

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

ANNUAL REPORT 2003

April 19, 2004

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.

Three 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 and Yang Shuncheng entrusted Chairman of the Board Mr. Tian Chenggang and at the same time Zhang Jianjun 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 explanatory notes 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

I . Company Profile-----	3
II . Summary of Financial Highlight and Business Highlight-----	3
III. Particulars about the Changes in Capital Shares and Shareholders-----	5
IV. Particulars about Director, Supervisor, Senior Executive and Staff -----	7
V . Administrative Structure-----	10
VI. Brief Introduction to the Shareholders' General Meeting -----	12
VII. Report of the Board of Directors -----	13
VIII. Report of the Supervisory Committee-----	25
IX. Significant Events-----	27
X. Financial Report-----	31
XI. Documents for Reference-----	31

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

Authorized Representative in Charge of Securities Affairs: Dong Wei

Tel: (86) 755-82211020

Fax: (86) 755-82210610, 82212043

Contact Address: 42nd Floor, International Trade Center, Renmin South Road, Shenzhen

E-mail: szprd@163.com

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

Post Code: 518014

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 42nd 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: 16th Floor, Tower B, International Mansion, Wuhan

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	121,676,376.73
Net profit	77,001,831.44
Net profit after deducting non-recurring gains and losses	124,021,158.47

Profit from main operations	363,255,274.91
Other operating profit	1,579,345.53
Operating profit	182,335,119.13
Investment income	-15,361,512.84
Subsidy income	0
Net non-operating incomes/expenses	-45,297,229.56
Net cash flow arising from operating activities	187,629,855.85
Net increase in cash and cash equivalents	26,782,432.94

Note: Items of deducting non-recurring gains and losses and the amount involved:

① Gains/losses from disposal of long-term equity investment, fixed assets, project in construction, intangible assets and other long-term assets	RMB 2,589,328.06
② Gains/losses of short-term investment	RMB 4,498.71
③ Various non-operating income/expense after deducting daily reserve for impairment of assets in line with the regulations of Accounting System for Business Enterprise	RMB -49,613,153.79
Total	RMB -47,019,327.03

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

Unit: RMB'000

Items	Net profit (as of year 2003)
As calculated in accordance with CAS	77,002
Switching back into fixed assets from amortization amount	170
Adjustment of amortization of expenses	-2,714
Other	
As calculated in accordance with IAS	74,458

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

Items	2003	2002	2001
Income from main operations	1,079,474,318.91	781,284,955.43	1,021,639,372.64
Net profit	77,001,831.44	34,622,176.84	86,206,309.75
Total assets	2,437,227,899.69	2,607,979,385.36	2,440,084,079.97
Shareholders' equity (excluding minority interests)	474,222,712.97	337,903,702.25	277,151,339.50
Earnings per share (fully diluted)	0.142	0.064	0.159
Earnings per share after deducting the non-recurring gains and losses	0.229	0.066	0.152
Net assets per share	0.875	0.624	0.512
Net assets per share after adjustment*	0.513	0.146	0.076

Net cash flow per share arising from operating activities	0.346	-0.064	0.247
Fully diluted return on equity	16.24%	10.25%	31.10%
Weighted average return on equity	20.46%	11.76%	37.05%
Weighted average return on equity after deducting the non-recurring gains and losses	32.95%	12.19%	35.42%

(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	337,547,143.59	59,317,179.28		396,864,322.87	Earning from debts reorganization of RMB 39,029,293.21, forfeited accounts payable of RMB 20,197,224.05 was transferred into, and non-cash assets donation of RMB 90,662.02 received by associated companies.
Surplus reserve	62,919,127.11			62,919,127.11	
Including: Statutory welfare public funds	62,919,127.11			62,919,127.11	
Retained profit	-604,361,743.45	77,001,831.44		-527,359,912.01	Realization of net profit as of the year
Total shareholders' equity	337,903,702.25	136,319,010.72		474,222,712.97	

III. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

(I) Particulars about changes in shares as of the year 2003

1. Statement of change in shares

Unit: Share

	Before the change	Increase/decrease of this time (+, -)						After the change
		Rationed share	Bonus shares	Capitalization of public reserve	Additional 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 shares	61,459,312							61,459,312
3. Overseas listed foreign shares								
4. Frozen shares held by senior 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. Ended Dec. 31, 2003, the Company had totally 44208 shareholders, including 35813 ones of A-share, 8395 ones of B-share.
2. About the top ten shareholders are as follows:

Name of shareholders	Shares held (share)	Proportion (%)
SHENZHEN CONSTRUCTION INVESTMENT HOLDINGS	323,747,713	59.75
SHENZHEN INVESTMENT HOLDING CORPORATION	56,628,000	10.45
LABOR UNION OF SHENZHEN INTERNATIONAL TRADE PROPERTY MANAGERMENT COMPANY	2,516,800	0.46
SHENZHEN SPECIAL DISTRICT DUTY-FREE COMMODITY CO.	1,573,000	0.29
YOU XIAN HUI	1,088,174	0.20
SHANGHAI ZHAODA INVESTMENT CONSULTANT CO., LTD.	1,010,000	0.19
CHINA EAGLE SECURITIES CO., LTD.	786,500	0.15
SHANGHAI KUNLING INDUSTRY & TRADE CO., LTD.	629,200	0.12
SHANGHAI ZHIZHEN INVESTMENT CONSULTANT CO., LTD.	480,000	0.09
YUEN, SUI	430,700	0.08

① Shenzhen Construction Investment Holdings is a shareholder of state-owned shares; You Xianhui is a shareholder of social shares; YUEN, SUI is the foreign

shareholders, and the rest seven 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 among the top three shareholders. For other shareholders, the Company did not know their relationship.

3. The controlling shareholder of the Company is Shenzhen Construction Investment Holdings ("the holding company"), who was established in July 1986; its legal representative is Mr. Zhang Yijun and the registered capital is RMB 1.5 billion. The holdings company is an assets management company owned by the whole people, and involve in industry, general undertaking of construction material for civil use, development of real estate and property management, etc. As one of three largest state assets management companies, Shenzhen Construction Investment Holdings Company exerted the investors' rights for state assets of the Company within the limits authorized by the municipal government and was entrusted by Shenzhen municipal government. The permanent organization of Shenzhen Municipality State Assets Management Committee is Shenzhen Municipality State Assets Management Office ("Municipality State Assets Office"), who implemented management for three largest state assets management companies of Shenzhen on behalf of Shenzhen municipal government. Thus, the actual controller of Shenzhen Construction Investment Holdings Company is Municipality State Assets Office with locating at Investment Bldg., Shen Nan Av., Futian District, Shenzhen and postcode "518026".

4. The second largest shareholder of the Company is Shenzhen Investment Holding Corporation, who was established in Feb. 1988; its legal representative is Mr. Li Heihu, as well as registration capital of RMB 2 billion. It is an assets management company owned by the whole people.

5. About the top ten shareholders of circulation share

Full name of shareholders	Shares held (share)	Type
YOU XIAN HUI	1,088,174	A-share
YUEN, SUI	430,700	B-share
LI YA JIE	416,600	A-share
ZHOU TING	414,917	A-share
RIGHT INDUSTRIAL COMPANY	401,608	B-share
CORE PACIFIC-YAMAICHI INTERNATIONAL (H.K.) LTD.	400,000	B-share
DENG SHAO PING	392,898	B-share
FENG WEN BIN	361,208	B-share
YANG TIAN DING	360,000	A-share
HUANG JUN QUAN	340,010	B-share

