

**SHENZHEN PROPERTIES & RESOURCES  
DEVELOPMENT (GROUP) LTD.**

**ANNUAL REPORT 2004**

**Mar. 1, 2005**

**Important Notes:** Board of Directors of Shenzhen Properties & Resources Development (Group) Ltd. (hereinafter referred to as the Company) individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading.

Two directors were absent from the Board meeting due to some reasons, but they examined the relevant information before the meeting; among them, Director Guo Yuanxian entrusted Chairman of the Board Mr. Tian Chenggang and at the same time Jiang changlong entrusted Kong Yuquan to vote on his behalf with the aye to all proposals involved in the said meeting respectively.

Wuhan Zhonghuan CPAs Ltd. issued an unqualified Auditors' Report with pinpoint events for the Company; and the Board of Directors and the Supervisory Committee of the Company made the corresponding explanations in details for the relevant matters, the investors are suggested to notice the content.

Chairman of the Board of the Company Tian Chenggang, General Manager Fang Yibing and Manager of Financial Department Zhang Wei hereby confirm that the Financial Report enclosed in the Annual Report is true and complete.

This report has been prepared in Chinese version and English version respectively. In the event of difference in interpretation between the two versions, the Chinese report shall prevail.

## Contents

|                                                                                     |           |
|-------------------------------------------------------------------------------------|-----------|
| <b>I . Company Profile-----</b>                                                     | <b>3</b>  |
| <b>II . Summary of Financial Highlight and Business Highlight-----</b>              | <b>3</b>  |
| <b>III. Particulars about the Changes in Capital Shares and Shareholders-----</b>   | <b>6</b>  |
| <b>IV. Particulars about Director, Supervisor, Senior Executive and Staff -----</b> | <b>9</b>  |
| <b>V. Administrative Structure-----</b>                                             | <b>15</b> |
| <b>VI. Brief Introduction to the Shareholders' General Meeting -----</b>            | <b>17</b> |
| <b>VII. Report of the Board of Directors -----</b>                                  | <b>18</b> |
| <b>VIII. Report of the Supervisory Committee-----</b>                               | <b>29</b> |
| <b>IX. Significant Events-----</b>                                                  | <b>31</b> |
| <b>X. Financial Report-----</b>                                                     | <b>38</b> |
| <b>XI. Documents for Reference-----</b>                                             | <b>38</b> |

## I. COMPANY PROFILE

### 1. Name of the Company

In Chinese: 深圳市物业（发展）集团股份有限公司

Abbr. in Chinese: 物业集团

In English: ShenZhen Properties & Resources Development (Group) Ltd. (PRD)

### 2. Legal Representative: Tian Chenggang

### 3. Secretary of the Board: Guo Yumei

Securities Affairs Representative: Dong Wei

Tel: (86) 755-8221 1020

Fax: (86) 755-8221 0610, 8221 2043

Contact Address: 42<sup>nd</sup> Floor, International Trade Center, Renmin South Road, Shenzhen

E-mail: 0011@szwuye.com.cn

### 4. Registered Address and Office Address: 39<sup>th</sup> and 42<sup>nd</sup> Floor, International Trade Center, Renmin South Road, Shenzhen

Post Code: 518014

Internet Web Site of the Company: [www.szwuye.com.cn](http://www.szwuye.com.cn)

### 5. Media Designated for Disclosing Information of the Company:

A-Share: Securities Times, B-Share: Ta Kung Pao

Internet Web Site Designated by CSRC for Publishing the Annual Report:

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

Place Where the Annual Report is Prepared and Placed: Office of Board of Directors, on 42<sup>nd</sup> Floor, International Trade Center, Renmin South Road, Shenzhen

### 6. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form of Stock and Stock Code: ST Shenwuye (000011)

ST Wuye-B (200011)

### 7. Registration data: Jan. 17, 1983

Address: Shenzhen Municipal Administrative Bureau of Industrial and Commerce

Registration number of enterprise legal person's business license: 4403011027229

Registered number of taxation: 440301192174135

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

Domestic: Wuhan Zhonghuan CPA Ltd.

Address: 16<sup>th</sup> Floor, Tower B, Wuhan International Mansion

International: KLL Associates CPA Ltd.

Address: Suite 1303, Shanghai Industrial Investment Building, 60 Hennessy Road, Wanchai, Hong Kong

## II. SUMMARY OF FINANCIAL HIGHLIGHTS AND BUSINESS HIGHLIGHTS

### (I) Accounting data as of the year 2003 (Unit: RMB)

|              |                |
|--------------|----------------|
| Total profit | 126,160,243.54 |
| Net profit   | 90,449,977.35  |

|                                                           |                |
|-----------------------------------------------------------|----------------|
| Net profit after deducting non-recurring gains and losses | 83,210,206.33  |
| Profit from main operations                               | 423,765,125.70 |
| Other operating profit                                    | 5,556,502.01   |
| Operating profit                                          | 137,231,694.71 |
| Investment income                                         | -4,141,308.02  |
| Subsidy income                                            | 0.00           |
| Net non-operating incomes/expenses                        | -6,930,143.15  |
| Net cash flow arising from operating activities           | 261,714,529.31 |
| Net increase in cash and cash equivalents                 | -31,389,724.18 |

Unit: RMB

| Items of non-recurring gains and losses                                                                                                                            | Amount         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|
| 1. Gains/losses from disposal of long-term equity investment, fixed assets, project in construction, intangible assets and other long-term assets                  | 1,267,692.30   |
| 2. Gains/losses from short-term investment                                                                                                                         | (62,326.73)    |
| 3. Various non-operating income after deducting daily reserve for impairment of assets in line with the regulations of Accounting System for Business Enterprise   | 990,455.48     |
| 4. Various non-operating expenses after deducting daily reserve for impairment of assets in line with the regulations of Accounting System for Business Enterprise | (9,188,290.93) |
| 5. Switching back various reserve for devaluation allotted over the previous years                                                                                 | 10,823,541.67  |
| Impact on income tax                                                                                                                                               | (246,138.16)   |
| Total                                                                                                                                                              | 3,584,933.63   |

Differences in net profit calculated under Chinese Accounting Standards and International Accounting Standards:

Unit: RMB'000

| Items                                                     | Net profit (as of year 2004) | Net assets (as at Dec. 31, 2004) |
|-----------------------------------------------------------|------------------------------|----------------------------------|
| As calculated in accordance with CAS                      | 90,450                       | 567,129                          |
| Switching back into fixed assets from amortization amount | 32                           | 615                              |
| Adjustment of expenses amortization                       | -86                          | -30,436                          |
| Other                                                     |                              | 3,364                            |
| As calculated in accordance with IAS                      | 90,396                       | 540,672                          |

(II) Major accounting date and financial indexes over the past three years ended the report period (Unit: RMB)

| Items                       | 2004             | 2003             | 2002             |
|-----------------------------|------------------|------------------|------------------|
| Income from main operations | 1,326,289,977.75 | 1,079,474,318.91 | 781,284,955.43   |
| Net profit                  | 90,449,977.35    | 77,001,831.44    | 34,622,176.84    |
| Total assets                | 2,302,935,990.54 | 2,437,227,899.69 | 2,607,979,385.36 |

|                                                                                      |                |                |                |
|--------------------------------------------------------------------------------------|----------------|----------------|----------------|
| Shareholders' equity (excluding minority interests)                                  | 567,128,809.36 | 474,222,712.97 | 337,903,702.25 |
| Earnings per share (fully diluted)                                                   | 0.167          | 0.142          | 0.064          |
| Earnings per share after deducting the non-recurring gains and losses                | 0.154          | 0.229          | 0.066          |
| Net assets per share                                                                 | 1.047          | 0.875          | 0.624          |
| Net assets per share after adjustment                                                | 0.793          | 0.513          | 0.146          |
| Net cash flow per share arising from operating activities                            | 0.483          | 0.364          | -0.064         |
| Fully diluted return on equity                                                       | 15.95%         | 16.24%         | 10.25%         |
| Weighted average return on equity                                                    | 17.41%         | 20.46%         | 11.76%         |
| Weighted average return on equity after deducting the non-recurring gains and losses | 16.72%         | 32.95%         | 12.19%         |

Return on equity and earnings per share calculated based on Regulations on the Information Disclosure of Companies Publicly Issuing Shares (No. 9) published by CSRC

Year 2004

Unit: RMB

| Profit indexes as of the year 2004                        | Return on equity (%) |                  | Earning per share (RMB/share) |                  |
|-----------------------------------------------------------|----------------------|------------------|-------------------------------|------------------|
|                                                           | Fully diluted        | Weighted average | Fully diluted                 | Weighted average |
| Profit from main operations                               | 74.72%               | 81.58%           | 0.7821                        | 0.7821           |
| Operating profit                                          | 24.20%               | 26.42%           | 0.2533                        | 0.2533           |
| Net profit                                                | 15.95%               | 17.41%           | 0.1669                        | 0.1669           |
| Net profit after deducting non-recurring gains and losses | 15.32%               | 16.72%           | 0.1602                        | 0.1602           |

(III) Particulars about change in shareholders' equity in the report period

Unit: RMB

| Items           | Amount at the period-begin | Increase in this period | Decrease in this period | Amount at the period-end | Reason for change                                                                                                                                                                                                 |
|-----------------|----------------------------|-------------------------|-------------------------|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Share capital   | 541,799,175.00             |                         |                         | 541,799,175.00           |                                                                                                                                                                                                                   |
| Capital reserve | 396,864,322.87             | 2,456,119.04            |                         | 399,320,441.91           | In this report period, increase of capital reserve was because subsidiary company transferred account receivables of RMB 2,456,119.04 into capital reserve, which is not needed to pay on credit for a long time. |
| Surplus reserve | 62,919,127.11              |                         |                         | 62,919,127.11            |                                                                                                                                                                                                                   |

|                                                    |                 |               |  |                 |                                             |
|----------------------------------------------------|-----------------|---------------|--|-----------------|---------------------------------------------|
| Including:<br>Statutory<br>welfare public<br>funds | 62,919,127.11   |               |  | 62,919,127.11   |                                             |
| Retained profit                                    | -527,359,912.01 | 90,449,977.35 |  | -436,909,934.66 | Realization of net profit<br>as of the year |
| Total<br>shareholders'<br>equity                   | 474,222,712.97  | 92,906,096.39 |  | 567,128,809.36  |                                             |

### III. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

(I) Particulars about changes in share capital as of the year 2004

#### 1. Statement of change in shares

Unit: Share

|                                               | Before the<br>change | Increase/decrease of this time (+, -) |                 |                                     |                        |        |          | After the<br>change |
|-----------------------------------------------|----------------------|---------------------------------------|-----------------|-------------------------------------|------------------------|--------|----------|---------------------|
|                                               |                      | Ratione<br>d share                    | Bonus<br>shares | Capitalization of<br>public reserve | Additional<br>issuance | Others | Subtotal |                     |
| I. Unlisted shares                            |                      |                                       |                 |                                     |                        |        |          |                     |
| 1. Sponsors' shares                           |                      |                                       |                 |                                     |                        |        |          |                     |
| Including:                                    |                      |                                       |                 |                                     |                        |        |          |                     |
| State-owned share                             | 323,747,713          |                                       |                 |                                     |                        |        |          | 323,747,713         |
| Domestic legal person's shares                | 65,200,850           |                                       |                 |                                     |                        |        |          | 65,200,850          |
| Foreign legal person's shares                 |                      |                                       |                 |                                     |                        |        |          |                     |
| Others                                        |                      |                                       |                 |                                     |                        |        |          |                     |
| 2. Raised legal person's shares               |                      |                                       |                 |                                     |                        |        |          |                     |
| 3. Inner employees' shares                    |                      |                                       |                 |                                     |                        |        |          |                     |
| 4. Preference shares or others                |                      |                                       |                 |                                     |                        |        |          |                     |
| Total unlisted shares                         | 388,948,563          |                                       |                 |                                     |                        |        |          | 388,948,563         |
| II. Listed shares                             |                      |                                       |                 |                                     |                        |        |          |                     |
| 1. RMB ordinary shares                        | 91,355,000           |                                       |                 |                                     |                        |        |          | 91,355,000          |
| 2. Domestically listed foreign<br>shares      | 61,459,312           |                                       |                 |                                     |                        |        |          | 61,459,312          |
| 3. Overseas listed foreign shares             |                      |                                       |                 |                                     |                        |        |          |                     |
| 4. Frozen shares held by senior<br>executives | 36,300               |                                       |                 |                                     |                        |        |          | 36,300              |
| Total listed shares                           | 152,850,612          |                                       |                 |                                     |                        |        |          | 152,850,612         |
| III. Total shares                             | 541,799,175          |                                       |                 |                                     |                        |        |          | 541,799,175         |

#### 2. Issuance and listing of shares

Over previous three years as at end of the report period, the Company issued neither new shares nor derived securities; and there were changes in neither total shares nor the structure of shares due to bonus shares and rationed shares. The existent inner employees' shares of the Company were subscribed by senior executives when the Company initially issued the shares at the issuance price of RMB 3.6 per share; the issuance date is Oct. 31, 1991; the issuance quantity is 6.5 million shares.

## (II) About shareholders

1. By the end of the report period, the Company has 37,647 shareholders in total, including 29,831 ones of A-share, 7,816 ones of B-share.

2. About the top ten shareholders are as follows:

| Name of shareholders                                                        | Shares held<br>(share) | Proportion<br>(%) |
|-----------------------------------------------------------------------------|------------------------|-------------------|
| SHENZHEN CONSTRUCTION INVESTMENT HOLDINGS                                   | 323,747,713            | 59.75             |
| SHENZHEN INVESTMENT HOLDING CORPORATION                                     | 56,628,000             | 10.45             |
| LABOR UNION OF SHENZHEN INTERNATIONAL TRADE<br>PROPERTY MANAGERMENT COMPANY | 2,516,800              | 0.46              |
| SHENZHEN SPECIAL ZONE DUTY-FREE COMMODITY CO.                               | 1,573,000              | 0.29              |
| YOU XIAN HUI                                                                | 1,117,297              | 0.21              |
| SHANGHAI ZHAODA INVESTMENT CONSULTANT CO., LTD.                             | 1,010,000              | 0.19              |
| DU NIAN                                                                     | 802,663                | 0.15              |
| CHINA EAGLE SECURITIES CO., LTD.                                            | 786,500                | 0.15              |
| GUOTAI JUNAN SECURITIES HONG KONG LIMITED                                   | 653,579                | 0.12              |
| SHANGHAI KUNLING INDUSTRY & TRADE CO., LTD.                                 | 629,200                | 0.12              |

① Shenzhen Construction Investment Holdings is a shareholder of state-owned shares; You Xianhui and Du Nian are shareholders of social shares; GUOTAI JUNAN SECURITIES HONG KONG LIMITED is a foreign shareholders, and the rest six shareholders are shareholders of legal person's share; additionally, Shenzhen Construction Investment Holdings holds 485,899 legal person's shares of the company.

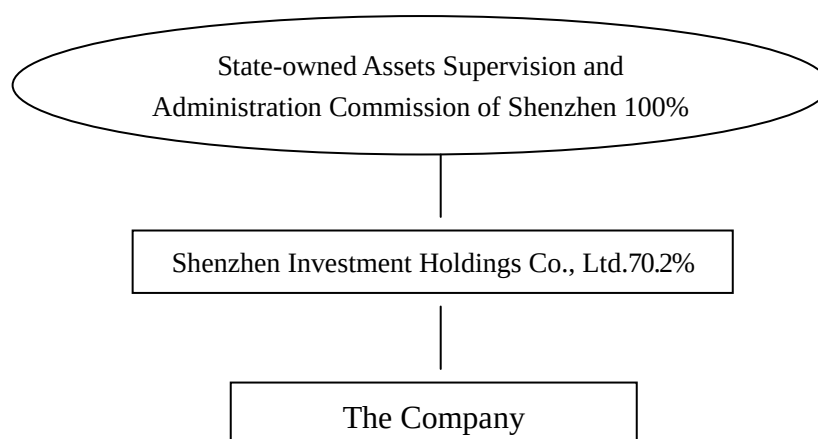
② Shares held by Shenzhen Construction Investment Holdings was neither pledging or freezing in the report period.

③ There exists no associated relationship or consistent action among the top three shareholders. For other shareholders, the Company was unknown whether there exists associated relationship or consistent action.

