地产开发经营有限公司	PRC	Property development and management	7 5	2 5
Shenzhen City Wa Gen Construction Management Ltd.	PRC	Construction project management	7 5	2 5
Shinnying Tongxin Real Est. Dev. Co. Ltd.	PRC	Real estate development	- -	9 3.1
Barenie Co. Ltd.	Hong Kong	Properties investment	- -	8 0
Openice Ltd.	Hong Kong	Investment holding	2 0	8 0
Shantou SEZ Wellam Fty Bldg., Dev. Co.	PRC	Factory building, sales and rental	- -	8 2
Xin-Feng Real Estate Dev. Construction (Wuhan) Co. Ltd.	PRC	Real estate management and rental service	- -	5 5
Fresh Peak Investment Ltd.	Hong Kong	Properties investment	- -	5 5
Wellam Ltd.	Hong Kong	Investment holding	- -	8 2
Shenzhen Petrel Hotel Co. Ltd.	PRC	Hotel operations	6 8.1	3 1.9
Shenzhen City Property Management Ltd.	PRC	Property management	9 5	5

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>
		%	%	

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Shenzhen Zhen Tung Engineering Ltd.	PRC	Fitting-out contracting and maintenance	7 3	2 7
Fresh Peak Holdings Ltd.	Hong Kong	Investment, management and consultation	1 00	- -
Fresh Peak Enterprise Ltd.	Hong Kong	Investment holding	8 2	- -
广州黄埔新邨房地产有限公司	PRC	Property development and sale	- -	1 00
Keyear Development Ltd.	Hong Kong	Investment holding	- -	1 00

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>2004</u> RMB' 000	<u>2003</u> RMB'000
Unlisted Investments, at cost	395,266	308,868
Share of post-acquisition losses	<u>(122,061)</u>	<u>(109,576)</u>
	273,205	199,292
Less: Provision for impairment losses	<u>(186,498)</u>	<u>(186,498)</u>
	86,707	12,794
Add: Amounts (due to) / due from non-consolidated subsidiaries	<u>(32,764)</u>	<u>43,333</u>
	<u>53,943</u>	<u>56,127</u>

13. SUBSIDIARIES - (continued)

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 City SPG Bao An Development Ltd.	PRC	Property development and sales	95	5
Shenzhen Shenfang Department Store Co. Ltd.	PRC	Commercial goods supplier	95	5
Shenzhen Shenfang Car Park Ltd.	PRC	Develop and operate car park	70	30
Shenzhen Cyber Port Co., Ltd	PRC	Property investment and information technology consultancy	70	--
深圳市罗湖区社会信息资讯服务中心	PRC	Information service	--	70
深圳市数码港信息技术培训中心	PRC	Training	--	70
深圳市数码港通信有限公司	PRC	Product development and sales of web and computer	--	63
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

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 Shenfeng 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	--

ASSOCIATES

	<u>2004</u> RMB'000	<u>2003</u> RMB'000
Unlisted investments, at cost	58,347	47,847
Share of post-acquisition losses	<u>(8,786)</u>	<u>(8,616)</u>
	49,561	39,231
Less: Provision for impairment losses	<u>(23,483)</u>	<u>(23,483)</u>
	26,078	15,748
Add: Amounts due from associates	<u>3,969</u>	<u>5,399</u>
	<u>30,047</u>	<u>21,147</u>

14. ASSOCIATES - (continued)

At December 31, 2004 the Company had interests in the following principal associates:

Place of
Establishment/

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

<u>Associates</u>	<u>incorporation</u>	<u>Principal activities</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		--

CONTRACTUAL JOINT VENTURES

	<u>2004</u>	<u>2003</u>
	RMB' 000	RMB'000
Unlisted Investments, at cost	303,649	314,149
Share of post-acquisition losses	<u>(25,606)</u>	<u>(16,022)</u>
	278,043	298,127
Provision for impairment losses	<u>(138,273)</u>	<u>(143,073)</u>
	139,770	155,054
Amounts due from contractual joint ventures	<u>3,403</u>	<u>13,928</u>
	<u>143,173</u>	<u>168,982</u>

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.