Note: The Company did not know whether there exists associated relationship among the top ten shareholders of circulating share 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	50	Jun. 2001- Jun. 2004	0	0
Fang Yibing	Director, General Manager	Male	42	Feb. 2003- Jun. 2004	0	0
Guo Yuanxian	Director	Male	52	Feb. 2003- Jun. 2004	0	0
Zha Shengming	Director, Deputy General Manager	Male	55	Jun. 2001- Jun. 2004	18150	18150
Yang Shuncheng	Director, Deputy General Manager	Male	56	Jun. 2003- Jun. 2004	0	0
He Wenhua	Director, Chairman of Labor Union	Male	58	Jun. 2001- Jun. 2004	18150	18150
Li Zhen	Director	Male	39	Jun. 2001- Jun. 2004	0	0
Wang Huimin	Director	Female	37	Feb. 2003- Jun. 2004	0	0
Zhang Jianjun	Independent Director	Male	38	Jun. 2002- Jun. 2004	0	0
Jiang Changlong	Independent Director	Male	39	Jun. 2003- Jun. 2004	0	0
Kong Yuquan	Independent Director	Male	39	Jun. 2003- Jun. 2004	0	0
Cao Ziyang	Chairman of the Supervisory Committee	Male	53	Jun. 2001- Jun. 2004	0	0
Tong Qinghuo	Supervisor, Manager of Human Resource	Male	40	Jun. 2001- Jun. 2004	0	0
Liu Jiake	Supervisor, Deputy Director of the Discipline Committee	Male	54	Jun. 2001- Jun. 2004	0	0
Jin Chenggui	Supervisor, Deputy Manager of Auditing Department	Male	56	Jun. 2001- Jun. 2004	0	0
Ma Deqin	Supervisor, Leader of Labor Union	Female	50	Jun. 2001- Jun. 2004	0	0
Xiu Xuguang	Vice secretary of the Party Committee, Secretary of the Discipline Committee	Male	49	Jun. 2003- Jun. 2007	0	0
Luo Junde	Deputy General Manager	Male	53	Jan. 2003- Jun. 2004	0	0
Liu Yinhua	Chief Engineer	Male	43	Mar. 2003- Jun. 2004	0	0
Guo Yemei	Secretary of the Board,	Female	44	Jun. 2001- Jun. 2004	0	0

	Director of the Board of Directors Office					
--	--	--	--	--	--	--

Director Mr. Guo Yuanxian took the post of vice-president of Shenzhen Construction Investment Holdings, the holding shareholder of the Company; Director Ms. Wang Huimin took the post of manager of Human Resource of Shenzhen Construction Investment Holdings, the holding shareholder of the Company; Director Mr. Li Zhen took the post of assistant president and director of office of Shenzhen Investment Holding Corporation.

2. Particulars about the annual remuneration

① In 2003, according to the Management Measure on Annual Remuneration for Operators of Enterprises Directly under Shenzhen Construction Investment Holdings, the Company carried out the annual remuneration system to Chairman of the Board and General Manager since May 1, 2003, and correspondingly adjusted the Provisional Measure on Annual Remuneration (“Remuneration Measure”) examined and approved by the Shareholders’ General Meeting. The Remuneration Measure after adjustment will submit to the Shareholders’ General Meeting for approval after the Board of Directors examined the Remuneration Measure. The annual remuneration of director, supervisors and senior executives were paid in accordance with the annual remuneration measure of middle-level and high-level manager, including basic remuneration, annual bounty and encouraging remuneration. In the report period, the total annual remuneration received by directors, supervisors and senior executives from the Company was RMB 5,900,500 (excluding Guo Yuanxian, Wang Huimin and Li Zhen). Among them, the total annual remuneration of the top three directors drawing the highest payment was RMB 1,699,600; the total annual remuneration of the top three senior executives drawing the highest payment was RMB 1,336,700. The Company has 20 present directors, supervisors and senior executives, 14 persons of them draw the annual payment from the Company, of them, 3 persons enjoy the annual salary over RMB 470,000 respectively, 6 persons enjoy the annual salary over RMB 350,000 and 5 persons enjoy the annual salary over RMB 270,000 respectively.

② The three directors, namely Guo Yuanxian, Li Zhen and Wang Huimin drew their annual salary from Shenzhen Construction Investment Holdings and Shenzhen Investment Holding Corporation respectively, and received no pay from the Company.

③ According to the regulations of Provisional Measure on Work of Independent Director of the Company, the allowance of RMB 30,000 of independent director as of 2003 will be paid in 2004.