3. The controlling shareholder of the Company is Shenzhen Construction Investment Holdings ("the holding company") presently. In the report period, according to the document of SGZW [2004] No. 223 "Decision on establishing Shenzhen Investment Holding Corporation", Shenzhen Municipal Government incorporated Shenzhen Construction Investment Holdings with the other two municipal companies, namely Shenzhen Investment Holding Corporation and Shenzhen Trade and Business Corporation, and established Shenzhen Investment Holdings Co., Ltd.. Thus, Shenzhen Investment Holdings Co., Ltd. managed state-owned shares of the Company held by Shenzhen Construction Investment Holdings. There was no effect in the total share capital and its equity construction of the Company due to the change of state-owned equity management. The aforesaid matters and change of equity was still examined by CSRC for approval, for this, the Company has disclosed the relevant information in appointed media dated Nov. 4, 2004.

The Company's actual controlling shareholder is Shenzhen Investment Holding Corporation, a state-owned sole limited company, who was established in Oct. 13, 2004; its legal representative is Mr. Chen Hongbo and the registered capital is RMB 4 billion. Main business scope: providing guarantee to municipal state-owned enterprises, management of state-owned equity, assets reorganization of enterprises, reformation and assets operation, and equity investment and etc.. As a government department, State-owned Assets Supervision and Administration Commission of Shenzhen implemented management for Shenzhen Investment Holding Co., Ltd. on behalf of Shenzhen municipal government. Thus, the actual controller of the Company is State-owned Assets Supervision and Administration Commission of Shenzhen with locating at Investment Bldg., Shen Nan Av., Futian District, Shenzhen and postcode "518026".

The controlling relationship between the Company and the actual controller is as follows:



4. The second largest shareholder of the Company is Shenzhen Investment Holding Corporation (holding 10.45% equity of the Company), who was established in Feb. 1988, and its legal representative is Mr. Li Heihu, as well as registered capital of RMB 2 billion. It is an assets management company owned by the whole people. In accordance with the document of SGZW [2004] No. 223 "Decision on establishing Shenzhen Investment Holding Corporation", Shenzhen Investment Holding Corporation incorporated with Shenzhen Construction Investment Holdings and Shenzhen Trade and Business Corporation. Legal person's shares of the Company held by Shenzhen Investment Holding Corporation were held by new company after incorporation — Shenzhen Investment Holdings Co., Ltd..

##### 5. Particulars about the top ten shareholders of circulation share

| Full name of shareholders                  | Shares held (share) | Type    |
|--------------------------------------------|---------------------|---------|
| YOU XIAN HUI                               | 1,117,297           | A-share |
| DU NIAN                                    | 802,663             | A-share |
| GUOTAI JUNAN SECURIES<br>HONG KONG LIMITED | 653,579             | B-share |



|                |         |         |
|----------------|---------|---------|
| ZENG YING      | 536,900 | B-share |
| ZHOU TING      | 418,066 | A-share |
| LI YA JIE      | 399,600 | A-share |
| WEI XI GUANG   | 394,956 | A-share |
| DENG SHAO PING | 392,898 | B-share |
| PAN XIAN LI    | 392,401 | B-share |
| HUANG          | 361,757 | B-share |

Note: The Company did not know whether there exists associated relationship among the top ten shareholders of circulating share and the top ten shareholders or not.

#### IV. PARTICULARS ABOUT DIRECTORS, SUPERVISORS, SENIOR EXECUTIVES AND EMPLOYEES

##### (I) About director, supervisor and senior executives

###### 1. Basis information

| Name            | Title                                                   | Sex    | Age | Office term         | Holding shares at the year-begin | Holding shares at the year-end |
|-----------------|---------------------------------------------------------|--------|-----|---------------------|----------------------------------|--------------------------------|
| Tian Chenggang  | Chairman of the Board                                   | Male   | 51  | Jun. 2004-Jun. 2007 | 0                                | 0                              |
| Fang Yibing     | Director, General Manager                               | Male   | 43  | Jun. 2004-Jun. 2007 | 0                                | 0                              |
| Guo Yuanxian    | Director                                                | Male   | 50  | Jun. 2004-Jun. 2007 | 0                                | 0                              |
| Zha Shengming   | Director, Deputy General Manager                        | Male   | 56  | Jun. 2004-Jun. 2007 | 18150                            | 18150                          |
| Yang Shuncheng  | Director, Deputy General Manager                        | Male   | 56  | Jun. 2004-Jun. 2007 | 0                                | 0                              |
| He Wenhua       | Director, Chairman of Labor Union                       | Male   | 59  | Jun. 2004-Jun. 2007 | 18150                            | 18150                          |
| Li Zhen         | Director                                                | Male   | 41  | Jun. 2004-Jun. 2007 | 0                                | 0                              |
| Wang Huimin     | Director                                                | Female | 37  | Jun. 2004-Jun. 2007 | 0                                | 0                              |
| Zhang Jianjun   | Independent Director                                    | Male   | 40  | Jun. 2004-Jun. 2007 | 0                                | 0                              |
| Jiang Changlong | Independent Director                                    | Male   | 39  | Jun. 2004-Jun. 2007 | 0                                | 0                              |
| Kong Yuquan     | Independent Director                                    | Male   | 39  | Jun. 2004-Jun. 2007 | 0                                | 0                              |
| Cao Ziyang      | Chairman of the Supervisory Committee                   | Male   | 53  | Jun. 2004-Jun. 2007 | 0                                | 0                              |
| Tong Qinghuo    | Supervisor, Manager of Human Resource                   | Male   | 41  | Jun. 2004-Jun. 2007 | 0                                | 0                              |
| Liu Jiake       | Supervisor, Deputy Director of the Discipline Committee | Male   | 55  | Jun. 2004-Jun. 2007 | 0                                | 0                              |
| Jin Chenggui    | Supervisor, Deputy                                      | Male   | 57  | Jun. 2004-Jun. 2007 | 0                                | 0                              |

|             |                                                                              |        |    |                     |   |   |
|-------------|------------------------------------------------------------------------------|--------|----|---------------------|---|---|
|             | Manager of Auditing Department                                               |        |    |                     |   |   |
| Ma Deqin    | Supervisor, Leader of Labor Union                                            | Female | 51 | Jun. 2004-Jun. 2007 | 0 | 0 |
| Xiu Xuguang | Vice secretary of the Party Committee, Secretary of the Discipline Committee | Male   | 50 | Jun. 2003-Jun. 2007 | 0 | 0 |
| Luo Junde   | Deputy General Manager                                                       | Male   | 54 | Jan. 2003-Jun. 2004 | 0 | 0 |
| Liu Yinhua  | Chief Engineer                                                               | Male   | 44 | Jun. 2003-Jun. 2004 | 0 | 0 |
| Guo Yemei   | Secretary of the Board, Director of the Board of Directors Office            | Female | 45 | Jun. 2004-Jun. 2007 | 0 | 0 |

Director Mr. Guo Yuanxian took the post of vice-president of Shenzhen Construction Investment Holdings, the controlling shareholder of the Company; from Nov. 2002 to Sep. 2004, Director Ms. Wang Huimin took the post of manager of Human Resource of Shenzhen Construction Investment Holdings, the holding shareholder of the Company, and from Oct. 2004, she took the post of manager of Human Resource for three years in Shenzhen Investment Holding Corporation, the actual controller of the Company; Director Mr. Li Zhen took the post of assistant president and director of office of Shenzhen Investment Holding Corporation, the second largest shareholder of the Company.

## 2. Working experience of Directors, Supervisors and Senior Executives

### Director

Tian Chenggang, male, was born in Dec. 1953, Master degree, Senior Manager and Senior Zhenggongshi. He has experience in administration and enterprise management in the State Organs over 30 years; he served in the 40<sup>th</sup> Army Corps of Land Army from 1970 to 1976; he worked in Sichuan Province from 1978 to 1986 and ever took the post of Deputy Director of General Office of Sichuan Import & Export Commodity Inspection Bureau; he worked in Beijing from 1986 to 1990 and ever took the post of Division Chief of Qualification Censorship Division of State Ministry of Personnel; he worked in Zhuhai from 1990 to 1996 and ever took the posts of member of Zhuhai Municipal Committee, Director of Foreign Economic & Trade Commission and Secretary of the Party Leadership Group, President of Council for the Promotion of Zhuhai Trade and Chamber of Zhuhai Commerce; he took Chairman of the Board, Secretary of Party Committee of the Company and NPC Deputy of Shenzhen from July 1996 to now.

Fang Yibing, male, was born in Oct. 1961, three years college, Accountant. He has experience in financial management and business management in trade of commerce enterprises or real estate development enterprise over 20 years. From 1993 to 1997, he

took the post of Manager of Xinhongli Real Estate Company of Shenzhen Duty Free Commodity Group; he was transferred to the Company since April 1997 and ever took the posts of General Manager of Shenzhen Huangcheng Real Estate Co., Ltd., the wholly-owned company of the Company, and Deputy General Manager of the Company. He now acts as Director and General Manager of the Company.

Guo Yuanxian, male, was born in Dec. 1954, Master degree, Senior Economist. He's experienced in serving in the army over 20 years. He served in the **Air Force Army** from 1969 to 1994 and ever took the post of Division Chief of Ground Army Division of Military Education Office of Air Force Headquarters; after he was transferred to civilian work since June 1994, and worked in China Southern Securities Co., Ltd. and ever took the posts of Assistant President, Vice-president, Director General Manager and Deputy Secretary of Party Committee; he took the post of Vice-president of Shenzhen Construction Investment Holdings since June 2002. From Sep. 2004 to now, he held the posts of Secretary of Party Committee, Chairman of the Board of Shenzhen Shahe Industrial (Group) Co., Ltd. and Director of the Company.

Wang Huimin, female, was born in Oct. 1967, Master degree, Economist. She has experience in enterprise management over 10 years. She took the post of Manager of Human Resource Dept. of Labor Union of Shenzhen Construction Investment Holdings from 2002 to 2004. She took the posts of Manager of Department of Personnel of Shenzhen Investment Holdings Co., Ltd. and Director of the Company.

Li Zhen, male, was born in Apr. 1963, Senior Engineer, double bachelor degrees. He has experience in enterprise management and administration over 20 years. He worked in Shenzhen Investment Holdings Corporation from 1997 to 2004 and ever took the posts of Deputy Director of Secretariat of the Board of Directors, Manager of General Office, Manager of the 1<sup>st</sup> Dept. of Industry, Assistant President, Director of Office. He took the posts of Chairman of the Board of Shenzhen Tongchan Industrial Company and Director of the Company from Oct. 2004 to now.

Zha Shengming, male, was born in Feb. 1948, three years college, Economist. He has experience in enterprise administration, personnel management and enterprise economic management over 20 years. He served in the capital construction engineering army from 1969 to 1983 and ever took the post of Section Chief of military affairs; he worked in the 1<sup>st</sup> Construction Engineering Company of Shenzhen from 1983 to 1988 and ever took the posts of Section Chief of Personnel Section and Secretary of Party General Branch. He was transferred to the Company from Aug. 1988 and ever took the post of Division Chief of Personnel Division, Director of Office of the Board. He now acts as Director and Deputy General Manager of the Company.

Yang Shuncheng, male, was born in Sep. 1948, three years college. He has management experience in construction enterprise and real estate development enterprise. He worked in Shenzhen Construction Group from 1990 to 1996 and ever

took the post of Manager of Development Dept. of Shenzhen Construction Group; he took the post of Manager of Real Estate Development Dept. of Shenzhen Construction Investment Holdings; from 1999 to now, he took the posts of Deputy General Manager and Director of the Company.

He Wenhua, male, was born in Aug. 1945. He has experiences in enterprise's labor union, political work and administration. He served in the capital construction engineering army from 1966 to 1983 and ever took the post of Commissar of Trainee Corps; he took the post of Head of Land Requisition Office of Nanyou (Shenzhen) Development Service Headquarter from 1983 to 1985. He was transferred to the Company since Dec. 1985 and ever took the posts of Deputy Director of Political Work Office, Secretary of Discipline Inspection Dept.; he now acts as Director and Chairman of the Labor Union of the Company.

Independent Director:

Zhang Jianjun, male, was born in 1964, Doctor degree. He gains experience in teaching, scientific research and administration in university over 10 years. He worked in Jiangxi University of Finance & Economics from 1985 to 1999 and ever took the posts of Subdecanal, Professor and tutor of master-degree student of Accounting College; he took the post of standing vice-president in Shenzhen Sino-hawk Credit Rating Co., Ltd., Deputy Director of Shenzhen Enterprise Credit Ratings Committee and Subeditor in journal of Credit Ratings from 1999 to 2001; he took the posts of Dean and Professor in Economy College of Shenzhen University and Independent Director of the Company from 2001 to now.

Jiang Changlong, was born in 1965, Master-degree of economics in Beijing University. He gains experience in state organs and finance & securities management of enterprise over 10 years. He was engaged in business work in the fields of finance and securities in the State Development Planning Commission RRC and the Securities Commission of the State Council and ever took the post of Deputy Director of the Securities Commission of the State Council from 1990 to 1996; he took the posts of Assistant President of Shenzhen Guosen Securities Co., Ltd., General Manager of Investment Bank Dept of Guosen Securities and Vice-president of Guosen Securities from 1996 to 2002; he held the posts of Director and Deputy General Manager of Shenzhen International Trust & Investment Co., Ltd. from 2002 to 2003; he occupied the post of President of Datong Securities Co., Ltd. from 2003 to 2004; he took the posts of Vice-president of West China Securities Co., Ltd. and Independent Director of the Company from May 2004 to now.

Kong Yuquan, was born in 1965, Master-degree of law in Renmin University of China and Master-degree of law in the University of Warwick. He gains management experience in the local securities regulatory organ over 10 years. He took the post of Deputy Director Clerk of Securities Regulatory Division of the People's Bank of China, Shenzhen Branch from 1991 to 1993; he worked in Shenzhen Securities Regulatory

Office from 1993 to 2002 and ever took the posts of Director Clerk, Deputy Division Chief of General Office and Deputy Division Chief of Regulatory Division of Listed Companies; he took the posts of Chief Economist and Chief Lawyer of Zhongshan Securities Co., Ltd. and Independent Director of the Company from Apr. 2003 to now.

Supervisor:

Cao Ziyang, male, was born in Mar. 1951, Senior **Zhenggongshi**. He has experience in political work, human resource and economic management in enterprises over 30 years. He served in the capital construction engineering army from 1969 to 1983 and ever took the post of political consultant; he worked in Shenzhen Eastern Development Group Corp. and ever took the posts of Head of Personnel Dept., Secretary of Organ Party Committee and Chairman of Labor Union from 1986 to 1997; he took the post of Director of Party Committee Office of Shenzhen Construction Investment Holdings since Feb. 1997; he was transferred to the Company in Apr. 1998 and ever took the posts of Director and Deputy General Manager of the Company. He now acts as Deputy Secretary of Party Committee and Chairman of the Supervisory Committee of the Company.

Tong Qinghuo, male, was born in Dec. 1963, Zhenggongshi, Master-degree. He has experience in HR administration in enterprises for 13 years. He took the posts of Manager of Personnel Dept. and Secretary of Youth League Committee of Shenzhen Tong Industrial Co., Ltd.; he was transferred to the Company in Sep. 1996 and ever took the post of Deputy General Manager of Personnel Dept., and now took the posts of Assistant General Manager, Manager of Personnel Dept. and Supervisor of the Company.

Liu Jiake, male, was born in June 1949, three years college, Zhenggongshi. He has management experience in enterprises over 30 years. He served in the capital construction engineering army from 1969 to 1983; he worked in the No. 1 Construction Engineering Company of Shenzhen from 1983 to 1994 and took the posts of Officer and Secretary of Party General Branch; he was transferred to the Company in Nov. 1994 and took the posts of Director of General Office of Shanghai Branch and Section Chief of Organization Dept. of Party Committee Office early and late; he now acts as Deputy Director of the Office for Discipline Inspection and Supervisor of the Company.

Jin Chenggui, male, was born in July 1948, Accountant. He has experience in financial management of enterprise over 30 years. He took the post of Financial Head of Jiangnan Trade Company of Shenzhen Foreign Trade Foods Company from 1986 to 1990; he was transferred to the Company in May 1990 and took the posts of Financial Manager of Foods Branch and Shanghai Branch early and late; he now acts as Deputy General Manager of Auditing Dept. and Supervisor of the Company.

