

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED

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CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2003

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
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**AUDITORS' REPORT TO THE SHAREHOLDERS OF**

**SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED**

**?????? (??)??????**

**(Incorporated in the Peoples' Republic of China with limited liability)**

We have audited the accompanying consolidated balance sheet of Shenzhen Properties & Resources Development (Group) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as of December 31, 2003 and the related consolidated statements of income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board except that the scope of our work was limited as explained below. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation.

However, the evidence available to us was limited as we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the results and assets and liabilities of certain subsidiaries which were not consolidated in these consolidated financial statements as fully disclosed in note 15 to the financial statements. This is not in accordance with International Accounting Standard no.27 issued by the International Accounting Standards Board. There were no other satisfactory audit procedures that we could adopt to obtain adequate assurance regarding the results and assets and liabilities of these non-consolidated subsidiaries.

**Fundamental uncertainty relating to the outcome of a litigation**

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the possible outcome of a litigation against the Group for breach of contract of sale and purchase of realty properties by the Group on the ground of the Group's failure to complete the contract as scheduled. The future settlement of this litigation might result in additional liabilities to the Group. Details of the circumstances relating to this fundamental uncertainty are described in note 27 to the financial statements. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the financial statements and our opinion is not qualified in this respect.

**Qualified opinion arising from limitation of scope and disagreement about accounting treatment**

Except for any adjustments that might have been found to be necessary had we been able to obtain adequate assurance regarding the effect of the results and assets and liabilities of the non-consolidated subsidiaries on the Group's results and assets and liabilities, the financial statements give a true and fair view of the financial position of the Group as of December 31, 2003, and of the results of its operation and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

**Lee Ka Leung, Daniel**  
Practising Certificate Number P01220

April 15, 2004

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
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CONSOLIDATED INCOME STATEMENT  
 YEAR ENDED DECEMBER 31, 2003

	<u>Notes</u>	<u>2003</u> RMB'000	<u>2002</u> RMB'000
<b>Turnover</b>	5	1,079,474	778,312
Cost of sales		<u>(716,219)</u>	<u>(547,141)</u>
<b>Gross profit</b>		363,255	231,171
Other net (expenses)/revenue		(44,630)	453
Administrative expenses		(121,339)	(118,169)
Distribution costs		<u>(34,491)</u>	<u>(34,689)</u>
Profit from operations	7	162,795	78,766
Finance costs	8	(30,560)	(48,416)
Share of (losses)/profits of associates		(11,091)	650
(Loss on)/Income from investments	9	<u>(2,011)</u>	<u>14,877</u>
<b>Profit before taxation</b>		119,133	45,877
Taxation	10	<u>(44,675)</u>	<u>(9,887)</u>
<b>Profit after taxation and attributable to shareholders</b>		<u><u>74,458</u></u>	<u><u>35,990</u></u>
Earnings per share			
Basic and diluted	11	<u><u>RMB0.14</u></u>	<u><u>RMB0.07</u></u>

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
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CONSOLIDATED BALANCE SHEET  
 AT DECEMBER 31, 2003

	Notes	<u>2003</u> RMB'000	<u>2002</u> RMB'000
<b>ASSETS</b>			
Non-current assets			
Property, plant and equipment	12	311,854	324,080
Intangible assets	13	61,704	63,314
Interest in subsidiaries not consolidated	15	135,206	87,762
Interests in associates	16	120,148	216,904
Long-term investments	17	17,036	19,776
Pledged bank balances		-	3,000
		<u>645,948</u>	<u>714,836</u>
Current assets			
Inventories	18	1,397,145	1,434,843
Trade and other debtors and prepayments		37,566	101,985
Trading securities	19	14,305	16,810
Cash and bank balances		266,624	251,531
		<u>1,715,640</u>	<u>1,805,169</u>
Current liabilities			
Trade and other creditors		864,424	1,129,625
Provisions	20	50,002	-
Taxes payable		51,833	874
Borrowings	21	777,500	785,000
		<u>1,743,759</u>	<u>1,915,499</u>
Net current liabilities		<u>(28,119)</u>	<u>(110,330)</u>
Total assets less current liabilities		<u>617,829</u>	<u>604,506</u>
Non-current liabilities			
Borrowings	21	130,000	250,000
Long-term deferred income	22	40,009	40,463
		<u>170,009</u>	<u>290,463</u>
		<u>447,820</u>	<u>314,043</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	23	541,799	541,799
Reserves		(93,979)	(227,756)
		<u>447,820</u>	<u>314,043</u>

Approved by the Board of Directors on April 15, 2004.

DIRECTOR ? ?

DIRECTOR ? ?