15. CONTRACTUAL JOINT VENTURES - (continued)

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

<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.

6. LONG TERM INVESTMENTS

	<u>2004</u> RMB' 000	<u>2003</u> RMB' 000
PRC legal entity shares, at cost	16,825	16,825
Unlisted equity investments, at cost less provision for impairment losses	<u>10,657</u>	<u>41,774</u>
	<u>27,482</u>	<u>58,599</u>

17. INTANGIBLE ASSETS

	<u>Vehicle</u> <u>licenses</u> RMB' 000	<u>Computer</u> <u>software</u> RMB' 000	<u>Total</u> RMB' 000
At January 1, 2004	592	115	707
Amortization for the year	<u>(592)</u>	<u>(47)</u>	<u>(639)</u>
At December 31, 2004	<u>--</u>	<u>68</u>	<u>68</u>

18. LAND HELD FOR DEVELOPMENT

	RMB' 000
Cost	
At January 1, 2004	60,755
Additions	4,580
Amortization	<u>(1,062)</u>
At December 31, 2004	<u>64,273</u>
Provision for impairment	
At January 1, 2004	4,170
Additions	<u>--</u>
At December 31, 2004	<u>4,170</u>
Net book value	
At December 31, 2004	<u>60,103</u>
At December 31, 2003	<u>56,585</u>

19. PROPERTIES UNDER DEVELOPMENT FOR SALE

	<u>2004</u> RMB' 000	<u>2003</u> RMB' 000
Cost	1,031,725	1,141,501

Less: Provision for impairment losses	<u>(426,615)</u>	<u>(496,523)</u>
	<u>605,110</u>	<u>644,978</u>

Included in properties under development for sale is a piece of land awaiting development held in the United States at a cost of RMB127,595,910 against which provision for impairment of RMB104,723,917 was made in prior years.

20. COMPLETED PROPERTIES FOR SALE

	<u>2004</u> RMB' 000	<u>2003</u> RMB' 000
Cost	182,675	224,608
Less: Provision for impairment losses	<u>(10,742)</u>	<u>(18,401)</u>
	<u>171,933</u>	<u>206,207</u>

21. INVENTORIES

	<u>2004</u> RMB' 000	<u>2003</u> RMB' 000
Raw materials	4,682	4,275
Work-in-progress	12,052	6,789
Finished goods	5,956	30,559
Less: Provision for impairment losses	(258)	(833)
Consumables	<u>8</u>	<u>260</u>
	<u>22,440</u>	<u>41,050</u>

22. SHORT-TERM INVESTMENTS

	<u>2004</u> RMB' 000	<u>2003</u> RMB' 000
Listed equity investments, at market value	3,057	3,605
Debentures, at market value	<u>3</u>	<u>3</u>
	<u>3,060</u>	<u>3,608</u>

23. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	<u>2004</u> RMB' 000	<u>2003</u> RMB'000
Accounts payable	362,307	405,261
Accrued expenses		
Project cost	24,102	30,914
Losses for litigation and arbitration	13,471	53,391
Interests for bank borrowings	1,820	1,666
Land use fee	--	544
Water and electricity	--	1,357
Other	<u>2,029</u>	<u>690</u>
	<u>403,729</u>	<u>493,823</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.

25. TAX PAYABLE

	<u>2004</u> RMB' 000	<u>2003</u> RMB'000
Corporation tax	(1,996)	(2,337)
Personal income tax	137	236
Business tax	4,162	5,823
Value added tax	(1,578)	(319)
Property tax	1,898	515
Others	<u>129</u>	<u>333</u>
	<u>2,752</u>	<u>4,251</u>