Ma Deqin, femal, was born in Sep. 1954, **Zhenggongshi**. She has experience in enterprise's political work and labor union over 20 years. She worked in Construction

Branch and Machinery Operation Branch of Anhui Maanshan Steels Company from 1983 to 1988; she was transferred to the Company in Sep. 1988 and took the posts of Carder and Director of Labor Union-Workwoman Committee early and late; she now acts as Chairman of Labor Union and Supervisor of the Company.

#### Senior Executives:

Xiu Xuguang, male, was born in Jan. 1956, three years college, Senior Zhenggongshi. He ever served in the army and was engaged in medical affairs work. He has experience in political work and administration in construction enterprise and real estate development enterprise over 10 years. He took the post of Section Chief of Personnel & Labor and Capital Section of the No. 5 Construction Engineering Company of Shenzhen from 1992 to 1995; he worked in Shenzhen Jinzhong Co., Ltd. from 1995 to 1999 and took the posts of Deputy General Manager of Shenzhen Jinzhong Co., Ltd. and Secretary of Party Committee and concurrently Deputy General Manager Jinzhong Group early and late; from Jan. 1999 to now, he took the post of Secretary of the Discipline Committee of the Company.

Luo Junde, male, was born in Mar. 1950, three years college, Senior Economics. He has administration experience in industry, construction and real estate development. He took the post of Deputy General Manager of Overseas Dept. of Shenzhen Construction (Group) Company from 1994 to 1996; he took the posts of Deputy Manager and Manager of Overseas Dept. of Shenzhen Construction Investment Holdings early and late from 1997 to 2003; he took the post of Deputy General Manager of the Company from Jan. 2003 to now.

Liu Yinhua, male, was born in May 1960, Doctor degree of Tongji University, Senior Engineer. He has experience in technology and administration in the field of construction. He took the post of Engineer of Second Institute, Shenzhen General Institute of Architectural Design & Research from 1990 to 1991; he took the post of Head of Engineering Dept. of Shenzhen Changcheng Estate Holding Co., Ltd. from 1991 to 1996; he was transferred to the Company in Sep. 1996 and took the posts of Deputy Head of Engineering Dept., General Manager of Property Management Company and Vice-Chief Engineer of the Company early and late; he now acts as Chief Engineer of the Company.

Guo Yumei, female, was born in Oct. 1959, Bachelor degree, and held the title of interpretation. She gains experience in enterprise management over 20 years. She worked in Shannxi Management Bureau of CAAC from 1982 to 1985; she worked in the Company since 1985 and took the posts of Secretary of Office, Translator, Section Chief and Deputy Manager of Capital Dept. early and late; she now acts as Secretary of the Board and Director of Office of the Board of Director in the Company.

### 3. Particulars about the annual remuneration

① During the report period, the total annual remuneration (including welfare and

subsidy) of the Company's directors, supervisors and senior executives was RMB 6,821,000, of which, the total annual remuneration of the top three directors drawing the highest payment was RMB 1,729,000; the total annual remuneration of the top three senior executives drawing the highest payment was RMB1,557,400. The Company has 18 directors, supervisors and senior executives presently, and 14 persons of them draw the annual remuneration from the Company, of them, 3 persons enjoy the annual remuneration over RMB 550,000 respectively, 6 persons enjoy the annual remuneration over RMB 500,000 and 5 persons enjoy the annual remuneration over RMB 300,000 respectively.

In 2004, the remuneration (including welfare) of enterprise's operator was distributed in accordance with detailed rules of Implementation Method on Annual Remuneration for Operators of Shenzhen Municipal State-owned Enterprises. The remuneration (including welfare) of other directors, supervisors and senior executives taking position were distributed in accordance with the Trial Method on Wage Reformation of PRD examined and passed by the Shareholders' General Meeting of the Company.

② Three directors, namely Guo Yuanxian, Li Zhen and Wang Huimin drew their annual remuneration from Shahe Group, Shenzhen Investment Holding Corporation and **Shenzhen Tongchan** respectively, and received no pay from the Company.

#### 4. Changing of directors and supervisors

In the report period, the Company re-elected the Board of Directors, new Board of Directors elected Tian Chenggang and Guo Yumei as Chairman of the Board and Secretary of the Board of the Company respectively.

### (II) About employees

The Company has totally 1918 employees in office at present, including 1099 production personnel, 164 salespersons, 589 technicians, 79 financial personnel and 138 administrative personnel. 1172 persons graduated from 3-year regular collage or above. Presently, the Company needs to bear the expenses of 111 retirees.

## V. ADMINISTRATIVE STRUCTURE

### (I) Administration of the Company

Along with the continual perfection of securities laws and regulations in force and the great attention of the Company's administrative group, the Company did a lot of jobs in the fields of strengthening of legal person's administrative structure and standardizing company administrative, and caused businesses from different aspects to put on the institutional and standardized operation course. In comparison with the standardized documents such as Administration Rules of Listed Companies and etc., the Company reached the basic standardized requirements in the links of shareholders' general meeting, board of directors, supervisory committee, manager, relevant beneficiaries, performance evaluation and information disclosure, took their roles fully and normalized the procedures. During the report period, the Company accomplished the reelection of the Board of Directors and Supervisory Committee, and passes and performed the Administrative System of Investor Relationship and Inner Controlling System of the Company, formed the pattern of enterprise public relation with laying

equal stress on management of investor relationship and management of relevant beneficiaries such as creditor and customer, at the same time, the Company strictly performed every inner controlling system in order to keep a lookout risks effectively. In course of actual operation, the Company specially attached great important to benefits of investors especially those medium and small investors, and imported collection vote right and accumulation vote system. In course of decision and implementation, the Company kept faith with honesty in line with the laws, strictly performed procedures and improved transparency, and paid attention to roles of independent directors and did well in information disclosure.

In comparison with standardized documents, the Company still existed the following problems:

The problem on performing the property right representative report system was not been settled completely. Shenzhen Securities Regulatory Bureau exclusively proposed the rectification opinions on the said problem, and the Company reported the said situation to the controlling shareholder accurately in time. Because corresponding new system still disappeared on the stage in Shenzhen, in accordance with the relevant regulations, the Company still enforced the property right representative report system, the controlling shareholder could not interfere in the operation of the Company directly.

#### (II) Performance of Independent Directors:

In the report period, three independent directors, namely Jiang Changlong, Zhang Jianjun and Kong Yuquan were elected as independent directors of the Company at Annual Shareholders' General Meeting. The holding qualification of independent directors accorded with the relevant regulations of CSRC.

Particulars about implementing independent directors' responsibility:

| Particulars about implementing independent directors' responsibility:                                                        |                                                     |                            |                              |                  |                                                               |
|------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------------|------------------------------|------------------|---------------------------------------------------------------|
| Name of independent directors                                                                                                | Times that should be attend the Board meeting       | Times of personal presence | Times of commission presence | Times of absence | Note                                                          |
| Jiang Changlong                                                                                                              | 8                                                   | 8                          | 0                            | 0                | —                                                             |
| Zhang Jianjun                                                                                                                | 8                                                   | 7                          | 1                            | 0                | Entrust Kong Yuquan to attend the meeting dated Apr. 15, 2004 |
| Kong Yuquan                                                                                                                  | 8                                                   | 8                          | 0                            | 0                | —                                                             |
| Particulars about the objection proposed by independent directors on the relevant events                                     |                                                     |                            |                              |                  |                                                               |
| Name                                                                                                                         | Event that independent directors proposed objection |                            | Contents of objection        |                  | Note                                                          |
| Jiang Changlong                                                                                                              | Naught                                              |                            | —                            |                  | —                                                             |
| Zhang Jianjun                                                                                                                | Naught                                              |                            | —                            |                  | —                                                             |
| Kong Yuquan                                                                                                                  | Naught                                              |                            | —                            |                  | —                                                             |
| Particulars about independent opinion                                                                                        |                                                     |                            |                              |                  |                                                               |
| 1. Three independent directors expressed the independent opinion on the Company performed ZJF[2003] No. 56 document of CSRC. |                                                     |                            |                              |                  |                                                               |
| 2. Three independent directors expressed the independent opinion on Qualified Auditing Opinion                               |                                                     |                            |                              |                  |                                                               |



(III) Particulars about the Company's "Five Separations" from the Controlling Shareholder

The Company has integrated business, keeps independence in operating management, and made "Five Separations" from the controlling shareholder:

- (1) The Company was independent in management, and possessed independent production, supply and distribution system;
- (2) The Company independently engaged employees, and possessed absolutely independent management of labor, personnel and salaries;
- (3) The Property of the Company is transparent, and the Company possessed independent assets ownership;
- (4) The Company owned independent office site and organization;
- (5) The Company has independent financial auditing system.

As reported in V (I), as the state-owned controlling listed company, the Company should executed the property right representative report system according to the relevant regulations of Shenzhen Municipal State-owned Assets Management Regulation, but the situation didn't cause effect on the operational activities of the Company.

## **VI. BRIEFINGS ON THE SHAREHOLDERS' GENERAL MEETING**

(I) Holding of the Shareholders' General Meeting: In the report period, the Company's Board of Directors sent out the notice on holding Shareholders' General Meeting 2003 on May 28, 2004, and the said Meeting was held on 35/F of Shenzhen International Trade Center Building at 9:30 am of June 28, 2004 on schedule. The following procedure such as notification, convening and holding of the Meeting were in line with the relevant regulations of Company Law and the Articles of Association of the Company. There were 8 shareholders and shareholders' proxies attended the meeting representing 383,598,183 shares, taking 70.80% of total shares of the Company; including 1 shareholder of B-share, representing 83071 B shares. Mr. Zheng Weihe, the professional lawyer of Xinda Law Firm, witnesses the said Shareholders' General Meeting and issued Legal Opinion. Mr. Tian Chenggang, Chairman of the Board, presided over the Meeting.

(II) Particulars about proposals passed in the Shareholders' General Meeting: Work Report 2003 of the Board of Directors; Work Report 2003 of the Supervisory Committee; Financial Settlement Report 2003; Annual Report 2003; Profit Distribution Plan 2003 and Proposal on Making up Losses; Proposal on Amending the Rules of Procedure of Shareholders' General Meeting; Proposal on Amending the Articles of the Association of the Company; Proposal on Engaging Certified Public Accountants for the Company in 2004; Trial Method on Wage Reformation of PRD and etc..

(III) Particulars about election of Directors and Supervisors in the Shareholders' General Meeting: the Meeting elected the members of the 5<sup>th</sup> Board of Directors and the 5<sup>th</sup> Supervisors Committee:

11 directors of the Board of Directors: Tian Chenggang, Fang Yibing, Guo Yuanxian, Wang Huimin (female), Li Zhen, Zha Shengming, Yang Shuncheng, He Wenhua, Zhang Jianjun (Independent Director), Jiang Changlong (Independent Director) and KongYuquan (Independent Director).

5 supervisors of the Supervisory Committee: Cao Ziyang, Tong Qinghuo, Liu Jiake, Jin Chenggui (employee supervisor) and Ma Deqin (employee supervisor)

The Public Notice on Resolution of this Shareholders' General Meeting was published on Securities Times and Ta Kung Pao and the designated Internet <http://www.cninfo.com.cn> on June 29, 2004.

## **VII. REPORT OF THE BOARD OF DIRECTORS**

### **(I) Analysis to the operating position**

In 2004, the Company realized income from main operations, profit from main operations and net profit amounting to RMB 1,326,289,977.75, RMB 423,765,125.70 and RMB 90,449,977.35 respectively, an increase of 23%, 17% and 17% respectively over the last year. Increase of operation outstanding achievement was due to the increase of sale of real estate projects in the report period, and projects of real estate reached the condition of settlement and transferred into income. Ended the end of the report period, the shareholders' equity was RMB 567,128,809.36, an increase of 20% over the beginning of the year, which was mainly because that the Company realized net profit of RMB 90,449,977.35 and affiliated companies transferred the payables on account to be paid in long term amounting to RMB 2,456,119.04 into capital reserve during the report period. Net cash flow arising from operating activities as of the year 2004 was RMB 261,710,000, which was because that the Company reinforced the sales and assets withdrawal.

### **(II) Operation in the report period**

#### **1. Scope of main operations and its management**

The Company is large real estate specialty company with the main operations of real estate development, property leasing and management and concurrently is engaged in the taxi passenger transport, commodity department store and hotel and food industry. The income from main operations of the whole year was RMB 1.326 billion and total profit was RMB 0.126 billion. The main formation was as follows:

##### **① Classified according to industries:**

Income from real estate development: RMB 1112.296 million,

Profit: RMB 130.211 million;

Income from property management and lease: RMB 137.513 million,

Profit: RMB-1.003 million;

Income from taxi passenger transport: RMB 33.506 million,

Profit: RMB 9.135 million;

Income from commercial operation: RMB 34.294 million,

Profit: RMB 0.032 million;

Travel and food business: RMB 12.977 million,

Profit: RMB-0.073 million.

② Classified according to areas:

Income from Shenzhen: RMB 1040.803 million,  
Profit from main operations: RMB 66.913 million;  
Income from East China: RMB 275.470 million;  
Profit from main operations: RMB 70.022 million;  
Income from Hainan: RMB 10.017 million,  
Profit from main operations: RMB 0.297 million.

③ Sales income, cost of sales and gross profit ratio of the main products taking over 10% of the income from main operations and profit from main operations:

Unit: RMB'000

| Industries                    | Income from main operations | Cost of main operations | Gross profit ratio (%) | Increase/decrease of income from main operations compared with the previous year (%) | Increase/decrease of cost of main operations compared with the previous year (%) | Increase/decrease of gross profit ratio compared with the previous year (%) |
|-------------------------------|-----------------------------|-------------------------|------------------------|--------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| Real estate development       | 1112296                     | 657634                  | 40.88                  | 23.61                                                                                | 25.07                                                                            | -1.64                                                                       |
| Property management and lease | 137513                      | 110520                  | 19.63                  | 11.23                                                                                | 11.88                                                                            | -2.34                                                                       |
| Commercial retail             | 34294                       | 32095                   | 6.41                   | -9.71                                                                                | -8.21                                                                            | -19.27                                                                      |
| Taxi passenger transport      | 33506                       | 8991                    | 73.17                  | 18.15                                                                                | 24.03                                                                            | -1.71                                                                       |
| Tourism and food              | 12977                       | 6335                    | 51.18                  | 118.39                                                                               | 121.74                                                                           | -1.42                                                                       |

④ Explanation on the increase of profitability capability of main operations in the report period compared with the previous year:

In the report period, since such real estate projects as Junfeng Lishe, Huang Yu Yuan District B and the 5<sup>th</sup> Stage of Shanghai Pastoral City reached the condition of completion and settlement, the profitability of main operations increased by a large margin compared with the previous report period.

2. Operations and achievements of main holding companies and share-holding companies

Unit: RMB'000

| Name of companies                         | Registered capital | Main operations                                                  | Proportion in the equity | Assets scale | Net profit |
|-------------------------------------------|--------------------|------------------------------------------------------------------|--------------------------|--------------|------------|
| Shenzhen Huangcheng Real Estate Co., Ltd. | 25000              | Development, construction, operation and management of auxiliary | 100%                     | 1022986      | 106352     |

|                                                      |       |                                                     |      |        |       |
|------------------------------------------------------|-------|-----------------------------------------------------|------|--------|-------|
|                                                      |       | commercial service facilities of Huanggang Port     |      |        |       |
| Shenzhen International Trade Auto Industrial Company | 29850 | Automobile passenger transport and automobile lease | 100% | 131620 | 5593  |
| Shenzhen International Property Management Company   | 20000 | Building management                                 | 100% | 128600 | 1375  |
| Shanghai Shenzhen Property Development Co., Ltd.     | 50000 | Real estate development in Shanghai                 | 100% | 141173 | 55259 |

### 3. Major suppliers and customers

In the business of real estate development, the Company generally contracted the real estate projects developed to the contractor companies that gained the bidding by means of project bidding form and the contractor companies were responsible for providing the construction materials.

The sales objects of the commercial house of the Company were mainly individual customers and there was no batch customer generally. The amount of sales of the top five customers took 1% of the total sales amount of the Company.