3. Change in directors and supervisors

① In the report period, Wu Gongcheng, Shao Xianghua, Shao Ning, Zhang Tianliang resigned from the post of director of the Company due to work change. In accordance with Company Law, the Articles of Association of the Company and the relevant regulations of CSRC, as nominated by the largest shareholder of the Company and the Board of Directors of the Company respectively, the Shareholders’ General Meeting elected Fang Yibing, Guo Yuanxian, Yang Shuncheng and Wang Huimin as director of

the Company; Jiang Changlong and Kong Yuquan were additionally elected as independent director of the Company.

② In the report period, Wu Gongcheng and Zhao Ning respectively resigned from the post of General Manager and Deputy General Manager of the Company due to work change. The Board of Directors engaged Fang Yibing and Luo Junde as General Manager and Deputy General Manager respectively.

(II) About employees

The Company has totally 1930 employees in office at present, including 1108 production personnel, 167 salespersons, 589 technicians, 79 financial personnel and 138 administrative personnel. 1170 persons graduated from 3-year regular collage or above. Presently, the Company needs to bear the cost of 92 retirees.

V. ADMINISTRATIVE STRUCTURE

(I) Administration of the Company

In the report period, the Company set up series of standardizing systems such as Detailed Rules of Implementation of Collecting Voting Rights, Administration Rules of Financing External Guarantee and Administration Rules of Switching back the Reserve for Assets Depreciation etc. and consummated the procedure rules of the Board again, revised the relevant articles of the Articles of the Association of the Company, carried complete independent directors and consummated the administration structure and internal control system. In the report period, Shenzhen branch office of CSRC conducted routine and itinerant inspection on the Company and issued Notification Paper of Renovation in Limited Period (SZBFZ [2003] No.266). On Dec.18, 2003, the Company convened the meeting of enlarging the Board. The Company researched and established renovation measures with respect to the proposed problems, and formed resolutions and implemented the obligation of information disclosure and conducted submitting procedures. Complied with the result of inspection and the actual operating situation of the Company, the Company believes, the actual situation of the administration of the Company accords with the requirements of the formal documents of Administration Rules of Listed Companies in general and there still needs improvements in some aspects.

(1) According to the relevant regulations of Shenzhen State-owned Assets Administration, the Company should submit the Equity Representative Report on significant decisions. In the report period, Shenzhen branch office of CSRC presented renovation opinion in limited period, and the Company fed back to the controlling shareholders according to the facts. Up to now, there is no new corresponding system presented by Shenzhen Administration. According to the relevant regulations, the Company should execute the Equity Representative Report System strictly and the controlling shareholders were not involved in the production and operation of the Company. In the future, in detail work, the Company would handle the relationship well between the implementation of Equity Representative Report System and standardized operation of the Company; the Company would concentrate its work on the interests of the whole shareholders and brought the independent directors' duties into full play and fulfilled the obligation of disclosure according to the facts.

(2) Improving the working methods and propel the standardized operation of the Board.

a. Revise the procedure rules of the Board afresh and diversify the operation procedures in the aspects of convening and the convening procedure of the meeting, signing resolutions and signing documents and files of the Board and passing round documents and files of the Board for perusal.

b. The resolutions of the Board by jointly signing would submit and pass in forms of electronic files and text files to protect the knowing right of the whole directors and supervisors.

c. Implement each rule of the procedure rules of the Board and ensure the notices of meetings and relevant materials to be set out in limited period.

d. The resolutions of the Board passes by the communication voting perfected the procedure of signing documents and simultaneously informed the investors the voting form of the resolutions and the voting results of every proposal.

e. Draw out the Administration Measures of Investor Relationship, established the trust system of directors, supervisors and senior executives and strengthened work of information disclosure.

(II) Performance of Independent Directors:

In the report period, Mr. Jiang Changlong and Mr. Kong Yuquan were elected as independent directors of the Company at annual Shareholders' General Meeting. At present, the Company carries complete three independent directors: Mr. Zhang Jianjun, Mr. Jiang Changlong and Mr. Kong Yuquan. The numbers and membership of the independent directors accord with the requirements of CSRC. Since the three independent directors held their posts, according to Articles of Association of the Company and the relevant regulations of the State Administration, they performed their duties and expressed independent opinions on related transaction, sale of assets and other significant matters.