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
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CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
 YEAR ENDED DECEMBER 31, 2003

	<u>Share capital</u> RMB'000 (Note 22)	<u>Statutory capital reserve</u> RMB'000	<u>Public welfare fund</u> RMB'000	<u>Translation reserve</u> RMB'000	<u>Retained earnings</u> RMB'000	<u>Total</u> RMB'000
Balance at January 1, 2002	541,799	256,806	79,511	14,639	(622,874 )	269,881
Prior year adjustment	-	-	-	-	(8,729 )	(8,729 )
Profit for the year	-	-	-	-	35,990	35,990
Transfer of reserve	-	<u>31,540</u>	-	<u>(14,639 )</u>	-	<u>16,901</u>
Balance at December 31, 2002	541,799	288,346	79,511	-	(595,613 )	314,043
Profit for the year	-	-	-	-	74,458	74,458
Transfer of reserve	-	<u>59,319</u>	-	-	-	<u>59,319</u>
Balance at December 31, 2003	<u>541,799</u>	<u>347,665</u>	<u>79,511</u>	<u>-</u>	<u>(521,155 )</u>	<u>447,820</u>

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
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CONSOLIDATED CASH FLOW STATEMENT  
 YEAR ENDED DECEMBER 31, 2003

	<u>Notes</u>	<u>2003</u> RMB'000	<u>2002</u> RMB'000
<b>Profit from ordinary activities before taxation</b>		<u>119,133</u>	<u>45,877</u>
<b>Adjustment for:</b>			
Share of results of associates		(11,091)	650
Interest expense		81,708	103,254
Interest income		(2,260)	(4,163)
Bad or doubtful debts (written back)		46,007	(47,445)
Provision for doubtful debts (written back)		(9,519)	84,576
Provision for inventories (written back)		(3,160)	43,529
Provision for diminution in value of investments		2,106	5,076
Decrease in bank balances pledged as securities		3,000	8,100
Provision for trading securities		2,169	-
Depreciation of property, plant and equipment		25,027	23,009
Amortisation of intangible assets		1,881	1,881
Gain on disposal of property, plant and equipment		(4,251)	(14,797)
Gain on dealing of listed investments		<u>(4)</u>	<u>-</u>
<b>Operating cash flows before movements in work in progress</b>		<u>250,746</u>	<u>249,546</u>
(Increase)/decrease in inventories		37,698	(131,642)
(Increase)/decrease in receivables		64,419	176,575
Increase/(decrease) in payables		<u>(128,160)</u>	<u>(16,536)</u>
<b>Cash generated by operations</b>		224,703	277,943
Taxes paid		<u>(57,153)</u>	<u>(77,811)</u>
<b>Net cash flows from operating activities</b>		<u>167,550</u>	<u>200,132</u>
<b>Investing activities</b>			
Interest received		2,260	4,163
Dividend paid		-	(29,454)
Proceeds on disposal of other investments		3,051	13,528
Decrease in trading securities		2,505	17,692
Proceeds on disposal of property, plant and equipment		27,143	2,373
Purchases of property, plant and equipment		12,831	(2,530)
Decrease/(Increase) in interest in associates		<u>49,312</u>	<u>(190,002)</u>
<b>Net cash flows from investing activities</b>		<u>238,990</u>	<u>15,902</u>
<b>Financing activities</b>			
Interest paid on bank loans and other loans		(81,708)	(103,254)
Repayment to minority shareholders		-	(22,917)
New bank loans raised		589,000	338,600
Repayments of bank loans		<u>(716,500)</u>	<u>(259,794)</u>
<b>Net cash flows in financing activities</b>		<u>29,782</u>	<u>(31,463)</u>

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
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CONSOLIDATED CASH FLOW STATEMENT  
 YEAR ENDED DECEMBER 31, 2003

	<u>Notes</u>	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Increase in cash and cash equivalents		<u>29,782</u>	<u>31,463</u>
<b>Cash and cash equivalents at beginning of year</b>			
- as previously registered		251,531	282,994
- effect of exclusion of subsidiaries consolidated in prior year		<u>(14,689)</u>	<u>-</u>
As adjusted		<u>236,842</u>	<u>282,994</u>
<b>Cash and cash equivalents at end of year</b>		<u><u>266,624</u></u>	<u><u>251,531</u></u>

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
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NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2003

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1. **CORPORATE INFORMATION**

Shenzhen Properties & Resources Development (Group) Limited (the “Company”) was incorporated as a joint stock company with limited liability in the People’s Republic of China (“PRC”) pursuant to a reorganisation of state-owned enterprises. A and B shares were issued by the Company.

The Company and its subsidiaries (the “Group”) are principally engaged in property development, investment and management, transportation, construction and property development consultancy.