### 4. Difficulties arising from the operation and solutions

Under the increasingly intensified competition in the market environment, the Company gained progress with breakthrough in the aspects of adjusting operating strategy, peeling off bad assets and optimizing industrial structure etc., but still faced many difficulties of seriously deficient operating funds, relatively heavy burden of bequeathal problems in the history and necessity of reinforcing the market expansion capability etc.. Aiming at these difficulties, the Board of Directors took solution plans with details in VII (VII) in the report “2005 business plan and main measures”.

#### (III) Investment in the report period

1. In the report period, the Company did not raise proceeds through share offering and there was no such situation that the application of proceeds raised through previous share offering continuing to the report period.

2. In the report period, material projects, progress of project and earnings of proceeds not raised through share offering

Unit: RMB'000

| Name of project                                | Amount of project | Progress of project            | Earning of project | Earnings rate of project |
|------------------------------------------------|-------------------|--------------------------------|--------------------|--------------------------|
| Junfeng Lishe Project                          | 287000            | Completed and taken possession | 72.9% sold         | 22%                      |
| District B of Feng He Ri Li                    | 34900             | Land price is paid off         | -                  | -                        |
| The 5 <sup>th</sup> Stage of Shanghai Pastoral | 35000             | Completed and taken possession | 98.6% sold         | 20%                      |

|       |        |   |   |   |
|-------|--------|---|---|---|
| City  |        |   |   |   |
| Total | 356900 | - | - | - |

(IV) Analysis to financial operation of the Board of Directors

1. Changes in main financial indexes

In the report period, the Company's operating business has increased and the assets quality was enhanced with steady financial position.

Unit: RMB

| Items                                     | Amount of the report year | Amount of the previous year | Amount of increase/decrease | Increase/decrease rate |
|-------------------------------------------|---------------------------|-----------------------------|-----------------------------|------------------------|
| Total assets                              | 2,302,935,990.54          | 2,437,227,899.69            | -134,291,909.15             | -5.51%                 |
| Inventories                               | 1,381,621,649.40          | 1,422,357,820.15            | -40,736,170.75              | -2.86%                 |
| Long-term liabilities                     | 206,257,799.94            | 227,484,127.09              | -21,226,327.15              | -9.33%                 |
| Shareholders' equity                      | 567,128,809.36            | 474,222,712.97              | 92,906,096.39               | 19.59%                 |
| Profit from main operations               | 423,765,125.70            | 363,255,274.91              | 60,509,850.79               | 16.66%                 |
| Net profit                                | 90,449,977.35             | 77,001,831.44               | 13,448,145.91               | 17.46%                 |
| Net increase in cash and cash equivalents | -31,389,724.18            | 26,782,432.94               | -58,172,157.12              | -217.20                |

Explanations:

- ① Decrease in total assets mainly resulted from bank loan refund and real estate project settlement.
- ② Decrease in inventories was mainly because that the real estate project reached the condition of settlement and corresponding cost was carried forward in the year.
- ③ Decrease in long-term liabilities was mainly because that the Company has refunded part of long-term bank loans.
- ④ Increase in shareholders' equity was mainly because that the Company realized net profit and accounts payable on account to be paid in long term amounting to RMB 2,456,119.04 were transferred in contributed surplus by the affiliated subsidiaries.
- ⑤ Increase in profit from main operations was mainly due to increase of sales for real estate and the real estate project reached the condition of settlement and corresponding cost carried forward into income.
- ⑥ Increase in net profit was mainly due to increase of profit from main operations.
- ⑦ Decrease in net increase amount of cash and cash equivalents mainly because that the Company has refunded bank loans.

2. Changes and reasons of profit formation:

|                             | Amount (RMB)   |                | Proportion in total profit (%) |         |
|-----------------------------|----------------|----------------|--------------------------------|---------|
|                             | In 2004        | In 2003        | In 2004                        | In 2003 |
| Total profit                | 126,160,243.54 | 121,676,376.73 | -                              | -       |
| Profit from main operations | 432,765,125.70 | 363,255,274.91 | 335.89                         | 298.54  |

|                                       |                |                |        |        |
|---------------------------------------|----------------|----------------|--------|--------|
| Profit of other operations            | 5,556,502.01   | 1,579,345.53   | 4.40   | 1.30   |
| Period expense                        | 292,089,933.00 | 182,499,501.31 | 231.52 | 149.99 |
| Investment income                     | -4,141,308.02  | -15,361,512.84 | -3.28  | -12.62 |
| Subsidy income                        | -              | -              | 0.00   | 0.00   |
| Net non-operating income and expenses | -6,930,143.15  | -45,297,229.56 | -5.49  | -37.23 |

Explanations:

① In the report period, total profit increased by 3.69% over the same period of last year, which was mainly due to the increase in sales of real estate in the report period, resulting in the income carried forward.

② Period expense increased by RMB 109.59 million over the same period of last year, which was mainly because that the Company withdrew reserve for bad debts amounting to 71.34 million and withdrew in advanced responsibility goal award amounting to RMB 34.91 million.

③ Investment income increase by RMB 11.22 million compared with last year, mainly due to an increase of net increase/decrease amount of owners' equity of the investees in the report period compared with last year.

④ In the year, net non-operating income and expenses changed by a relatively large margin. The non-operating expense decreases by 80.78% compared with last year, which was mainly because that there was estimated liabilities of lawsuits amounting to RMB 50,002,304.07 in the non-operating expenses in the 2003.

(V) Influences of the operation environment on the Company

In the report period, the macro control over the overheating fields of national economic exerts great influences on the competitive real estate industry. Although the Company had good performances in the real estate projects developed in the past several years and the operation profit grew continuously in 2004, it was prevented from expanding new projects by the relatively deficient operating funds. On the State-owned Enterprises Reformation and Development Work Meeting held in Shenzhen at the beginning of 2004, the Company was ranked as one of the macro-reformation enterprises in 2004. Thereafter, all the creditor banks demand that the Company refund the due loan to evade risk. Besides, the loan on guarantee amounting to RMB 265.5 million was changed into mortgage on real estate loan. The loan principal repayments amounted to RMB 216.3 million, whereas the newly added loan was only RMB 18 million. In 2005, however, the company will face more difficulties in funds.

(VI) Explanation on the auditors' report with interpretative explanation presented by Wuhan Zhonghuan Certified Public Accountants:

As stated in Notes to Accounting Statements (IX) 1 (1), after the application of retrial on lawsuits of real estate trade contract with such eight owners as Haiyi Industrial (Shenzhen) Co., Ltd. and etc. presented by the Company to Guangdong Higher People's Court was rejected in 2003, such eight owners as Haiyi Industrial (Shenzhen) Co., Ltd. still did not apply for forcible implementation to Guangdong Higher People's

Court. At present, the Company is actively applying for retrial to the Supreme Court of the P.R.C.. The Company has predicted relevant losses amounting to RMB 41,772,906.07 according to the appropriation of book value of property.

As stated in Notes to Accounting Statements (IX) 1 (2), in July 2001, Guangdong Higher People's Court judged Shenzhen Jiyong Property Development Company to pay the Company transfer account amounting to RMB 143.86 million, in Nov. 2001, the Company has applied forcible implementation for Guangdong Higher People's Court, and Guangdong Higher People's Court sealed up the property amounting to 28,000 sq. m. of the opposing party by forcible implementation. Later, since Industrial & Commercial Bank of China Zhejiang Branch had objection that the Company sealed the property, Guangdong Higher People's Court judged to release the Company's sealing of property of Shenzhen Jiyong Property Development Company approximately amounting to 10,000 sq. m.. The Company has demurred to Guangdong Higher People's Court and the said demur is under examination. In the course of examination, the said judgment was unimplemented.

As stated in Notes to Accounting Statements (IX) 1 (3), according to (2002) YGFMYYZ No. 90 Judgment issued by Guangdong Higher People's Court, the Company should pay principal amounting to RMB 10.80 million and corresponding interests to Hubei Foreign Economic Cooperation Hall Shenzhen Office. The company did not accept the said judgment and apply for a retrial to the Supreme Court of the P.R.C.. On Jan. 18, 2005, the Supreme Court has made hearing of witnesses on the said case.

For the said issues, Certified Public Accountants considered that the Company has estimated the relevant losses reasonably. The said interpretative issues do not influence the type of auditors' opinion released.

Independent directors' opinion: Independent director Jiang Changlong, Kong Yuquan and Zhang Jianjun agreed the Board's explanation on the auditors' report for 2004.

#### (VII) Business plan and main measures for 2005

In 2005, the Company shall continue to be focus on real estate development and property lease, and also engage in property management, automobile transportation and operation of food service, so to catch any market opportunity and reinforce the aftereffect of enterprise development.

1. To ensure the construction progress of key real estate projects and practically make the sales strategy of projects, strict the management on project cost, ensure the profit growth of the main operation, namely development of real estate.
2. To enhance the level of operating management, continue to carry out and improve the departmental objective responsibility letter of the headquarter of the Company and management on "Double Civilizations" responsibility letter and real estate project responsibility letter of the 2<sup>nd</sup> grade companies.

3. To continue to reinforce the lease and operation of earning properties to keep increase steadily.
4. To catch the opportunity, enhance the land reserves so as to establish the base of sustainable development for the Group.

(VIII) Routine work of the Board of Directors

1. Holding of meetings of the Board in the report period:

| Date of meetings | Main contents                                                                                                                                                                                                                                                                                                                                                          |
|------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Apr. 15, 2004    | Passed 2003 Annual Report and its Summary, Annual Financial Settlement Report for 2003, Proposal on Profit Distribution for 2003, Proposal on Offsetting Deficit for 2003, Proposal on Withdrawing Various Reserves for 2003, Business and Investment Plan for 2004, Management System on Investors Relationship, Proposal on Rejection and Cancellation of Fix Assets |
| Apr. 28, 2004    | Temporary meeting. Passed the 1 <sup>st</sup> Quarterly Report of the Company by means of communication voting.                                                                                                                                                                                                                                                        |
| May 26, 2004     | Passed Work Report of the Board of Director for 2003 by means of communication voting, and confirmed the Salary Measure of the Company's Headquarter and Holding Matters of the Annual Shareholders' General Meeting                                                                                                                                                   |
| Jun. 28, 2004    | Engaged Tian Chenggang as Chairman of the Board and Guo Yumei as Secretary of the Board.                                                                                                                                                                                                                                                                               |
| Aug. 12, 2004    | Passed Semi-annual Report and its Summary, Interim Profit Distribution Plan and Proposal on Rejection of Fixed Assets by means of communication voting.                                                                                                                                                                                                                |
| Oct. 18, 2004    | Temporary meeting. Passed the 3 <sup>rd</sup> Quarterly Report of the Company by means of communication voting.                                                                                                                                                                                                                                                        |
| Dec. 21, 2004    | Temporary meeting. Passed the Proposal on the Solution to Settling the Jintian Company's Guarantee Case Amounting to RMB 59 million by means of communication voting.                                                                                                                                                                                                  |
| Dec. 28, 2004    | Passed the Internal Control System of the Company by means of communication voting.                                                                                                                                                                                                                                                                                    |

2. In the report period, all proposals of the Company's Annual Shareholders' General Meeting were performed effectively.

(IX) After researched and determined by the Board, the Company realized net profit amounting to RMB 90,449,977.35 in 2004, plus the undistributed profits at the beginning of the year, the distributable profit for the year amounted to RMB -436,909,934.66. The Company shall not distribute profits or convert capital reserve into share capital, and the profit earnings were used to offset the losses in the previous years. The said proposal would be submitted to Annual Shareholders' General Meeting for examination.

Independent directors' opinion: Independent director Jiang Changlong, Kong Yuquan and Zhang Jianjun agreed the resolution on profit distribution for 2004.



(X) Explanation of CPAs and Independent Directors on matters involved in ZJF [2003] No. 56 document “Notification on Problems of Standardizing Current Capital between Listed Companies and Related Parties and Guarantee for External Parties of Listed Companies” promulgated by CSRC.

1. Special explanation of Certified Public Accountant of China Xie feng , Liu jie of Wuhan Zhonghuan Certified Public Accountants Co., Ltd. on the capital occupied by the controlling shareholder and other related parties (ZHZ Zi [2005])

Accepting the commission of Shenzhen Properties & Resources Development (Group) Ltd. (Hereinafter referred to as the Company), Wuhan Zhonghuan Certified Public Accountants audited the accounting statement for 2004 of the Company, and issued Auditors’ Report with the ZHZ Zi [2005] No.041 dated Mar. 1, 2005.

In accordance with the requirements in Notification on Problems of Standardizing Current Capital between Listed Companies and Related Parties and Guarantee for External Parties of Listed Companies (ZJF [2003] No. 56 document) promulgated by CSRC and State-owned Assets Supervision and Administration Commission of the State Council, the Company prepared the attached Statement of Capital Occupied for 2004 by the controlling shareholder of the Company and other related parties ended Dec. 31, 2004.

According to the Statement of Capital Occupied, in the year of 2004, the controlling shareholder and other related parties of the Company did not accumulatively newly occupy the capital of listed company. Ended Dec. 31, 2004, the controlling shareholder and other related parties totally occupied the capital of listed company amounting to RMB186.6629 million including operational occupying the capital of listed company amounting to RMB 179.8787 million and non-operational occupying the capital of listed company amounting to RMB 6.7842 million.

Faithfully preparing and disclosing the Statement of Capital Occupied and ensuring its truthful, legal and complete are the responsibility of the Company’s management. After we re-audited the information reported in Statement of Capital Occupied and the accounting statement audited in 2004 as well as the relevant information, no discrepancy was found in major aspects.

For details, please refer to the following statement:

Unit: RMB'000

| Name of related parties                                              | Relationship between related parties and listed company | Corresponding accounting subjects | Balance at the begin of the period | Accumulated occurred amount of debit | Accumulated occurred amount of credit | Balance at the end of the period | Amount of reserve for bad debts withdrawn | Way and Reason of occupancy    | Way of repayment              | Whether it belongs illegal capital occupancy stated in the No. 56 document | Remark           |
|----------------------------------------------------------------------|---------------------------------------------------------|-----------------------------------|------------------------------------|--------------------------------------|---------------------------------------|----------------------------------|-------------------------------------------|--------------------------------|-------------------------------|----------------------------------------------------------------------------|------------------|
| Operational occupied capital                                         |                                                         |                                   |                                    |                                      |                                       |                                  |                                           |                                |                               |                                                                            |                  |
| Shenzhen International Trade Tianan Property Co., Ltd.               | Affiliated company                                      | Other receivables                 | 44,188.9                           |                                      | 14,483.0                              | 29,705.9                         |                                           | Dividends receivables          | Refer to relevant explanation | No                                                                         | Over three years |
| Shenzhen Tianan International Building Property Management Co., Ltd. | Affiliated company                                      | Other receivables                 | 82.9                               |                                      | 82.9                                  |                                  |                                           | Security money                 | Repay in cash                 | No                                                                         |                  |
| Shun Yip Properties Development Co., Ltd.                            | Share-controlling subsidiary                            | Other receivables                 | 145,120.7                          |                                      | 10,604.2                              | 134,516.5                        | 114,516.5                                 | Investment amount and interest | Repay in cash                 | No                                                                         | Over three years |
| Shenzhen International Trade Industrial Development Co., Ltd.        | Holding 38.33% equity of it                             | Other receivables                 | 2,431.7                            |                                      |                                       | 2,431.7                          | 2,431.7                                   | Profits unpaid                 |                               | No                                                                         | Over three years |
| Anhui Nanpeng                                                        | Holding 30%                                             | Other                             | 11,477.3                           |                                      |                                       | 11,477.3                         | 11,477.3                                  | Operational                    |                               | No                                                                         | Over             |

|                                                          |                                        |                   |           |   |          |           |           |                              |               |    |                  |
|----------------------------------------------------------|----------------------------------------|-------------------|-----------|---|----------|-----------|-----------|------------------------------|---------------|----|------------------|
| Paper Making Co., Ltd.                                   | equity of it                           | receivables       |           |   |          |           |           | turnover capital             |               |    | three years      |
| Shenzhen Wufang Pottery & Porcelain Industrial Co., Ltd. | Holding 26% equity of it               | Other receivables | 1,747.3   |   |          | 1,747.3   | 1,747.3   | Operational turnover capital |               | No | Over three years |
| Subtotal of operational occupied capital                 |                                        |                   | 205,048.8 |   | 25,170.1 | 179,878.7 | 130,172.8 |                              |               |    |                  |
| Non-operational occupied capital                         |                                        |                   |           |   |          |           |           |                              |               |    |                  |
| Shenzhen Construction Investment Holdings                | The largest shareholder of the Company | Other receivables | 7,645.9   |   | 861.7    | 6,784.2   |           | Temporary loan               | Repay in cash | No |                  |
| Subtotal of non-operational occupied capital             |                                        |                   | 7,645.9   |   | 861.7    | 6,784.2   |           |                              |               |    |                  |
| Total occupied capital                                   |                                        |                   | 212,694.7 | - | 26,031.8 | 186,662.9 | 130,172.8 |                              |               |    |                  |



2. Special explanation of Independent Director Jiang Changlong, Kong Yuquan and Zhang Jianjun

As Independent Director of Shenzhen Properties & Resources Development (Group) Ltd., according to the requirement of Notification on Problems of Standardizing Current Capital between Listed Companies and Related Parties and Guarantee for External Parties of Listed Companies, we expressed the following independent opinion:

(1) Occupied capital of related parties. In 2004, the controlling shareholder and other related parties of the Company did not accumulatively newly occupy the capital of listed company. Ended Dec. 31, 2004, the controlling shareholder and other related parties of the Company occupied capital amounting to RMB 186.6629 million of the Company in total, among it, operational occupying the capital of listed company was RMB 179.8787 million and non-operational occupying the capital of listed company was RMB 6.7842 million.