(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 — Shenzhen Construction Investment Holdings:

(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) (1), as the state-owned controlling listed company, the Company should executed the Equity Representative Report according to the relevant regulations of Shenzhen State-owned Assets Administration, but the situation didn't cause effect on the operational activities of the Company.

VI. BRIEFINGS ON THE SHAREHOLDERS' GENERAL MEETING

In the report period, the Board of the Company convened and held three shareholder's general meetings:

(I) The notification on holding the 1st Provisional Shareholders' General Meeting 2003 of the Company was published in the designated intermediaries, namely Securities Times and Ta Kung Pao dated Jan. 25, 2003. The Annual Shareholders' General Meeting was held on the 35/F of Shenzhen International Trade Center Building at 9:00 am of Feb. 26, 2003 on schedule. There were 5 shareholders and shareholders' proxies attended the meeting representing 70.68% of total shares; no shareholder of B-share Directors attended the meeting, and the professional lawyer issued Legal Opinion. The Proposal on Changing Directors of the Company was unanimously approved in the meeting: Due to work change, Mr. Wu Gongcheng, Mr. Shao Xianghua and Mr. Zhang Tianliang proposed resignation of the posts of Director of the Company, and Mr. Fang Yibin, Mr. Guo Yuanxian and Mrs. Wang Huimin were elected as Director of the Company. The Public Notice on Resolution of this Shareholders' General Meeting was published in the designated intermediaries and <http://www.cninfo.com.cn> designated by CSRC on Feb. 27, 2003.

(II) The notification on holding Shareholders' General Meeting of the Company was published in the designated intermediaries dated Apr. 19, 2003. The Annual Shareholders' General Meeting was held on the 35/F of Shenzhen International Trade Center Building at 9:30 am of May 23, 2003 on schedule. There were 5 shareholders and shareholders' proxies attended the meeting representing 70.68% of total shares; no shareholder of B-share Directors attended the meeting, and the professional lawyer issued Legal Opinion. The following proposals were unanimously approved in the meeting: Work Report 2002 of the Board of Directors; Work Report 2002 of the Supervisory Committee; Financial Settlement Report 2002; Annual Report 2002; Profit Distribution Plan 2002 and Proposal on Making up Losses; Proposal on Amending the Articles of the Association of the Company; Report on Particulars about Engagement 2002 Certified Public Accountants; Proposal on Engaging 2003 Certified Public Accountants; Proposal on Change on the Directors of the Company; and Proposal on Supplementing the Independent Director. Mr. Yang Shuncheng was elected as Director of the Company and Mr. Jiang Changlong and Mr. Kong Yuquan were additionally elected as the Independent Directors of the Company. The Public Notice on Resolution of this Shareholders' General Meeting was published in the designated intermediaries and <http://www.cninfo.com.cn> designated by CSRC on May 24, 2003.

(III) The notification on holding the 2nd Shareholders' General Meeting 2003 of the Company was published in the designated intermediaries, namely Securities Times and Ta Kung Pao dated Nov. 15, 2003. The 2nd Shareholders' General Meeting 2003 was held on 39/F of Shenzhen International Trade Center Building at 9:30 am of Dec. 18, 2003 on schedule. There were 8 shareholders and shareholders' proxies attended the meeting representing 70.69% of total shares; 1 shareholder of B-share attended the meeting, and the professional lawyer issued Legal Opinion. The Proposal on Selling Real Estate to Controlling Shareholder was unanimously approved in the meeting. The

Company and the Controlling Shareholder, Shenzhen Construction Investment Holding Company signed the Letter of Intent on Real Estate Business, in which 2/F and 3/F of Fumin Building taking up 6,837.24 square meters located in Fuqiang Road, Futian District, Shenzhen, held by the Company, was sold to Shenzhen Construction Investment Holding Company amounting to RMB 82,046,900. The Public Notice on Resolution of this Shareholders' General Meeting was published in the designated intermediaries and <http://www.cninfo.com.cn> designated by CSRC on Dec.19, 2003.