2. **GOING CONCERN**

The directors have carefully considered the financial position of the Group in the light of accumulated losses of RMB521,155,000 (2002: RMB595,613,000) and net current liabilities of RMB28,119,000 (2002: RMB110,330,000) as at December 31, 2003. The Group is currently in negotiation with its bankers to renew certain banking facilities. The absence of such confirmed facilities raised significant uncertainties that the Group will be able to continue as going concern. Provided that the negotiations can be successfully completed and after taking into account the cash inflow expected to be received from the sales of properties in coming year, the directors arrived at the opinion that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis, and no adjustments have been made which would result from a failure to obtain such funding.

3. **BASIS OF PREPARATION**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereafter referred to as “IFRS”). The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management’s best knowledge of current event and actions, actual results ultimately may differ from those estimates.

4. **PRINCIPAL ACCOUNTING POLICIES**

The following principal accounting policies are adopted by the Group in preparing the financial statements to comply with IAS:

(a) Subsidiaries

Subsidiaries, which are those entities in which the Company and its subsidiaries (hereafter referred to as “the Group”) has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

(b) Associates

Investments in associates are accounted for by the equity method of accounting. Under this method the company’s share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates; unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

(c) Property, plant and equipment

Property, plant and equipment are stated at cost or less accumulated depreciation and any impairment losses.

Deprecation is calculated on the straight-line method to write off the cost or the revalued amounts of each asset, to their residual values over their estimated useful lives as follows:

Land and buildings in the PRC	20 –25 years
Buildings outside the PRC	Term of lease or, if less, 20 years
Motor vehicles	5 years
Fixtures and equipment	5 years
Leasehold improvements	5 years

4. **PRINCIPAL ACCOUNTING POLICIES - continued**

(c) Property, plant and equipment - continued

When the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with carrying amount and are included in operating profit.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalized, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

(d) Land use rights

Land use rights are stated at cost less accumulated amortisation and impairment losses. Cost represents consideration paid for the rights to use the land on which various warehouses, container storage areas and buildings are situated for 50 years. Amortisation of land use right is calculated on a straight-line basis over the period of the land use right.

(e) Intangible assets

Intangible assets represent the cost of acquisition of taxi licences and are stated at cost less amortisation and provision, if necessary, for any permanent diminution in value. Amortisation is provided to write off the cost of taxi licences over the license period granted by relevant authorities, which is 20 years.

(f) Investment in equity securities

(i) Long term investments

Long-term investments which are held for long term are stated at cost less provision for diminution in value other than temporary in nature.

(ii) Trading securities

Listed investments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the consolidated income statement. Other listed investments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised directly in the consolidated income statement.

The fair value of listed investments held for trading and listed investment available-for-sale is their quoted bid price at the balance sheet date.

Unlisted investments are stated in the consolidated balance sheet at cost less impairment losses.

4. **PRINCIPAL ACCOUNTING POLICIES – continued**

(g) Properties under development

Properties under development are stated at cost less provision for anticipated losses, where appropriate. Cost includes cost of land use rights acquired, development cost and borrowing costs capitalized.

(h) Completed properties for sale

Completed properties for sale are stated at the lower of cost and the estimated net realizable value. Cost includes cost of land use rights acquired, development cost and borrowing costs capitalized. Net realizable value represents the estimated selling price less the estimated costs necessary to make the sale.

(i) Inventories

Inventories are stated the lower of cost and net realisable value. Costs, which comprise all costs of purchase, are calculated using the weighted average method. Net realisable value represents the estimated selling prices less all estimated costs of completion and selling expenses.

(j) Impairment loss

Property, plant and equipment and other non-current assets, including intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. Impairment losses are recognised in the consolidated income statement.

(k) Revenue recognition

Revenue from sale of property is recognised when sales agreements are signed between the Group and the customers, deposits are received from customers in full amount, and the relevant risks and rewards were transferred to the customers.

Revenue from the sale of goods is recognised upon the transfer of risks and rewards of ownership.

Rental income under operating leases is recognised on a straight line basis over the term of the relevant lease.

Interest income is recognised on a time proportion basis taking into account the principal amounts outstanding and the interest rates applicable.

4. **PRINCIPAL ACCOUNTING POLICIES - continued**

(l) Retirement benefit costs

The Group participates in retirement schemes operated by local authorities and the annual cost of providing retirement benefits is charged to the consolidated profit and loss account according to the contribution determined by the relevant schemes.

(m) Taxation

The charge for taxation is based on the result for the year as adjusted for items, which are non-assessable or disallowable. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the accounts. The tax effect of timing difference, computed using the liability method, is recognised in accounts to the extent in its probable a liabilities or an asset will crystallize in the foreseeable future.

(n) Foreign currencies translation

The Company and its subsidiaries maintain their books and records in Renminbi ('RMB'). Transactions in foreign currencies are translated at exchange rates quoted by the People's Bank of China at the translation dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the exchange rate quoted by the People's Bank of China at the balance sheet date. All exchange differences are dealt with in the income statement.