We re-audited the information reported in Statement of Capital Occupied and the accounting statement audited in 2004 as well as the relevant information, no discrepancy was found in major aspects.

The aforesaid amounts were formed based on the normal production and operation history. According to the requirement of the regulatory department, the Company will take effective measures and tend to descend amount of occupied capital year by year.

(2) Guarantee of loan. ① Concerning guarantee for Gintian, please refer to IX (V) 2 “SIGNIFICANT EVENTS” of this report for detail; ② The guarantee for loan totally RMB 49 million of the subsidiary, Shenzhen Huangcheng Real Estate Co., Ltd. from Industrial and Commercial Bank of China Futian Sub-branch was based on the need of the normal operation and the decision-making procedure was in line with the regulations of the Company.

We considered that the Board of Directors of the Company strictly controlled the risk of guarantee for external parties and standardized the procedure of examining and approving through implementation of Management Regulation of Guarantee for External Parties.

## **VIII. REPORT OF THE SUPERVISORY COMMITTEE**

In the report period, the Supervisory Committee held five meetings:

The 1<sup>st</sup> meeting was held on Feb. 20, 2004, examined and approved the proposal on changing our Director in Guomao Tian'an Company, and expressed Independent Opinion. The 2<sup>nd</sup> meeting was held on Apr. 15, 2004, examined and approved Report of the Supervisory Committee for 2003, 2003 Annual Report and its Summary and the proposal on Allotting Eight Reserves, and expressed their opinion on expositive opinion in Annual Report; the said meeting unanimously passed the aforesaid proposals and published the relevant information on the medias. The 3<sup>rd</sup> meeting was held on May 27, 2004, discussed the name list of Supervisor candidates of the 5<sup>th</sup> Supervisory Committee, examined and approved the name list of Supervisor candidates of the 5<sup>th</sup> Supervisory Committee by means of voting and submitted to the 2003 Shareholders' General Meeting for approval. The 4<sup>th</sup> meeting was held on June 28, 2004, elected Chairman of the 5<sup>th</sup> Supervisory Committee; the said meeting unanimously elected Mr.

Cao Ziyang as Chairman of the Supervisory Committee and disclosed the relevant information on the medias. The 5<sup>th</sup> meeting was held on Aug. 12, 2004, the Supervisory Committee expressed Independent Opinion on Semi-annual Report for 2004 and its Summary.

The members of the Supervisory Committee participated in every meeting of the Board of Directors, supervised over the operation according to law of the Board of Directors and the management based on Company Law, Administration Rules of Listed Company and Articles of Association of the Company, consulted relevant materials of the significant operation activities of the Company, strictly performed the duties of supervision. The independent opinion of the Supervisory Committee on relevant events of the Company is as follows:

1. Operation according to law: seeing from every work of the Company in 2004, the Board of Directors and the management team of the Company operated according to Company Law, Administration Rules of Listed Company and Articles of Association of the Company and could follow out and execute the resolutions of the Shareholders' General Meeting. When the directors and senior executives of the Company executed the Company's duties, there found neither behaviors of breaking laws, regulations and Articles of Association of the Company nor behaviors of abusing authorities and damaging the interest of the Company. The Supervisory Committee believes that: under the proper leading of the Board of Director, the Company strengthened the production and operation in 2004, and successfully achieved the annual profit indexes. The Company's management team was organized well, through adopting the beneficial measures, promoted the Group's work efficiency in the whole by a big margin, and the subsidiaries' business & management levels was improved generally, obtained the remarkable economical benefit, and successfully realized scheduled development target.

2. Financial inspection: Through inspecting the Company's financial and accounting documents and relevant rules and systems, the Supervisory Committee believed that the internal control system of the Company was health and complete and the management was perfect, the accounting settlement this year was in accordance with the financial system of the listed company, the appropriation of every provision strictly accorded with the internal control system of the Company and implemented necessary relevant authorized procedure. As audited by Certified Public Accountants, the financial report of the Company truly, objectively and exactly reflected the financial situation and operation result.

3. In the merge and sale activities of assets of the Company, there occurred neither unreasonable transactions and internal transactions nor other behaviors of damaging partial shareholders' right and interest or causing the run-off of the Company's assets.

4. Particular about auditor's report

Wuhan Zhonghuan Certified Public Accountants issued the auditor's report with pinpoint events. The Supervisory Committee patiently inquired about the situations involved in the explanation of Auditor's Report and believed that the explanations of the Board of Directors and the management team of the Company on the involved events was in accordance with the actual situation and the adopted relevant accounting

disposal was in accordance with the financial and accounting policy.

## **IX. SIGNIFICANT EVENTS**

### **(I) Significant lawsuits or arbitration**

1. Concerning the “Haiyi Company” lawsuit disclosed in 2000-2003 Annual Report and 2004 Semi-annual Report of the Company, because the 2<sup>nd</sup> trial unclearly cognized truth and improperly applied for laws, Guangdong Higher Court decided to retry the case in Aug. 1999 under the Company’s application. According to the decision of the retrial, Shenzhen Intermediate Court ended the execution of the case after the Company provided possession’s drawing. At the end of 2003, Guangdong Higher Court overruled the application of the Company after check. After the retrial application was overruled, the eight owners including Haiyi Industrial (Shenzhen) Co., Ltd. have not applied the compulsive execution for Guangdong Higher Court. At present, the Company is dealing with the item of retrial application for the Supreme People’s Court.

2. Concerning “Jiyong Company” lawsuit disclosed in 2000-2003 Annual Report, Provisional Public Notice dated Apr. 12, 2001 and 2004 Semi-annual Report of the Company, Guangdong Higher Court judged according to laws the transfer contract signed by the Company and Jiyong Company was valid and Jiyong Company should pay the transfer payment amounting to RMB 0.14 billion stated in the contract to the Company. The Company has applied compulsive execution for Guangdong Higher Court and the case is the process of execution. Because Industrial and Commercial Bank of China, Zhejiang Branch demurred that the Company sealed up property, Higher Court judged to determine the Company’s sealing of Jiyong Company’s property amounting to 10,000 sq. m.. The Company considered that improperly applied for laws in the said judgment, and has demurred to Guangdong Province Higher Court and the said demur is under examination.

3. Concerning “Huang Fuming” lawsuit disclosed in Provisional Public Notice dated Aug. 18, 2001, 2001-2003 Annual Report, Provisional Public Notice dated Jan. 29, 2003 and 2004 Semi-annual Report of the Company, Guangdong Province Higher People’s Court rejected Huang Fuming’s lawsuit claim in 2<sup>nd</sup> trial in the report period, kept the original judgment, and the Company recovered. The Company disclosed the aforesaid event in the appointed medias on Dec. 28, 2004.

4. Concerning “Luohu Hotel’s Bankruptcy” lawsuit disclosed in 2001-2003 Annual Report, the Provisional Public Notice dated July 23, 2003 and 2004 Semi-annual Report of the Company, by confirmation, the Company held Luohu Hotel’s bankruptcy credit amounting to RMB 38,872,166.78 judged by the Court.

Ended Oct. 31, 2004, Luohu Hotel’s liquidation team drew back the property of RMB 75,290,538.26 in total. By confirmed by the liquidation team and the Court, the ordinary bankruptcy credit amounted to RMB 64,889,951.42 and the preferential bankruptcy credit amounting to RMB 13,062,277.31. After deducting liquidation fees, employees’ wages, taxes and various preferential credits, the distributable bankruptcy to ordinary creditors totaled up to RMB 43,216,707.65 and the distribution proportion was 66.60%. Thus, the Company could take back bankruptcy credit of RMB 25,888,863.08.

(II) Other small and unsettled lawsuit case

(1) Due to the Company's overdue transfer of building, in July 2000, Hubei Foreign Economic Cooperation Hall Shenzhen Office (Hereinafter referred to as The Office) appealed to Shenzhen Intermediate People's Court to cancel the Agreement signed by the Office and the Company for purchasing houses of 4000 sq. m. used as office in Jiabing Building, and require the Company return the fee for house purchasing amounting RMB 10.8 million and compensate for its losses amounting to RMB 18.6756 million. As stated in the judgment of (2002) YGFMYZZ No. 90 document, Guangdong Higher People's Court judged the Company to return construction fee amounting to RMB 10.8 million and corresponding bank interest to the Office. The Office has applied for execution to Guangdong Higher People's Court. The Company rejected the judgment and applied for retrial to the Supreme Court of the P.R.C.. On Jan. 18, 2005, the Supreme Court of the P.R.C. held the hearing of this case.

(2) The dispute arbitration case concerning Shenzhen Huangcheng Real Estate Co., Ltd. (Hereinafter referred to as the Real Estate Company), the holding subsidiary of the Company, prosecutes Duokuai Elevator (Far East) Co., Ltd. (Hereinafter referred to as the Elevator Company) for an elevator purchasing contract. In July 2002, the Real Estate signed a Contract on Elevator Equipment with the Elevator Company to purchase the elevators for Huang Yu Yuan District B, but the Elevator Company seriously broke the contract by its delay in goods supply. Therefore, the Real Estate Company applied to Shenzhen Arbitration Committee for arbitration to cancel the contract, and demand from the Elevator Company a repayment amounting to RMB 19,673,500, a penalty amounting to RMB 2,393,000 a loss compensation amounting to RMB 277,268. The session has not been held.

(3) The execution case concerning Construction Bank of China Shenzhen Branch Bao'an subbranch prosecutes the Company (hereinafter referred to as the Bank) for a loan contract. In Sept. 1995, the Bank signed a loan contract with the Company and Shenzhen International Trade Industrial Co., Ltd., the wholly-owned subsidiary of the Company. According to the contract, the Company borrowed RMB 15 million from the Bank, and Shenzhen International Trade Industrial Co., Ltd undertook joint liabilities. Later, the Company discharged the capital amounting to RMB 15 million, but did not pay the interest. In this case, the Bank appealed to Bao'an Court, demanding that the Company pay the interest amounting to over RMB 2.51 million. According to the mediation agreement released by the court in Sept. 2000, the Company should pay interest in installments to the bank amounting to RMB 2.57 million. The case is under execution, and the Company still has to pay over RMB 1.2 million.

(4) The dispute case concerning Meisi Company prosecutes the Company for land use right. In June 2004, Shenzhen Meisi Industrial Co., Ltd. appealed to Shenzhen Intermediate Court, prosecuting Shenzhen Luohu Economic Development Co., Ltd and the Company for illegal use of land and demanding a compensation amounting to RMB 8 million in order to remove the infringing. The Company considered that the prosecution is not in accordance with actual situation. The session has been held to hear the case, but the case has not been settled.

(5) The case concerning the Huaxi Company prosecutes Jiyong Company and the



Company for arrearage in the Jinglihua Commercial Plaza construction. In July 1996, China Huaxi Co., Ltd. signed Construction Contract of Granite Outer Decoration for Jinglihua Commercial Plaza with Shenzhen Joyong Properties Co., Ltd. (Hereinafter referred to as Jiyong Company) (Jinglihua Commercial Plaza was established by the Company, Jiyong Company and Shenzhen Zhongli Investment Co., Ltd.. In May 1993, the Company transferred its equity of Jilihua Commercial Plaza to Jiyong Company.). Subsequently, because of Jiyong Company's defaulting the construction fee, China Huaxi Co., Ltd. appealed to Luohu Court, demanding that Jiyong Company and Shenzhen Zhongli Investment Co., Ltd. and the Company should pay totally over RMB 5.87 for the construction fee and losses. A court has held for the case, but has not been judged yet. The chance for the Company to recover is good since it has transferred the equity to Jiyong Company and did not signed a contract with China Huaxi Company.

(6) The case concerning Taoboming's prosecuting Shenzhen Huangcheng Real Estate Co., Ltd., the shareholding subsidiary of the Company (Hereinafter referred to as the Real Estate Company), for its delay in house transfer and certificate transaction. In Oct. 2004, Tao Boming appealed to Futian Court of Shenzhen, prosecuting that it signed Purchasing and Sale Contract with the Real Estate Company in Nov. 2001 to purchase eight sets of house property, but the Real Estate Company did not transfer the houses and transact the house property certificates according to the contract. Therefore, Tao Boming demanded that the Real Estate Company transfer the building and transact the house property certificate according to the contract. In addition, the Real Estate Company should pay a penalty for overdue house transfer and certificate transaction as well as corresponding extra tax, totally amounting to RMB 4.17 million. This case is still in inquisition.

(7) The execution case concerning the Construction Bank of China prosecutes Gintian Company for a loan contract. In Dec. 1998, the business department of China Construction Bank of China Shenzhen Branch (Hereinafter referred to as the Bank) signed a loan contract with the Gintian Industrial (Group) Holdings Co., Ltd. (hereinafter referred to as Gintian Company), in which Gintian Company borrowed RMB 2.6 million from the Construction Bank of China and the Company undertook joint liabilities. Afterwards, Gintian Company did not refund and the Company did not undertake the joint liabilities, so the Bank appealed to the Luohu Court, demanding Gintian Company pay up the capital and interest and the Company undertake joint liabilities. In May 2001, the Court judged Gintian Company should refund capital amounting to RMB 2.6 million and interest amounting to RMB 290,000 to and the Company should undertake the joint liabilities. The case is in inquisition.

(8) The case concerning the Company prosecutes Zhang Fujian for owing the rent of Fumin Building. In Sept. 2002, Zhang Fujian rented the second floor of Fuming Building of the Company. Shenzhen Zhenhong Technology Co., Ltd. guaranteed for the renting. Later, due to Zhang Fujian's defaulting the rent, the Company appealed to Futian Court. The court judged that Zhang Fujian should pay the Company rent, water and electricity fee, penalty, etc., totally amounting to RMB 1.7 million, and Shenzhen Zhenhong Technologt Co., Ltd. and Shenzhen Fumin Shopping Mall Co., Ltd should undertake joint liabilities. The Company has applied for execution and has appealed to

preserve Zhang Fujian's one set of house property belonging to the he and his wife.

(9) The case concerning Wu Qiang and Huang Peihua's prosecuting the Company for its trespass on the adjacent right by the 2<sup>nd</sup> stage of International Trade Plaza developed by the Company. Wu Qiang and Huang Peihua purchased a set of house property respectively in the International Trade Commercial and Residential Building in Sep. 1991. They appealed to Luohu Court in 2003 that the 2<sup>nd</sup> stage of International Trade Plaza developed by the Company trespassed on its adjacent right, so they demanded that the Company compensated for the losses amounting to RMB 1.7 million. Afterwards, Luohu Court judged the Company to pay a compensation amounting to RMB 180,000. The Company rejected the judgment and appealed to Shenzhen Intermediate Court which rejected the appeal and kept the original judgment in Dec. 2004.