26. NON-CURRENT LIABILITIES

	<u>2004</u> RMB' 000	<u>2003</u> RMB'000
Bank loans (note 27)	167,000	35,000

Other liabilities	<u>19,240</u>	<u>18,072</u>
	<u>186,240</u>	<u>53,072</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>2004</u> RMB' 000	<u>2003</u> RMB' 000
Bank loans		
Secured	516,988	609,123
Guaranteed	126,000	102,884
Credit	<u>50,000</u>	<u>--</u>
	<u>692,988</u>	<u>712,007</u>
Bank loans repayable:		
Within one year or on demand	525,988	677,007
In the second year	57,000	15,000
In the third to fifth years, inclusive	<u>110,000</u>	<u>20,000</u>
	<u>692,988</u>	<u>712,007</u>
Portion classified as current liabilities	525,988	677,007
Long term portion	<u>167,000</u>	<u>35,000</u>
	<u>692,988</u>	<u>712,007</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.

28. SHARE CAPITAL

	<u>2004</u> RMB' 000	<u>2003</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><u>1,011,660</u></u>	<u><u>1,011,660</u></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>2004</u>	<u>2003</u>
	RMB' 000	RMB'000
Cash and bank balances	197,621	262,809
Less: deposits secured over 3 months	<u>(36,645)</u>	<u>(87,282)</u>
	160,976	175,527
Effect of foreign exchange rate changes	<u>448</u>	<u>(28)</u>
Restated cash and cash equivalents	<u><u>161,424</u></u>	<u><u>175,499</u></u>

30. PLEDGE OF ASSETS

At December 31, 2004, 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 RMB787,983,870 and fixed deposits amounting to RMB39,961,990 were pledged to secure bank loans of RMB516,988,290 granted to the Group.

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.

Nature of relationship

Shenzhen Construction Investment Holding Corporation Ultimate holding company

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>2004</u>	<u>2003</u>
	RMB' 000	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>	<u>2003</u>
	RMB' 000	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:

	<u>2004</u>	<u>2003</u>
	RMB' 000	RMB'000
Shenzhen Construction Investment Holding Corporation	<u>(188,671)</u>	<u>(188,764)</u>

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

	<u>2004</u>	<u>2003</u>
	RMB' 000	RMB'000
Accounts payable and accrued expenses	(49,907)	(50,000)
Dividends payable	<u>(138,764)</u>	<u>(138,764)</u>
	<u>(188,671)</u>	<u>(188,764)</u>

Both these balances are unsecured and non-interest bearing.

Directors' emoluments

There are twelve directors in the Company. Ten of the directors received emoluments totaling RMB840,000 for the year ended December 31, 2004. Four directors did not receive any salary or other benefits from the Company.

32. CONTINGENT LIABILITIES

	<u>2004</u> RMB' 000	<u>2003</u> RMB' 000
Guarantees given for banking and credit facilities granted to:		
- contractual joint ventures	2,000	7,290
- third parties	<u>120,942</u>	<u>159,352</u>
	<u>122,942</u>	<u>166,642</u>

33. LITIGATION AND ARBITRATION

- 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.
- 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:

33. LITIGATION AND ARBITRATION - (continued)

- 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.

33. LITIGATION AND ARBITRATION - (continued)

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 being in operation till now. On August 16,2004, Songshan Company took an 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.

34. COMMITMENTS

At December 31, 2004, the Group also has outstanding capital commitments for property development projects as follows:

	<u>2004</u>	<u>2003</u>
	RMB'	RMB'0
	000	00
Authorized but not contracted	361,19	206,27
	0	4
Contracted for		309,41
	<u>65,000</u>	<u>1</u>
	426,19	515,68
	<u>0</u>	<u>5</u>

35. PRIOR YEAR ADJUSTMENT

This related to 1) the increase of completed properties for sale of RMB12,077,543.64 which was wrongly accounted in the cost of sales by accident in 1997. 2) the write back of the inventory of RMB6,995,642.34 recorded in 2004 which was bought in 2003 actually and the cost of sales of 2003 was understated accordingly. These are recorded as a prior year adjustment in the current year.

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

Net profit _____

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

	<u>for the year</u>	<u>Net assets</u>
	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	<u>1,397</u>	<u>(4,299)</u>
As reported in the consolidated financial statements prepared in accordance with IFRS	<u>(120,285)</u>	<u>892,015</u>