The accounts of subsidiaries and associated companies expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with as a movement in reserves.

(o) Operating leasing

Leases where substantially all the rewards, and risks of ownership of assets remain with the lessors are accounted for as operating leases.

Rentals income and expenses under operating leases are credited and charged respectively to the consolidated income statement on a straight-line basis over the term of the relevant lease.

(p) Cash and cash equivalents

Cash and cash equivalents comprise short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from bank repayable within three months from the date of the advances.

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
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NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2003

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4. **PRINCIPAL ACCOUNTING POLICIES - continued**

(q) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

5. **TURNOVER**

An analysis of the Group's turnover is as follows:

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Sale of properties	903,550	529,638
Sale of goods	37,980	101,352
Taxi services	28,359	33,556
Property rental and management services income	103,643	104,824
Hotel and restaurant operations	5,942	5,755
Others	-	3,187
	<hr/>	<hr/>
Total	<u>1,079,474</u>	<u>778,312</u>

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 ? ? ? ? ? ? ? ( ? ? ) ? ? ? ? ? ? ?

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2003

6. SEGMENTS REPORTING

(a) Business segment

For management purposes, the Group is organised into three major operating divisions – property, trading, and transportation and catering services. The divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Property - construction, sales, leasing and management of properties
- Trading - sale of general merchandise
- Transportation and catering services - hotel and restaurant operation and provision of taxi services

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

	Sales of properties, management services and <u>rental income</u> RMB'000	Sales of <u>goods</u> RMB'000	Taxi services, hotel and restaurant operations <u>and others</u> RMB'000	<u>Eliminations</u> RMB'000	<u>Consolidated</u> RMB'000
<b>Revenue</b>					
External sales	1,007,193	37,980	34,301	-	1,079,474
Inter-segment sales	<u>16,277</u>	<u>-</u>	<u>-</u>	<u>(16,277)</u>	<u>-</u>
Total revenue	<u>1,023,470</u>	<u>37,980</u>	<u>34,301</u>	<u>(16,277)</u>	<u>1,079,474</u>

Inter-segment sales are charged on terms which are determined by the directors.

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
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NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2003

6. SEGMENTS REPORTING - continued

	Sales of properties, management services and <u>rental income</u> RMB'000	Sales of <u>goods</u> RMB'000	Taxi services, hotel and restaurant operations <u>and others</u> RMB'000	<u>Eliminations</u> RMB'000	<u>Consolidated</u> RMB'000
<b>RESULTS</b>					
Segment results	348,737	3,014	17,160	(5,656)	363,255
General administrative expenses and unallocated corporate expenses					(200,460)
Profit from operations					162,795
Finance costs					(30,560)
Share of losses of associates					(11,091)
Loss on investments					(2,011)
Profit before taxation					119,133
Taxation					(44,675)
Profit after taxation and attributable to shareholders					74,458

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

	Sales of properties, management services and <u>rental income</u> RMB'000	Sales of <u>goods</u> RMB'000	Taxi services, hotel and restaurant operations <u>and others</u> RMB'000	<u>Eliminations</u> RMB'000	<u>Consolidated</u> RMB'000
<b>Revenue</b>					
External sales	634,462	101,352	42,498	-	778,312
Inter-segment sales	12,508	-	-	(12,508)	-
Total revenue	646,970	101,352	42,498	(12,508)	778,312

Inter-segment sales are charged on terms which are determined by the directors.

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
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NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2003

6. SEGMENTS REPORTING - continued

	Sales of properties, management services and <u>rental income</u> RMB'000	Sales of <u>goods</u> RMB'000	Taxi services, hotel and restaurant operations <u>and others</u> RMB'000	<u>Eliminations</u> RMB'000	<u>Consolidated</u> RMB'000
<b>RESULTS</b>					
Segment results	<u>175,563</u>	<u>30,702</u>	<u>24,906</u>	<u>-</u>	231,171
General administrative expenses and unallocated corporate expenses					<u>(152,405 )</u>
Profit from operations					78,766
Finance costs					(48,416 )
Share of losses of associates					650
Income from investments					<u>14,877</u>
Profit before taxation					45,877
Taxation					<u>(9,887 )</u>
Profit after taxation and attributable to shareholders					<u><u>35,990</u></u>

(b) Geographical segment

For the year ended December 31, 2003 and 2002, all of the Groups business was derived from activities in the PRC and all of the Group's total assets are located in the PRC as at December 31, 2003 and 2002.