(10) The case concerning the dispute over sealing the houses, which was appealed by Hainan Xinda Development General Company (hereinafter referred to as Hainan Xinda Company or Xinda Company), the holding subsidiary of the Company. Pursuant to the civil judgments of (2002) SLFJEC Zi No.1055, 1056 and 1057 documents, Shenzhen Luohu Court sealed the two sets of houses on the seventh and eighth floor respectively in Block F of Xinda Commercial Center, which is under the name of Hainan International Trust and Investment Company. Xinda Company considered Hainan International Trust and Investment Company had transferred the aforesaid two sets of houses to Xinda Company, but the two parties did not transact any transfer procedures. Therefore, Xinda Company appealed to Luohu Court for unsealing the houses. The case has not been settled.

(11) In Dec. 2002, four owners of Fengrun Garden Villa applied to Shenzhen Arbitration Committee for an arbitration, and demanded that Shenzhen Properties Engineering Development Company (hereinafter referred to as the Development Company), the holding subsidiary of the Company, to pay a compensation for overdue certificate transaction amounting to RMB 420,000 and return the overcharged sum of maintenance for house reality amounting to RMB 1,416. Verdicted by Shenzhen Arbitration Committee, the Development Company should pay RMB 181,705 to the four owners. Later, since the Development Company applied to block the execution, Luohu Court judged not to execute the aforesaid arbitration. In Aug. 2004, three owners of the aforesaid four owners re-appealed to Bao'an District Court and demanded that the Development Company to pay a compensation for overdue certificate transaction amounting to RMB 283,312. The case is under cognizance.

(12) The invalid case on the Company prosecuted that the transfer of house property among Zhang Fujian, Xi Huixia and Zhang Huizi was invalid. Zhang Jianfu and Xi Huixia transferred a set of house property to their underage child Zhang Huizi in order to evade their debt while Zhang Fujian owing the rent 2<sup>nd</sup> floor of Fumin Building to the Company. The Company appealed to Luohu Court to judge the transfer action to be of no effect. The said case has been held to hear the case, but the case has not been settled.

### (III) Significant sale of assets

In the report period, the Company had no significant purchase, sale and reorganization

of assets.

(IV) In the report period, the transfer of impairment loss for assets devaluation According to regulations of Enterprises Accounting Principles and Enterprise Accounting System and Notification on Issues about Every Item of Impairment loss of Listed Companies promulgated by CSRC, based on the market price and the change on operating environment of the Company, in the report period, every item of reserve transfer of the Company was RMB 10,823,541.67, mainly including every item of reserve transferred-in for rising of assets value amounting to RMB 1,830,583.64, which included impairment loss for short-term investment amounting to RMB 7,757.5 and reserve for falling price of inventory amounting to RMB 1,822,826.14, affecting income of the current year about RMB 1,830,583.64; every item of reserve reduced for other reasons amounting to RMB 9,192,958.03, which included impairment loss for short-term investment amounting to RMB 59,678.06 and impairment loss for long-term investment amounting to RMB 200,000 and reserve for falling price inventory amounting to RMB 8,933,279.97, affecting income of the current year amounting to RMB 7,023,884.83.

(V) Significant related transaction

1. The Company disclosed the Company signed Shenzhen Construction Project Construction Contract with Shenzhen Yuezhong (Group) Co., Ltd. in Provisional Public Notice and 2003 Annual Report on Jan. 15, 2003. Through opening bidding, Yuezhong Company undertook construction project of “ Outstanding peak and beautiful houses” (original name “Urban Golden Castle” developed by the Company. The Company and the controlling shareholder of Yuezhong Company, Shenzhen Great wall Property (Group) Co., Ltd. belonged to Shenzhen Construction Investment Company. The transaction belonged to related transaction. The transaction amount: RMB 265,683,752 (tax included). The Company paid construction payment according to the rate of progress of the project. Ended Dec. 31, 2004, the Company paid project payment amounting to RMB 209,137,630.98.

2. The Company disclosed Royal Imperial Garden District B 12-15 High Buildings project developed by the controlling subsidiary, Shenzhen Royal City Property Co., Ltd., was undertaken by Shenzhen Jianye Construction Project Company (Controlling shareholder of Jianye Company, Shenzhen Jianye Co., Ltd. and the Company belonged to the same controlling shareholder, so the transaction constituted related transaction) in Provisional Public Notice on Nov. 17, 2001 and 2001 Annual Report Both parties signed project contract and the total price of the contract was RMB 195,919,800. Ended Dec. 31, 2004, Shenzhen Royal City Property Co., Ltd. has paid project payment amounting to RMB 163,719,802.92.

3. For the details of current credits and liabilities with related parties, please refer to Note (VIII) 2 (2). Balance of accounts receivables and payables of related parties of Financial Report. For the details of guarantee, please refer to Note (IX) 2..The above amount formed mainly based on the need of the normal production and operation as well as history.

(VI) Implementation of significant contracts

1. In the report period, the Company had no custody, contract and lease of assets.

## 2. Significant guarantee

① The Company disclosed guarantee of “Gintian Company” in Provisional Public Notice on Dec. 28, 2004 and Annual Report 2001, 2002 and 2003. Ended Dec. 31, 2004, the Company provided loan guarantee amounting to RMB 67.6 million for Cintian Industrial (Group) Co., Ltd. (hereinafter referred to as “Gintian Company”). The loan bank and loan amount were respectively: Changchun branch of Bank of Communications RMB 59 million, Guomao sub-branch of Shenzhen branch of Agricultural Bank of China RMB 6 million and Shenzhen branch office of China Construction Bank RMB 2.6 million.

For Gintian Company didn't fulfill returning obligation, Changchun branch of Bank of Communications indicted Gintian Company to Jilin Higher People's Court on Apr. 14, 2000, asking for Gintian Company paying back principal loan and interests and the Company undertaking joint guarantee responsibilities. On Aug. 3, 2001, Jilin Higher People's Court verdict the Company undertook joint guarantee responsibility for the first interrogation. In the course of hearing, the Company searched relevant amount of property possessed by Jintian Company and provided to Jilin Higher People's Court and the creditor Changchun branch of Bank of Communications, and Jilin Higher People's Court sealed up about property. Because the Company actively helped Changchun branch of Bank of Communications to realize its rights, the bank agreed not to execute joint responsibility of the Company temporarily. However, the bank appealed Jilin Higher People's Court to seal up 18 sets of houses of International Trade Building in December 2003; property in construction of 169 sets of houses of < Outstanding Peak and Beautiful Houses> developed by the Company on Mar. 31, 2004. The Company believed the above sequestration belonged to exceeding sequestration. The Company proposed objection to Jilin Higher People's Court and asked to uncloset down the sequestration. After that, Changchun branch of Bank of Communications assigned the creditor's rights on the Company to China Xinda Assets Management Company (hereinafter referred to “Xinda Assets Company”).

In December 2004, the Company achieved guarantee debts reorganization agreement with Xinda Assets Company. According to the agreement, the Company paid RMB 48 million to Xinda Assets Company by stages and Xinda Assets Company informed the court uncloset down the sequestration by stages according to the returning proportion. The detail paying period was: paying RMB 20 million before Dec. 31, 2004; paying RMB 20 million before Jun. 30, 2005. After the fulfillment of the agreement, Xinda Assets Company exempted all guarantee responsibilities of the Company.

After the signing of the agreement, the Company paid RMB 20.32 million to Xinda Assets Company. After that, Jilin High People's Court removed the sequestration on a set of house of International Trade Building and 67 sets of houses of “Outstanding Peak and Beautiful Houses” possessed by the Company. After the Company fulfilled guarantee responsibilities, according to the regulations of Guarantee Law, the Company would call back RMB 48 million from Gintian Company. With respect to the present environment of Gintian Company, the Company withdrew bad debts reserve amounting to RMB 48 million on the creditor's rights in the current period, which entered into income of the current period.

In 1997, Gintian Company borrowed RMB 6 million from Guomao sub branch of Shenzhen branch of Agriculture Bank of China (hereinafter referred to “Guomao Agricultural Bank of China”), and the Company provided guarantee. Gintian Company didn’t pay back loan overdue. Guomao Agricultural Bank of China indicted Gintian Company and the Company. In 2000, Shenzhen Intermediate People’s Court verdicted Gintian Company paid back the principal loan and interests and the Company took joint responsibilities. In the process of implementation, responding the appeal of Guomao Agricultural Bank of China, Shenzhen Intermediate People’s Court sealed up legal person’s shares of Chuangtou Changgang. The Company and Guomao Agricultural Bank of China achieved agreement elementarily. If Gintian Company didn’t fulfill the returning obligation, the Company would undertake guarantee responsibility of the loan amounting to RMB 6 million. In the current period, the Company estimated relevant losses amounting to RMB 6 million, which entered into the income of the current period.

In December 1998, Shenzhen branch office of China Construction Bank (hereinafter referred to “China Construction Bank”) signed loan contract with Gintian Company, in which Gintian Company borrowed RMB 2.6 million from Construction Bank and the Company undertook joint responsibility for Gintian Company. Gintian Company didn’t pay back loan according to the contract and the Company didn’t fulfill guarantee responsibility. Therefore, Construction Bank appealed to Luohu People’s Court and asked Gintian Company to pay back principal loan and interests and the Company to undertake joint responsibilities. In May 2001, the court verdicted Gintian Company paid back principal loan and interests and the Company undertook joint responsibilities. Construction Bank has applied to execute the case. In the current period, the company estimated the relevant loss amounting to RMB 2.6 million, which entered into the income of the current period.

② In the report period, the Company provided guarantee for controlling subsidiary, Shenzhen Royal City Property Co., Ltd. to get the loan amounting to RMB 49 million from Shenzhen Futian sub-branch of Industrial and Commercial Bank of China.

③ The Company and subsidiary of the Company provided mortgage loan guarantee for the purchaser of commercial houses from bank. Ended Dec. 31, 2004, the guarantee amount, which wasn’t cleared, was totaled to RMB 553.63 million. The guarantee was provided for the small owners to purchase commercial houses by real estate developer, which was common in the field.

3. In the report period, the Company has not entrusted others to manage cash assets.

(VII) In the report period, the commitment of the shareholders holding more than 5% equity of the Company

In the report period, the controlling shareholder of the Company, Shenzhen Construction Investment Company occupied capital of the Company amounting to RMB 6,784,280. To carry out the requirements of CSRC No. 56 Document and Shenzhen Securities Regulatory Administration Bureau, through active negotiations, controlling shareholder, Shenzhen Construction Investment Company committed dissolving the problem by assets offsetting before the end of August 2004. According to the requirements of Shenzhen Securities Regulatory Administration Bureau, the

Company disclosed on Jul. 3, 2004. No long time after that, because three assets operation companies of Shenzhen incorporated. The plan committed by the controlling shareholder paid by assets was not carried out.

Shenzhen Investment Holdings Co., Ltd. at present actively took actions to negotiate with the Company for dissolving problem. The Company would disclose timely the detail progress.

(VIII) Engagement of Certified Public Accountants: in the report period, as examined and approved in Annual Shareholders' General Meeting, the Company continued to engage Wuhan Zhonghuan Certified Public Accountants Co., Ltd. and Hong Kong Huarong Certified Public Accountants Co., Ltd. to take charge of the civil and overseas audit of the Company in 2004. Since the first Agreement of Audit Business, the above CPAs have provided audit service for the Company for 3 years. The total audit expense of the Company in 2004 is RMB 0.5 million (including business journey expense).

(IX) Neither the Company nor the Board of Directors and its members were inspected, penalized, criticized or publicly censured by the securities regulatory authorities in the report period.

#### **X. FINANCIAL REPORT (ATTACHMENT)**

#### **XI. DOCUMENTS AVAILABLE FOR REFERENCE**

1. Financial statements carried with signatures and seals of legal representative and Manager of Financing Dept. of the Company;
2. Original of Auditors' Report carried with seals of Certified Public Accountants as well as signatures and seals of certified public accountants.
3. Originals of all documents as disclosed in public on the newspapers as designated by CSRC in the report period.

**Board of Directors of  
ShenZhen Properties & Resources Development (Group) Ltd.  
March 1st, 2005**

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED

深圳市物業發展(集團)股份有限公司

CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2004

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
深圳市物業發展(集團)股份有限公司

---

| <u>CONTENTS</u>                             | <u>PAGES</u> |
|---------------------------------------------|--------------|
| REPORT OF THE AUDITORS                      | 1            |
| CONSOLIDATED INCOME STATEMENT               | 2            |
| CONSOLIDATED BALANCE SHEET                  | 3            |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 4            |
| CONSOLIDATED CASH FLOW STATEMENT            | 5 - 6        |
| NOTES TO THE FINANCIAL STATEMENTS           | 7 - 29       |



## **AUDITORS' REPORT TO THE SHAREHOLDERS OF**

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

**深圳市物業發展(集團)股份有限公司**

**(Established in the People's 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, 2004 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 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 management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable base for our opinion.

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 of the subsidiaries of the Company 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 certain litigations**

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the possible outcome of certain litigations against the Group for breach of contracts of sale and purchase of realty properties by the Group on the ground of the Group's failure to complete the contracts as scheduled. The future settlement of these litigations might result in additional liabilities to the Group. Details of the circumstances relating to this fundamental uncertainty are described in note 28 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 present fairly, in all material respects, the financial position of the Group as of December 31, 2004, and of the results of its operation and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KLL Associates CPA Limited  
Certified Public Accountants (Practising)  
Lee Ka Leung, Daniel  
Practising Certificate Number P01220

Hong Kong, February 24, 2005

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

CONSOLIDATED INCOME STATEMENT  
 YEAR ENDED DECEMBER 31, 2004

|                                                               | <u>Notes</u> | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|---------------------------------------------------------------|--------------|------------------------|------------------------|
| <b>Turnover</b>                                               | 5            | 1,326,290              | 1,079,474              |
| Cost of sales                                                 |              | <u>(902,525)</u>       | <u>(716,219)</u>       |
| <b>Gross profit</b>                                           |              | 423,765                | 363,255                |
| Other revenue/ (expenses), net                                |              | (2,632)                | (44,630)               |
| Administrative expenses                                       |              | (218,441)              | (121,339)              |
| Distribution costs                                            |              | <u>(33,219)</u>        | <u>(34,491)</u>        |
| Profit from operations                                        | 7            | 169,473                | 162,795                |
| Finance costs                                                 | 8            | (41,293)               | (30,560)               |
| Share of profits/ (losses) of associates                      |              | 3,692                  | (11,091)               |
| Loss on investments, net                                      | 9            | <u>(5,766)</u>         | <u>(2,011)</u>         |
| <b>Profit before taxation</b>                                 |              | 126,106                | 119,133                |
| Taxation                                                      | 10           | <u>(35,710)</u>        | <u>(44,675)</u>        |
| <b>Profit after taxation and attributable to shareholders</b> |              | <u>90,396</u>          | <u>74,458</u>          |
| Earnings per share                                            |              |                        |                        |
| Basic and diluted                                             | 11           | <u>RMB0.17</u>         | <u>RMB0.14</u>         |

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

CONSOLIDATED BALANCE SHEET  
 AT DECEMBER 31, 2004

|                                            | Notes | 2004<br>RMB'000  | 2003<br>RMB'000  |
|--------------------------------------------|-------|------------------|------------------|
| Non-current assets                         |       |                  |                  |
| Property, plant and equipment              | 12    | 339,142          | 311,854          |
| Intangible assets                          | 13    | 59,792           | 61,704           |
| Interests in subsidiaries not consolidated | 15    | 119,612          | 135,206          |
| Interests in associates                    | 16    | 107,235          | 120,148          |
| Investments in securities                  | 17    | 13,036           | 17,036           |
|                                            |       | <u>638,817</u>   | <u>645,948</u>   |
| Current assets                             |       |                  |                  |
| Inventories                                | 18    | 1,316,712        | 1,397,145        |
| Trade and other debtors and prepayments    | 19    | 21,334           | 37,566           |
| Trading securities                         | 20    | 10,062           | 14,305           |
| Cash and bank balances                     |       | 240,234          | 266,624          |
|                                            |       | <u>1,588,342</u> | <u>1,715,640</u> |
| Current liabilities                        |       |                  |                  |
| Trade and other creditors                  | 21    | 865,356          | 864,424          |
| Provisions                                 | 22    | 58,602           | 50,002           |
| Taxes payable                              |       | 68,314           | 51,833           |
| Borrowings                                 | 23    | 559,980          | 777,500          |
|                                            |       | <u>1,552,252</u> | <u>1,743,759</u> |
| Net current assets/(liabilities)           |       | <u>36,090</u>    | <u>(28,119)</u>  |
| Total assets less current liabilities      |       | <u>674,907</u>   | <u>617,829</u>   |
| Non-current liabilities                    |       |                  |                  |
| Borrowings                                 | 23    | 96,000           | 130,000          |
| Long-term deferred income                  | 24    | 38,235           | 40,009           |
|                                            |       | <u>134,235</u>   | <u>170,009</u>   |
|                                            |       | <u>540,672</u>   | <u>447,820</u>   |
| CAPITAL AND RESERVES                       |       |                  |                  |
| Share capital                              | 25    | 541,799          | 541,799          |
| Reserves                                   |       | (1,127)          | (93,979)         |
|                                            |       | <u>540,672</u>   | <u>447,820</u>   |

Approved by the board of directors on February 24, 2005.

DIRECTOR

DIRECTOR

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
 YEAR ENDED DECEMBER 31, 2004

---

|                              | Share<br><u>capital</u><br>RMB'000<br>(Note 25) | Statutory<br>capital<br><u>reserve</u><br>RMB'000 | Public<br>welfare<br><u>fund</u><br>RMB'000 | Retained<br><u>earnings</u><br>RMB'000 | <u>Total</u><br>RMB'000 |
|------------------------------|-------------------------------------------------|---------------------------------------------------|---------------------------------------------|----------------------------------------|-------------------------|
| Balance at January 1, 2003   | 541,799                                         | 288,346                                           | 79,511                                      | (595,613 )                             | 314,043                 |
| Profit for the year          | -                                               | -                                                 | -                                           | 74,458                                 | 74,458                  |
| Transfer of reserve          | <u>-</u>                                        | <u>59,319</u>                                     | <u>-</u>                                    | <u>-</u>                               | <u>59,319</u>           |
| Balance at December 31, 2003 | 541,799                                         | 347,665                                           | 79,511                                      | (521,155 )                             | 447,820                 |
| Profit for the year          | -                                               | -                                                 | -                                           | 90,396                                 | 90,396                  |
| Transfer of reserve          | <u>-</u>                                        | <u>2,456</u>                                      | <u>-</u>                                    | <u>-</u>                               | <u>2,456</u>            |
| Balance at December 31, 2004 | <u>541,799</u>                                  | <u>350,121</u>                                    | <u>79,511</u>                               | <u>(430,759 )</u>                      | <u>540,672</u>          |

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

CONSOLIDATED CASH FLOW STATEMENT  
 YEAR ENDED DECEMBER 31, 2004

|                                                                 | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|-----------------------------------------------------------------|------------------------|------------------------|
| <b>Profit from ordinary activities before taxation</b>          | 126,106                | 119,133                |
| <b>Adjustment for:</b>                                          |                        |                        |
| Share of results of associates                                  | (3,692)                | 11,091                 |
| Interest expense                                                | 47,689                 | 81,708                 |
| Interest income                                                 | (2,067)                | (2,260)                |
| Bad or doubtful debts written back                              | (50)                   | (47,088 )              |
| Provision for doubtful debts                                    | 71,586                 | 10,600                 |
| Provision for inventories written back                          | (10,515)               | (3,160)                |
| Provision for impairment in investments in securities           | -                      | (15,461 )              |
| Decrease in bank balances pledged as securities                 | 5,000                  | 3,000                  |
| Provision for trading securities                                | (7,838)                | 2,169                  |
| Depreciation of property, plant and equipment                   | 26,640                 | 25,027                 |
| Amortisation of intangible assets                               | 3,043                  | 1,881                  |
| Gain on disposal of property, plant and equipment               | 476                    | (4,251)                |
| (Loss)/ gain on dealing of listed investments                   | <u>62</u>              | <u>(4)</u>             |
| <b>Operating cash flows before movements in working capital</b> | 256,440                | 182,385                |
| Decrease in inventories                                         | 80,433                 | 39,289                 |
| Decrease in receivables                                         | 16,232                 | 131,960                |
| Increase/(decrease) in payables                                 | <u>10,782</u>          | <u>(128,931)</u>       |
| <b>Cash generated by operations</b>                             | 363,887                | 224,703                |
| Taxes paid                                                      | <u>(119,846)</u>       | <u>(57,153)</u>        |
| <b>Net cash flows from operating activities</b>                 | <u>244,041</u>         | <u>167,550</u>         |
| <b>Investing activities</b>                                     |                        |                        |
| Interest received                                               | 2,067                  | 2,260                  |
| Proceeds on disposal of other investments                       | 916                    | 3,051                  |
| Decrease in trading securities                                  | 4,243                  | 2,505                  |
| Proceeds on disposal of property, plant and equipment           | 3,967                  | 27,143                 |
| Purchases of property, plant and equipment                      | (10,922)               | (12,831)               |
| Decrease/(Increase) in interests in associates                  | <u>28,507</u>          | <u>49,312</u>          |
| <b>Net cash flows from investing activities</b>                 | <u>28,778</u>          | <u>71,440</u>          |
| <b>Financing activities</b>                                     |                        |                        |
| Interest paid on bank loans and other loans                     | (47,689)               | (81,708)               |
| New bank loans raised                                           | 473,600                | 589,000                |
| Repayments of bank loans                                        | <u>(725,120)</u>       | <u>(716,500)</u>       |
| <b>Net cash flows in financing activities</b>                   | <u>(299,209 )</u>      | <u>(209,208)</u>       |

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

CONSOLIDATED CASH FLOW STATEMENT  
 YEAR ENDED DECEMBER 31, 2004

|                                                                  | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|------------------------------------------------------------------|------------------------|------------------------|
| (Decrease)/ increase in cash and cash equivalents                | <u>(26,390)</u>        | <u>29,782</u>          |
| <b>Cash and cash equivalents at beginning of year</b>            |                        |                        |
| - as previously registered                                       | 266,624                | 251,531                |
| - effect of exclusion of subsidiaries consolidated in prior year | <u>-</u>               | <u>(14,689)</u>        |
| As adjusted                                                      | <u>266,624</u>         | <u>236,842</u>         |
| <b>Cash and cash equivalents at end of year</b>                  |                        |                        |
| Represented by cash and bank balances                            | <u>240,234</u>         | <u>266,624</u>         |

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2004

---

**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 reorganization 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 RMB430,758,000 (2003: RMB521,155,000) as at December 31, 2004. 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 (“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 IFRS:

(a) Subsidiaries

Subsidiaries, which are those entities in which the Company and/or its subsidiaries have an interest of more than one half of the voting rights or otherwise have 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 recognised 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; unrealised 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 not 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 less accumulated depreciation and any impairment losses.

Depreciation 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     | 20 years over the lease terms,<br>whichever is higher |
| 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 capitalised, 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. Amortization 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 licenses and are stated at cost less amortisation and impairment losses, if necessary, for any permanent diminution in value. Amortization is provided to write off the cost of taxi licenses over the license period granted by relevant authorities, which is 20 years.

(f) Investment in securities

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, unrealised gains and losses are included in income statement for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the income statement for the period.

(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 capitalised.

4. **PRINCIPAL ACCOUNTING POLICIES – continued**

(h) Completed properties for sale

Completed properties for sale are stated at the lower of cost and the estimated net realisable value. Cost includes cost of land use rights acquired, development cost and borrowing costs capitalised. Net realisable 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 realizable value. Costs, which comprise all costs of purchase, are calculated using the weighted average method. Net realizable value represents the estimated selling prices less all estimated costs of completion and selling expenses.

(j) Impairment loss

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 the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

(k) Revenue recognition

Revenue from sale of property is recognized 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 recognized upon the transfer of risks and rewards of ownership.

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

Interest income is recognized 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 income statement according to the contribution determined by the relevant schemes.

(m) Taxation

Taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years. And it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or negative goodwill or from the initial recognition other than in a business combination of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**4. PRINCIPAL ACCOUNTING POLICIES - continued**

(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 lessor 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.

(q) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event which it is probable will result in the outflow of economic benefits that can be reasonably estimated.

(r) Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(s) 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.

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

5. **TURNOVER**

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

|                                                | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|------------------------------------------------|------------------------|------------------------|
| Sale of properties                             | 1,112,296              | 903,550                |
| Sale of goods                                  | 34,294                 | 37,980                 |
| Taxi services                                  | 33,506                 | 28,359                 |
| Property rental and management services income | 133,217                | 103,643                |
| Hotel and restaurant operations                | <u>12,977</u>          | <u>5,942</u>           |
| Total                                          | <u>1,326,290</u>       | <u>1,079,474</u>       |

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, 2004 is presented below:

|                     | <u>Sales of properties, management services and rental income</u><br>RMB'000 | <u>Sales of goods</u><br>RMB'000 | <u>Taxi services, hotel and restaurant operations and others</u><br>RMB'000 | <u>Eliminations</u><br>RMB'000 | <u>Consolidated</u><br>RMB'000 |
|---------------------|------------------------------------------------------------------------------|----------------------------------|-----------------------------------------------------------------------------|--------------------------------|--------------------------------|
| <b>Revenue</b>      |                                                                              |                                  |                                                                             |                                |                                |
| External sales      | 1,245,513                                                                    | 34,294                           | 46,483                                                                      | -                              | 1,326,290                      |
| Inter-segment sales | <u>4,296</u>                                                                 | <u>-</u>                         | <u>-</u>                                                                    | <u>(4,296)</u>                 | <u>-</u>                       |
| Total revenue       | <u>1,249,809</u>                                                             | <u>34,294</u>                    | <u>46,483</u>                                                               | <u>(4,296)</u>                 | <u>1,326,290</u>               |

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

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

6. SEGMENTS REPORTING - continued

|                                                                          | Sales of<br>properties,<br>management<br>services and<br><u>rental income</u><br>RMB'000 | Sales of<br><u>goods</u><br>RMB'000 | Taxi services,<br>hotel and<br>restaurant<br>operations<br><u>and others</u><br>RMB'000 | <u>Eliminations</u><br>RMB'000 | <u>Consolidated</u><br>RMB'000 |
|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------------------------------------|--------------------------------|--------------------------------|
| <b>RESULTS</b>                                                           |                                                                                          |                                     |                                                                                         |                                |                                |
| Segment results                                                          | <u>397,012</u>                                                                           | <u>2,110</u>                        | <u>28,939</u>                                                                           | <u>(4,296)</u>                 | 423,765                        |
| General administrative<br>expenses and unallocated<br>corporate expenses |                                                                                          |                                     |                                                                                         |                                | <u>(254,290)</u>               |
| Profit from operations                                                   |                                                                                          |                                     |                                                                                         |                                | 169,475                        |
| Finance costs                                                            |                                                                                          |                                     |                                                                                         |                                | (41,293)                       |
| Share of losses of associates                                            |                                                                                          |                                     |                                                                                         |                                | 3,693                          |
| Loss on investments                                                      |                                                                                          |                                     |                                                                                         |                                | <u>(5,769)</u>                 |
| Profit before taxation                                                   |                                                                                          |                                     |                                                                                         |                                | 126,106                        |
| Taxation                                                                 |                                                                                          |                                     |                                                                                         |                                | <u>(35,710)</u>                |
| Profit after taxation and<br>attributable to shareholders                |                                                                                          |                                     |                                                                                         |                                | <u>90,396</u>                  |

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

|                     | Sales of<br>properties,<br>management<br>services and<br><u>rental income</u><br>RMB'000 | Sales of<br><u>goods</u><br>RMB'000 | Taxi services,<br>hotel and<br>restaurant<br>operations<br><u>and others</u><br>RMB'000 | <u>Eliminations</u><br>RMB'000 | <u>Consolidated</u><br>RMB'000 |
|---------------------|------------------------------------------------------------------------------------------|-------------------------------------|-----------------------------------------------------------------------------------------|--------------------------------|--------------------------------|
| <b>Revenue</b>      |                                                                                          |                                     |                                                                                         |                                |                                |
| External sales      | 1,007,193                                                                                | 37,980                              | 34,301                                                                                  | -                              | 1,079,47                       |
| 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  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

6. SEGMENTS REPORTING - continued

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

(b) Geographical segment

For the year ended December 31, 2004 and 2003, 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, 2004 and 2003.

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

7. **PROFIT FROM OPERATIONS**

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

|                                                     | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|-----------------------------------------------------|------------------------|------------------------|
| <b>After charging:</b>                              |                        |                        |
| Staff costs – statutory pension                     | 15,843                 | 11,904                 |
| – other costs                                       | 111,965                | 73,781                 |
| Total staff costs                                   | 127,808                | 85,685                 |
| Depreciation of owned property, plant and equipment | 26,640                 | 25,027                 |
| Amortisation of intangible assets                   | 3,044                  | 1,881                  |
| Provision for doubtful debts                        | 71,736                 | -                      |
| Impairment of investments in securities             | -                      | 2,107                  |
| Provision for inventories                           | -                      | -                      |
| Unrealised losses on trading securities             | 7,838                  | 2,169                  |
| Loss on dealing of trading securities               | 62                     | -                      |
| Loss on disposal of property, plant and equipment   | 476                    | -                      |
|                                                     | <u>          </u>      | <u>          </u>      |
| <b>And after crediting:</b>                         |                        |                        |
| Interest income                                     | 2,067                  | 2,260                  |
| Written-back of provision for doubtful debts        | -                      | 9,519                  |
| Provision for inventories                           | 10,515                 | 3,160                  |
| Gain on disposal of property, plant and equipment   | -                      | 4,251                  |
| Gain on dealing of trading securities               | -                      | 4                      |
|                                                     | <u>          </u>      | <u>          </u>      |

8. **FINANCE COSTS**

|                            | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|----------------------------|------------------------|------------------------|
| Interest expenses          | 47,689                 | 81,708                 |
| Less: Interest capitalised | <u>(6,396 )</u>        | <u>(51,148 )</u>       |
|                            | <u>41,293</u>          | <u>30,560</u>          |



SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

9. LOSS ON INVESTMENTS, NET

|                                                             | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|-------------------------------------------------------------|------------------------|------------------------|
| Interest on bank deposits, government bonds and other loans | (2,067)                | (2,260)                |
| Provision for impairment                                    | -                      | 2,106                  |
| Loss/(gain) on dealing of listed investments                | 62                     | (4)                    |
| Reversal of the provision for trading securities            | <u>7,771</u>           | <u>2,169</u>           |
|                                                             | <u>5,766</u>           | <u>2,011</u>           |

10. TAXATION

|                                                           | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|-----------------------------------------------------------|------------------------|------------------------|
| The charge comprises:                                     |                        |                        |
| Profits tax for the year:                                 |                        |                        |
| PRC profits tax                                           | <u>35,710</u>          | <u>44,675</u>          |
| Taxation attributable to the Company and its subsidiaries | <u>35,710</u>          | <u>44,675</u>          |

The Group provided for income tax on the estimated assessable profit for the year at the rate of 15% (2003: 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 subsidiaries operate.

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

|                                                                              | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|------------------------------------------------------------------------------|------------------------|------------------------|
| Profit before tax                                                            | <u>126,106</u>         | <u>119,133</u>         |
| Tax at the domestic income tax rate of 15% (2004:15%)                        | 18,916                 | 17,870                 |
| Tax effect of expenses that are not deductible in determining taxable profit | 12,473                 | 17,862                 |
| Effect of different tax rates of subsidiaries and associates                 | <u>4,321</u>           | <u>8,943</u>           |
| Tax expense and effective tax rate for the year                              | <u>35,710</u>          | <u>44,675</u>          |

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

11. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to shareholders of RMB 90,396,000 (2003: RMB 74,458,000) and the 541,799,000 (2003: 541,799,000) shares in issue during the year. No diluted earnings per share is presented since there are no dilutive potential ordinary shares in existence during the years ended December 31, 2004 and 2003.