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
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NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2003

7. **PROFIT FROM OPERATIONS**

Profit from operations has been arrived at after charging and (crediting):

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
<b>After charging:</b>		
Staff costs – statutory pension	11,904	3,582
– other costs	<u>73,781</u>	<u>73,233</u>
Total staff costs	85,685	76,815
Depreciation of owned property, plant and equipment	25,027	23,009
Amortisation of intangible assets	1,881	1,880
Provision for doubtful debts	-	97,765
Provision for diminution in value of investment	2,107	6,305
Provision for inventories	-	19,832
Provision for trading securities	<u>2,169</u>	<u>-</u>
<b>And after crediting:</b>		
Interest income	2,260	4,163
Written-back of provision for doubtful debts	9,519	-
Provision for inventories	3,160	-
Gain on disposal of property, plant and equipment	4,251	15,058
Gain on dealing of trading securities	<u>4</u>	<u>-</u>

8. **FINANCE COSTS**

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Interest expenses	81,708	103,254
Less: Interest capitalized	<u>(51,148 )</u>	<u>(54,838 )</u>
	<u>30,560</u>	<u>48,416</u>

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
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NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2003

9. (LOSS ON)/INCOME FROM INVESTMENTS

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Interest on bank deposits, government bonds and other loans	2,260	4,163
Provision for diminution in value of investments	(2,106)	-
Provision for diminution in value of investments written back	-	10,714
Gain on dealing of listed investments	4	-
Reversal of the provision for trading securities	(2,169)	-
	<u>(2,011)</u>	<u>14,877</u>

10. TAXATION

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
The charge comprises:		
Profits tax for the year:		
PRC profits tax	<u>44,675</u>	<u>9,887</u>
Taxation attributable to the Company and its subsidiaries	<u>44,675</u>	<u>9,887</u>

The Group provided for income tax on the estimated assessable profit for the year at the rate of 15% (2002: 15%), the prevailing income tax rate for all PRC enterprise in Shenzhen. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the subsidiary operate.

The charge for the year can be reconciled to the profit per the income statement as follows:

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Profit before tax	<u>119,133</u>	<u>45,877</u>
Tax at the domestic income tax rate of 15% (2002:15%)	17,870	6,882
Tax effect of expenses that are not deductible in determining taxable profit	17,862	557
Effect of different tax rates of subsidiaries and associates	<u>8,943</u>	<u>2,448</u>
Tax expense and effective tax rate for the year	<u>44,675</u>	<u>9,887</u>

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NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2003

11. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of RMB74,458,450 (2002: RMB35,990,000) and the 541,799,000 (2002: 541,799,000) shares in issue during the year.

12. PROPERTIES, PLANT AND EQUIPMENT

	Leasehold land and <u>buildings</u> RMB'000	Leasehold <u>improvements</u> RMB'000	Motor <u>vehicles</u> RMB'000	Fixture and <u>equipment</u> RMB'000	<u>Total</u> RMB'000
<b>COST</b>					
At January 1, 2003	345,125	33,744	53,393	28,487	460,749
Transferred from inventories	17,145	-	-	-	17,145
Additions	-	3,699	8,316	1,451	13,466
Disposals	<u>(24,834)</u>	<u>-</u>	<u>(20,729)</u>	<u>(2,708)</u>	<u>(48,271)</u>
At December 31, 2003	<u>337,436</u>	<u>37,443</u>	<u>40,980</u>	<u>27,230</u>	<u>443,089</u>
<b>DEPRECIATION</b>					
At January 1, 2003	77,473	10,944	34,669	13,583	136,669
Charge for the year	13,892	2,617	6,927	1,591	25,027
Eliminated on disposals	<u>(9,405)</u>	<u>-</u>	<u>(19,137)</u>	<u>(1,919)</u>	<u>(30,461)</u>
At December 31, 2003	<u>81,960</u>	<u>13,561</u>	<u>22,459</u>	<u>13,255</u>	<u>131,235</u>
<b>NET BOOK VALUES</b>					
At December 31, 2003	<u>255,476</u>	<u>23,882</u>	<u>18,521</u>	<u>13,975</u>	<u>311,854</u>
At December 31, 2002	<u>267,652</u>	<u>22,800</u>	<u>18,724</u>	<u>14,904</u>	<u>324,080</u>

As at December 31, 2003, land and buildings with net book values of RMB330,000,000(2002: RMB356,000,000) have been pledged to the banks to secure general banking facilities for the Company and its subsidiaries.

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NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2003

13. INTANGIBLE ASSETS

	RMB'000
Cost	
At January 1, 2003	88,812
Additions	<u>272</u>
At December 31, 2003	89,084
Amortisation	
At January 1, 2003	25,498
Provide for the year	<u>1,881</u>
At December 31, 2003	<u>27,379</u>
Net book value	
At December 31, 2003	<u>61,705</u>
At January 1, 2003	<u>63,314</u>

As at December 31, 2003, taxi licenses with net book value of RMB31,446,000 (2002: RMB16,840,000) have been pledged to the banks to secure general banking facilities for the Company and its subsidiaries.

14. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries included in consolidated financial statement at December 31, 2003 are as follows:

<u>Names of subsidiary</u>	Proportion of ownership interest/ Proportion of <u>voting power held</u>		<u>Principal activities</u>	<u>Place of incorporation</u>
	Direct %	Indirect %		
Hainan Xinda Development Headquarter Company	100	-	Property development and trading	The People's Republic of China
Shenzhen Property and Construction Development Company	100	-	Property development	The People's Republic of China
Shenzhen ITC Estate Management Company	95	5	Property management	The People's Republic of China
Shenzhen Huangcheng Real Estate Company Limited	95	5	Property development, construction and management	The People's Republic of China
Shenzhen ITC Vehicles Services Company	90	10	Transportation and vehicles rental service	The People's Republic of China
Shanghai Shenzhen Properties Development Company Limited	80	20	Property management and construction	The People's Republic of China
? ? ? ? ? ? ? ? ? ? ?	80	20	Restaurant operation and wine merchandise	The People's Republic of China

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NOTES TO THE FINANCIAL STATEMENTS  
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15. INTEREST IN SUBSIDIARIES NOT CONSOLIDATED

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Cost of investment	100,658	116,950
Provision for diminution in value	<u>(71,051)</u>	<u>(61,698)</u>
	29,607	55,252
Amounts due from associates	145,120	72,031
Amounts due to associates	<u>(39,521)</u>	<u>(39,521)</u>
	<u>135,206</u>	<u>87,762</u>

Details of subsidiaries excluded from the consolidated financial statement at December 31, 2003 are as follows:

<u>Name of subsidiary</u>	Proportion of ownership interest/Proportion of <u>voting power held</u>		<u>Principal activities</u>	<u>Place of incorporation</u>
	Direct %	Indirect %		
Shum Yip Properties Development Limited	100	-	Property development	Hong Kong
Shenzhen International Trade Plaza	95	5	Retailing of general merchandise	The People's Republic of China
????????????????	90	10	Property development consultancy services	The People's Republic of China
Zhanjing Shenzhen Estate Development Company Limited	100	-	Property development and retailing of general merchandise	The People's Republic of China
Shenzhen ITC Plaza & Development Company Limited	70	-	Property investment and development	The People's Republic of China
????????????????	100	-	Property development	The People's Republic of China
????????????????	100	-	Property investment	The People's Republic of China
????????????????	100	-	Property development	The People's Republic of China
????????????????	100	-	Property development	The People's Republic of China
???????????????? ?????	100	-	Driver training	The People's Republic of China
深圳市皇城物业管理有限公司	100	-	Property management	The People's Republic of China

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NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2003

15. INTEREST IN SUBSIDIARIES NOT CONSOLIDATED (Continued)

<u>Name of subsidiary</u>	Proportion of ownership		<u>Principal activities</u>	<u>Place of incorporation</u>
	interest/Proportion of			
	<u>voting power held</u>			
	Direct	Indirect		
	%	%		
? ? ? ? ? ? ? ? ? ? ? ?	100	-	Property development	The People's Republic of China
? ? ? ?	100	-	Dormant	The People's Republic of China
? ? ? ? ? ? ? ?	100	-	Tourism	The People's Republic of China
? ? ? ? ? ? ? ? ? ? ? ?	100	-	Property development	The People's Republic of China

16. INTEREST IN ASSOCIATES

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Cost of investment	148,559	219,674
Share of post-acquisition loss, net of dividends received	(23,754)	(146,102)
Provision for diminution in value	<u>(64,350)</u>	<u>(51,598)</u>
	60,455	21,974
Amounts due from associates	59,928	200,560
Amounts due to associates	<u>(235)</u>	<u>(5,630)</u>
	<u>120,148</u>	<u>216,904</u>

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NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2003

16. INTEREST IN ASSOCIATES

Details of the principal associates at December 31, 2003 are as follows:

<u>Names of associates</u>	Proportion of ownership interest/ Proportion of <u>voting power held</u> Direct %	<u>Principal activities</u>	<u>Place of incorporation</u>
Shenzhen Carrier Service Company Limited	40	Air-conditioning	The People's Republic of China
ITC Tian An Company Limited	50	Property investment and development	The People's Republic of China
Shenzhen Lingnan Jifa Warehouse Company Limited	50	Warehousing	The People's Republic of China
Anhui Nan Peng Paper Manufacturing Company Limited	30	Manufacturing and sales of coated art paper	The People's Republic of China
Suzhou Fuda Property Development Company Limited	25	Property development	The People's Republic of China
Shenzhen Matform Ceramics Industry Company Limited	26	Ceramics craft	The People's Republic of China
? ? ? ? ? ? ? ? ? ? ? ?	38.33	Property development	The People's Republic of China
? ? ? ? ? ? ? ? ? ? ? ? ? ?	50	Building management	The People's Republic of China
? ? ? ? ? ?	20	Property investment	The People's Republic of China
? ? ? ? ? ? ? ? ? ? ? ?	30	Motor vehicle trading	The People's Republic of China

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NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2003

**17. LONG-TERM INVESTMENTS**

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Unlisted equity investments at cost	22,386	23,776
Provision for diminution in value	<u>(5,350)</u>	<u>(4,000)</u>
	<u>17,036</u>	<u>19,776</u>

The amount represents holding of unlisted legal-person shares of enterprises established in PRC.