12. PROPERTY, PLANT AND EQUIPMENT

|                                 | Leasehold<br>land and<br><u>buildings</u><br>RMB'000 | Leasehold<br><u>improvements</u><br>RMB'000 | Motor<br><u>vehicles</u><br>RMB'000 | Fixture and<br><u>equipment</u><br>RMB'000 | <u>Total</u><br>RMB'000 |
|---------------------------------|------------------------------------------------------|---------------------------------------------|-------------------------------------|--------------------------------------------|-------------------------|
| COST                            |                                                      |                                             |                                     |                                            |                         |
| At January 1, 2004              | 337,436                                              | 37,443                                      | 40,980                              | 27,230                                     | 443,089                 |
| Transferred from<br>inventories | 43,115                                               | -                                           | -                                   | -                                          | 43,115                  |
| Additions                       | 10,567                                               | 35                                          | 8,496                               | 2,226                                      | 21,324                  |
| Disposals                       | <u>(9,726)</u>                                       | <u>-</u>                                    | <u>(13,971)</u>                     | <u>(1,490)</u>                             | <u>(25,187)</u>         |
| At December 31, 2004            | <u>381,392</u>                                       | <u>37,478</u>                               | <u>35,505</u>                       | <u>27,966</u>                              | <u>482,341</u>          |
| DEPRECIATION                    |                                                      |                                             |                                     |                                            |                         |
| At January 1, 2004              | 81,960                                               | 13,561                                      | 22,459                              | 13,255                                     | 131,235                 |
| Charge for the year             | 17,048                                               | 830                                         | 6,699                               | 2,063                                      | 26,640                  |
| Eliminated on disposals         | <u>(1,517)</u>                                       | <u>-</u>                                    | <u>(11,948)</u>                     | <u>(1,211)</u>                             | <u>(14,676)</u>         |
| At December 31, 2004            | <u>97,491</u>                                        | <u>14,391</u>                               | <u>17,210</u>                       | <u>14,107</u>                              | <u>143,199</u>          |
| NET BOOK VALUES                 |                                                      |                                             |                                     |                                            |                         |
| At December 31, 2004            | <u>283,901</u>                                       | <u>23,087</u>                               | <u>18,295</u>                       | <u>13,859</u>                              | <u>339,142</u>          |
| At December 31, 2003            | <u>255,476</u>                                       | <u>23,882</u>                               | <u>18,521</u>                       | <u>13,975</u>                              | <u>311,854</u>          |

As at December 31, 2004, land and buildings with net book values of approximately RMB66,307,000 (2003: RMB69,071,000) have been pledged to the banks to secure general banking facilities for the Company and its subsidiaries.

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

13. INTANGIBLE ASSETS

|                      | RMB'000 |
|----------------------|---------|
| Cost                 |         |
| At January 1, 2004   | 89,084  |
| Additions            | 1,131   |
| At December 31, 2004 | 90,215  |
| Amortization         |         |
| At January 1, 2004   | 27,380  |
| Provide for the year | 3,043   |
| At December 31, 2004 | 30,423  |
| Net book value       |         |
| At December 31, 2004 | 59,792  |
| At January 1, 2004   | 61,704  |

As at December 31, 2004, taxi licenses with net book value of RMB 27,018,042 (2003: RMB 31,446,000) 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 statements at December 31, 2004 are as follows:

| <u>Name of subsidiary</u>                                | <u>Proportion of ownership interest/<br/>voting power held</u> |                      | <u>Principal activities</u>                       | <u>Place of incorporation</u>  |
|----------------------------------------------------------|----------------------------------------------------------------|----------------------|---------------------------------------------------|--------------------------------|
|                                                          | <u>Direct</u><br>%                                             | <u>Indirect</u><br>% |                                                   |                                |
| 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 | 90                                                             | 10                   | Property management and construction              | The People's Republic of China |
| 深圳市國貿餐飲有限公司                                              | 80                                                             | 20                   | Restaurant operation and wine merchandise         | The People's Republic of China |

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

15. INTERESTS IN SUBSIDIARIES NOT CONSOLIDATED

|                             | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|-----------------------------|------------------------|------------------------|
| Cost of investment          | 100,658                | 100,658                |
| Provision for impairment    | <u>(76,041)</u>        | <u>(71,051)</u>        |
|                             | 24,617                 | 29,607                 |
| Amounts due from associates | 134,516                | 145,120                |
| Amounts due to associates   | <u>(39,521)</u>        | <u>(39,521)</u>        |
|                             | <u>119,612</u>         | <u>135,206</u>         |

Details of subsidiaries excluded from the consolidated financial statement at December 31, 2004 are as follows:

| <u>Name of subsidiary</u>                             | Proportion of ownership interest/Proportion of voting power held |            | <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 |
| 深圳物業工程建設監理有限公司                                        | 90                                                               | 10         | Property development consultancy services                 | The People's Republic of China |
| Zhanjiang 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 |
| 深圳地产发展有限公司                                            | 100                                                              | -          | Property development                                      | The People's Republic of China |
| 深圳市房地產交易所                                             | 100                                                              | -          | Property investment                                       | The People's Republic of China |
| 深杉公司                                                  | 100                                                              | -          | Dormant                                                   | The People's Republic of China |
| 四會市建業皇江開發公司                                           | -                                                                | 100        | Property development                                      | The People's Republic of China |
| 深圳特速機動車駕駛員培訓中心有限公司                                    | -                                                                | 100        | Driver training                                           | The People's Republic of China |

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

16. INTERESTS IN ASSOCIATES

|                                                           | 2004<br>RMB'000 | 2003<br>RMB'000 |
|-----------------------------------------------------------|-----------------|-----------------|
| Cost of investment                                        | 148,559         | 148,559         |
| Share of post-acquisition loss, net of dividends received | (20,072)        | (23,754)        |
| Provision for impairment                                  | (64,350)        | (64,350)        |
|                                                           | 64,137          | 60,455          |
| Amounts due from associates                               | 45,362          | 59,928          |
| Amounts due to associates                                 | (2,264)         | (235)           |
|                                                           | <u>107,235</u>  | <u>120,148</u>  |

Details of the principal associates at December 31, 2004 are as follows:

| <u>Name of associate</u>                           | <u>Proportion of ownership interest/ voting power held</u> |               | <u>Principal activities</u>                 | <u>Place of incorporation</u>  |
|----------------------------------------------------|------------------------------------------------------------|---------------|---------------------------------------------|--------------------------------|
|                                                    | Direct<br>%                                                | Indirect<br>% |                                             |                                |
| 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 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 |
| 深圳富临实业股份有限公司                                       | 10.59                                                      |               | Hotel                                       | The People's Republic of China |
| Shenzhen Matform Ceramics Industry Company Limited | 26                                                         |               | Ceramics craft                              | The People's Republic of China |
| 深圳國貿實業發展有限公司                                       | 38.33                                                      |               | Property development                        | The People's Republic of China |
| 深圳天安國際大廈業管理有限公司                                    | 50                                                         |               | Building management                         | The People's Republic of China |
| 深圳华晶玻璃瓶有限公司                                        | 15.83                                                      |               | Manufacturing and sales of glass            | The People's Republic of China |
| 廣州利士風汽車有限公司                                        |                                                            | 30            | Motor vehicle trading                       | The People's Republic of China |

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

**17. INVESTMENTS IN SECURITIES**

|                                     | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|-------------------------------------|------------------------|------------------------|
| Unlisted equity investments at cost | 22,386                 | 22,386                 |
| Provision for impairment            | <u>(9,350)</u>         | <u>(5,350)</u>         |
|                                     | <u>13,036</u>          | <u>17,036</u>          |

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

**18. INVENTORIES**

|                                            | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|--------------------------------------------|------------------------|------------------------|
| Properties held for sale/under development | 421,557                | 537,958                |
| Completed properties held for sale         | 892,281                | 852,100                |
| Other inventories                          | <u>2,874</u>           | <u>7,087</u>           |
|                                            | <u>1,316,712</u>       | <u>1,397,145</u>       |

As at December 31, 2004, completed properties held for sale with carrying value of RMB129,672,453(2003:RMB83,000,000) have been pledged to the banks to secure general banking facilities granted to the subsidiaries.

**19. OTHER FINANCIAL ASSETS**

Other financial assets comprise trade and other debtors and prepayments. The terms of payment in respect of the Group's sales of properties are in accordance with the terms of respective sales contracts. The management considers that the carrying amounts of trade and other debtors and prepayments approximate to their fair values. The amounts presented in the balance sheet are net of provision for doubtful debts. Provision for doubtful debts are estimated by the management with reference to their prior experience and their assessment of the current economic environment. Credit risk attributable to trade and other debtors are frequently reviewed and assessed by the management.

**20. TRADING SECURITIES**

|                                    | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|------------------------------------|------------------------|------------------------|
| Listed securities, at market value | <u>10,062</u>          | <u>14,305</u>          |

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

**21. OTHER FINANCIAL LIABILITIES**

Other financial liabilities comprise trade and other creditors which are outstanding for trade purchases and ongoing costs. The terms of payment in respect of the Group's trade purchase and ongoing costs are in accordance with the terms of respective contracts. The management considers that the carrying amounts of trade and other creditors approximate to their fair values.

**22. PROVISIONS**

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

**23. BORROWINGS**

|                                                                      | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|----------------------------------------------------------------------|------------------------|------------------------|
| Bank loans                                                           | 635,980                | 887,500                |
| Other loans                                                          | <u>20,000</u>          | <u>20,000</u>          |
|                                                                      | <u>655,980</u>         | <u>907,500</u>         |
| Secured                                                              | 635,980                | 887,500                |
| Unsecured                                                            | <u>20,000</u>          | <u>20,000</u>          |
|                                                                      | <u>655,980</u>         | <u>907,500</u>         |
| The maturity profile of the above loans and overdrafts is as follow: |                        |                        |
| On demand or within one year                                         | 559,980                | 777,500                |
| More than one year, but not exceeding two years                      | 96,000                 | -                      |
| More than two years, but not exceeding five years                    | <u>-</u>               | <u>130,000</u>         |
|                                                                      | 655,980                | 907,500                |
| Less: Amounts due within one year shown under current liabilities    | <u>559,980</u>         | <u>777,500</u>         |
|                                                                      | <u>96,000</u>          | <u>130,000</u>         |

During the year, the Group obtained new bank loans in the amounts of RMB 184,600,000. The loans bear interest at prevailing market rates ranging from 5% to 7% (2003:5% to 7%) per annum.

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

24. LONG-TERM DEFERRED INCOME

|                              | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|------------------------------|------------------------|------------------------|
| At January 1                 | 40,009                 | 40,463                 |
| Additions for the year       | 5,430                  | 1,731                  |
| Released to income statement | <u>(7,204)</u>         | <u>(2,185)</u>         |
| At December 31               | <u>38,235</u>          | <u>40,009</u>          |

The amount represents deferred income arising on sales of taxi licenses and is released to the income statement over 25 years.

25. SHARE CAPITAL

|                                                                             | <u>2004</u><br>RMB'000 | <u>2003</u><br>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.

26. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

|                                | <u>Short-term</u><br><u>bank loans</u><br>RMB'000 | <u>Long-term</u><br><u>bank loans</u><br>RMB'000 | <u>Other</u><br><u>short-term</u><br><u>loans</u><br>RMB'000 |
|--------------------------------|---------------------------------------------------|--------------------------------------------------|--------------------------------------------------------------|
| Balance at January 1, 2004     | 707,500                                           | 130,000                                          | 70,000                                                       |
| New loans raised               | 184,600                                           | 130,000                                          | 159,000                                                      |
| Repayments of amounts borrowed | <u>(491,120)</u>                                  | <u>(164,000)</u>                                 | <u>(70,000)</u>                                              |
| Balance at December 31, 2004   | <u>400,980</u>                                    | <u>96,000</u>                                    | <u>159,000</u>                                               |



SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2004

---

**27. PLEDGE OF ASSETS**

As at December 31, 2004, leasehold land and buildings with a net book value of RMB66,307,000 (2003: RMB69,071,000), completed properties held for sales of RMB129,672,453 (2003: RMB83,000,000) and certain taxi licenses having a net book value of RMB27,018,000 (2003: RMB31,446,000) have been pledged to the banks for the general banking facilities granted to the Group.

**28. CONTINGENT LIABILITIES**

(1) 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 realisable 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, 2004. As at the date of this report, the application for appeal to the Supreme Court is still in progress.

(2) A court case against the Company in 2000 in relation to delay in delivery of realty properties was finalised 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. The Company appealed to the People's Supreme Court and a hearing was held on January 18, 2005. No judgment has been made.

(3) On July 11, 2002, a subsidiary of the Company received the court summon in relation to delay in delivery of realty properties and properties ownership document and relevant taxes losses and expenses incurred such delay. The plaintiff claimed against the subsidiary of the Company for an aggregate amount of RMB4,172,234.98. [The case was heard by the court on February 21, 2005. No judgment has been made.]

(4) As at year end, the Company provided guarantee of RMB8,600,000 for a third party in obtaining bank loans.

(5) As at year end, the Company and its subsidiaries provided guarantee of RMB553,630,000 to its realty properties purchasers in favour of banks.

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2004

---

29. OPERATING LEASES

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

|                                         | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|-----------------------------------------|------------------------|------------------------|
| - Within one year                       | 26,190                 | 35,000                 |
| - In the second to fifth year inclusive | 52,380                 | 80,000                 |
|                                         | <u>78,570</u>          | <u>115,000</u>         |

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 3 years and rentals are fixed for an average of 3 years.

30. RETIREMENT BENEFITS PLANS

Defined contribution plans

The employees of the Group in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The Group is required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions at the rates specified in the rules of the schemes.

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

31. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

|                         | <u>Name</u>                                                | <u>Relationship<br/>with the<br/>Group</u> | <u>2004</u><br>RMB'000 | <u>2003</u><br>RMB'000 |
|-------------------------|------------------------------------------------------------|--------------------------------------------|------------------------|------------------------|
| Construction costs paid | Shenzhen Construction Investment Holding Co. (深圳市投資控股有限公司) | Holding company                            | 163,720                | -                      |
| Construction costs paid | 深圳市越众(集团)股份有限公司                                            | Fellow subsidiary                          | 209,138                | -                      |
| Sale of properties      | Shenzhen Construction Investment Holding Co. (深圳市投資控股有限公司) | Holding company                            | -                      | 82,047                 |

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

|                                                                                                                                                              | <u>2004</u><br>RMB'000 | <u>2003</u><br>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>186,663</u>         | <u>212,695</u>         |

SHENZHEN PROPERTIES & RESOURCES DEVELOPMENT (GROUP) LIMITED  
 深圳市物業發展(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED DECEMBER 31, 2004

**32. IMPACT OF IFRS ADJUSTMENTS ON NET PROFIT FOR THE YEAR**

|                                                                          | Profit for the year ended<br>December 31, |               |
|--------------------------------------------------------------------------|-------------------------------------------|---------------|
|                                                                          | 2004                                      | 2003          |
|                                                                          | RMB'000                                   | RMB'000       |
| As reported in financial statements prepared in accordance with PRC GAAP | 90,450                                    | 77,002        |
| Adjustments to confirm with IFRS:                                        |                                           |               |
| Deferred expenses written off                                            | (86)                                      | (97)          |
| Amortisation charges written back                                        | 32                                        | 170           |
| Additional depreciation charges                                          |                                           | (2,617)       |
| Others                                                                   | -                                         | -             |
|                                                                          | <u>90,396</u>                             | <u>74,458</u> |

**33. IMPACT OF IFRS ADJUSTMENTS ON CONSOLIDATION NET ASSETS**

|                                                                          | Consolidated net assets<br>As at December 31, |                |
|--------------------------------------------------------------------------|-----------------------------------------------|----------------|
|                                                                          | 2004                                          | 2003           |
|                                                                          | RMB'000                                       | RMB'000        |
| As reported in financial statements prepared in accordance with PRC GAAP | 567,129                                       | 474,223        |
| Adjustments to confirm with IFRS:                                        |                                               |                |
| "B share" prior years adjustments                                        | (4,000 )                                      | (4,000 )       |
| Deferred expenses written off                                            | (3,448 )                                      | (3,362 )       |
| Amortisation charges written back                                        | 613                                           | 581            |
| Addition depreciation charges                                            | (10,380 )                                     | (10,380 )      |
| Addition amortisatiobn charges                                           | (8,373 )                                      | (8,373 )       |
| Unamortised expenses written off                                         | (4,233 )                                      | (4,233 )       |
| Others                                                                   | 3,364                                         | 3,364          |
|                                                                          | <u>540,672</u>                                | <u>447,820</u> |