**18. INVENTORIES**

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Properties held for sale/under development	537,958	825,482
Completed properties held for sale	852,100	605,419
Other inventories	<u>7,087</u>	<u>3,942</u>
	<u>1,397,145</u>	<u>1,434,843</u>

As at December 31, 2003, completed properties held for sale with carrying value of RMB83,000,000(2002:RMB60,000,000) have been pledged to the banks to secure general banking facilities granted to the subsidiaries.

**19. TRADING SECURITIES**

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Listed securities, at market value	<u>14,305</u>	<u>16,810</u>

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NOTES TO THE FINANCIAL STATEMENTS  
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20. PROVISIONS

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Provision for tax year and balance at end of year	<u>50,002</u>	<u>-</u>

The provision represents management's best estimate of the Group's liability for certain litigation losses.

21. BORROWINGS

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Bank overdrafts	-	333,440
Bank loans	<u>887,500</u>	<u>655,560</u>
	887,500	989,000
Other loans	<u>20,000</u>	<u>46,000</u>
	<u>907,500</u>	<u>1,035,000</u>
Secured	887,500	655,560
Unsecured	<u>20,000</u>	<u>379,440</u>
	<u>907,500</u>	<u>1,035,000</u>

The maturity profile of the above loans and overdrafts is as follow:

On demand or within one year	777,500	785,000
More than one year, but not exceeding two years	-	70,000
More than two years, but not exceeding five years	<u>130,000</u>	<u>180,000</u>
	907,500	1,035,000
Less: Amounts due within one year shown under current liabilities	<u>777,500</u>	<u>785,000</u>
	<u>130,000</u>	<u>250,000</u>

During the year, the Group obtained new bank loans in the amounts of RMB589,000,000. The loans bear interest at prevailing market rates ranging from 5% to 7% (2002:5% to 8%) per annum

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NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2003

22. **LONG-TERM DEFERRED INCOME**

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
At January 1, 2003	40,463	-
Additions for the year	1,731	42,169
Released to income statement	<u>(2,185)</u>	<u>(2,156)</u>
At December 31, 2003	<u>40,009</u>	<u>40,463</u>

Amount represent deferred income arising on sales of taxi licenses and being released to income statement over 25 years.

23. **SHARE CAPITAL**

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Registered, issued and fully paid:		
388,949,000 state shares and shares held by other promoters of RMB1.00 each	388,949	388,949
91,391,000 A share of RMB1.00 each	91,391	91,391
61,459,000 B share of RMB1.00 each	<u>61,459</u>	<u>61,459</u>
	<u>541,799</u>	<u>541,799</u>

All the shares rank pari passu with each other in all respects.

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NOTES TO THE FINANCIAL STATEMENTS  
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24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Short-term <u>bank loans</u> RMB'000	Long-term <u>bank loans</u> RMB'000	Other short-term <u>loans</u> RMB'000
Balance at January 1, 2003	785,000	250,000	-
New loans raised	589,000		70,000
Repayments of amounts borrowed	<u>(666,500)</u>	<u>(120,000)</u>	<u>-</u>
Balance at December 31, 2003	<u><u>707,500</u></u>	<u><u>130,000</u></u>	<u><u>70,000</u></u>

25. PLEDGE OF ASSETS

As at December 31, 2003, leasehold land and buildings with a net book value of RMB330,000,000 (2002: RMB356,000,000), completed properties held for sales of RMB83,000,000 (2002: RMB60,000,000) and certain taxi licenses having a net book value of RMB31,446,000 (2002: RMB16,840,000) have been pledged to the banks for the general banking facilities granted to the Group.

## 26. CONTINGENT LIABILITIES

- (1) The Company provided guarantee for a third party on bank loans of approximately RMB59 million and RMB6 million respectively. The loans were in default and the banks had taken legal action against the lender and the Company to recover the loan principal and interest accrued. The bank claiming the RMB59 million loan have succeeded in receiving certain assets of the borrower which in the opinion of the Company's directors are of a realizable value sufficient to cover the bank's claim. The bank claiming the RMB6 million loan is in the process of seeking receivership of the borrower's assets. The court has placed a closing order on certain of the Company's long-term equity investments for this purpose. The carrying amount of such investments at December 31, 2003 is approximately RMB5.3 million.
- (2) The Company and one of its wholly owned subsidiaries are defendants in a law suit carried to the court in 1999 claiming for breach of contract of sale and purchase of realty properties on the part of the Company and its subsidiary by virtue of failure to completing the transaction by proper transfer of title deeds of properties concerned on schedule as contracted. The Provincial High Court of Guangdong has declared and re-affirmed its final ruling against the Company and its subsidiary for paying a total compensation of approximately HK\$79 million (or approximately RMB84 million) to the plaintiffs. The Company is seeking an appeal to the People's Supreme Court and as a prerequisite, submitted to the court a voluntary order of restriction on certain of the Group's realty properties assets of a carrying value on the balance sheet as at December 31, 2003 of approximately RMB40 million which, in the opinion of the Company's directors, are of a realizable value sufficient to cover the compensation as imposed by the court decision. A provision of approximately RMB42 million has been made for the loss under such case in the Group's financial statements as of December 31, 2003. As at the date of this report, the application for appeal to the Supreme Court is still in progress.
- (3) A court case against the Company in 2000 in relation to delay in delivery of realty properties was finalized and according to the court decision the Company have to refund to the plaintiff the whole of the purchase consideration for the properties concerned of RMB10.8 million plus interest accrued. In 2003 the Company succeeded in reaching an agreement to out-of-court settlement with the plaintiff to settle the compensation in "property-plus-cash" basis. According to such settlement agreement, the Company have to make a total compensation of approximately RMB19 million. A provision for such compensation of approximately RMB8 million has been made accordingly in the financial statements for the year.
- (4) A subsidiary is a defendant in a law suit brought during 2001 claiming approximately HK\$10,676,000 and RMB20,000 relating to the import of refrigerator from a supplier. The Municipal Intermediate Court of Shenzhen had concluded the case in favour of the Group in December 2002. The case was appealed by the plaintiff to the Provincial High Court of Guangdong. As at the date of this report, the legal proceeding of the case is still in progress and no final ruling has been made by the High Court. The directors are of the opinion that the claim was unfounded and expect that the Group will not suffer any loss from such claim. Accordingly, no provision for any loss in respect to the case is made.

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NOTES TO THE FINANCIAL STATEMENTS  
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27. OPERATING LEASES

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
- Within one year	35,000	22,430
- In the second to fifth year inclusive	40,000	15,685
- After five years	<u>40,000</u>	<u>4,017</u>
	<u>115,000</u>	<u>42,132</u>

28. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties including Shenzhen Construction Investment Holding Co. ( ? ? ? ? ? ? ? ? ? ? ? ? ), the company's holding company:

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Sale of properties	<u>82,047</u>	<u>-</u>

Outstanding balances with related parties the balance sheet date which are included in the balance sheet are as follows:

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Amounts due from related parties, disclosed as interest in subsidiaries not consolidated, interest in associates and trade and other debtors and prepayments	<u>212,695</u>	<u>276,853</u>

	<u>2003</u> RMB'000	<u>2002</u> RMB'000
Amounts due to related parties, disclosed as interest in subsidiaries not consolidated, interest in associates and trade and other creditors	<u>60,556</u>	<u>130,605</u>

The above transactions were carried out at terms agreed between the Group and the related parties. The balances with related parties are unsecured, interest free and have no fixed terms of repayment.

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NOTES TO THE FINANCIAL STATEMENTS  
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29. IMPACT OF IAS ADJUSTMENTS ON PROFIT/LOSS FOR THE YEAR

	Profit for the year ended December 31,	
	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
As reported in financial statements prepared in accordance with PRC GAAP	77,002	34,622
Adjustment to confirm with IAS:		
Deferred expenses written off	(97)	(81 )
Amortisation charges written back	170	332
Addition depreciation charges	(2,617)	(2,617 )
Others	-	3,734
	<u>74,458</u>	<u>35,990</u>

30. IAS IMPACT ON CONSOLIDATION NET ASSETS

	December 31, Consolidated net assets	
	<u>2003</u>	<u>2002</u>
	RMB'000	RMB'000
As reported in financial statements prepared in accordance with PRC GAAP	474,223	337,904
Adjustment to confirm with IAS:		
“B share” prior years adjustments	(4,000)	(4,000 )
Deferred expenses written off	(3,362)	(3,265 )
Amortisation charges written back	581	411
Addition depreciation charges	(10,380)	(7,764 )
Addition amortisatiobn charges	(8,373)	(8,373 )
Unamortised expenses written off	(4,233)	(4,233 )
Others	3,364	3,364
	<u>447,820</u>	<u>314,044</u>