VII. REPORT OF THE BOARD OF DIRECTORS

(I) Analysis to the operating position

In 2003, the Company realized income from main operations, profit from main operations and net profit amounting to RMB 1,079,474,318.91, RMB 363,255,274.91 and RMB 77,001,831.44 respectively, an increase of 38%, 60% and 122% respectively over the last year. Ended the end of the report period, the shareholders' equity was RMB 474,222,712.97, increasing somewhat over the beginning of the year, which was mainly because:

1. Partial projects of real estate reached the condition of completion and settlement, resulting in the increase of net profit.
2. In the report period, the Company increased capital reserve, including earnings from liabilities reorganization amounting to RMB 39,029,293.21, payables on account to be paid in long term amounting to RMB 20,197,224.05 transferred and non-cash assets donation amounting to RMB 90,662.02 accepted by the affiliated subsidiaries.
3. In the year, the net amount of cash flow from operating activities was RMB 187.63 million, which was because that the Company reinforced the sales and assets withdrawal and turned the situation that this index was negative in the last year.

(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 operation 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 1079 million and the profit from main operations was RMB 122 million. The main formation was as follows:

① Classified according to industries:

Income from real estate development: RMB 899.84 million,

Profit: RMB 187.27 million;

Income from property management and lease: RMB 123.63 million,

Profit: RMB-4.48 million;

Income from taxi passenger transport: RMB 28.36 million,

Profit: RMB 4.94 million;

Income from commercial operation: RMB 37.98 million,

Profit: RMB-2.54 million;

Travel and dietetic business: RMB 5.94 million,

Profit: RMB-1.78 million.

②Classified according to areas:

Income from Shenzhen area: RMB 845.27 million,

Profit from main operations: RMB 128.28 million;

Income from East China area: RMB 211.73 million,

Profit from main operations: RMB 51.77 million;

Income from Hainan area: RMB 22.47 million,

Profit from main operations: RMB 2.29 million.

③Sales 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	899838	525832	41.56	69.90	47.30	27.48
Property management and lease	123633	98781	20.10	2.77	9.96	-20.65
Commercial retail	37980	34966	7.94	-62.53	-50.51	-73.79
Tax passenger transport	28359	7249	74.44	-15.49	-16.20	0.30
Tourism and food	5942	2857	51.92	3.25	35.13	-17.93

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

Due to the feature of industry of real estate development, the completion settlement of real estate development projects needs a time period of two to three years generally. In the report period, since such real estate projects as Huang Yu Yuan District B and the 4th Stage of Shanghai Pastoral City reached the condition of completion and settlement, thus 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 commercial service facilities of Huanggang Port	100%	1146984	150467
Shenzhen International Trade Auto Industrial Company	29850	Automobile passenger transport and automobile lease	100%	124255	6008
Shenzhen International Property Management Company	20000	Building management	100%	126848	1183
Shanghai Shenzhen Property Development Co., Ltd.	50000	Real estate development in Shanghai	100%	130570	49684

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, in recent year the Company adopted a series of measures and gained progress with breakthrough in the aspects of adjusting operating strategy, peeling off ill 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 VIII (VI) in the report “2003 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
City Golden Castle Project	113000	Partial peak cover at the end of the year	Not completed at the end of the year	-
District B of Huang Yu Yuan	342670	Completed and occupied at the end of the year	51% sold	18-22%
The 4 th and 5 th Stage of Shanghai Pastoral City	110000	Completed in the 4 th Stage and peak cover in the 5 th State	100% sold in the 4 th Stage	18-20%
Total	565670	-	-	-

(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 increased and the assets quality was enhanced with steady financial position.

Unit: RMB'000

Items	Amount of the report year	Amount of the previous year	Amount of increase/decrease	Increase/decrease rate
Total assets	2,437,228	2,607,979	-170,751	-6.55%
Inventories	1,422,358	1,461,647	-39,289	-2.69%
Long-term liabilities	227,484	353,857	-126,373	-35.71%
Shareholders' equity	474,223	337,904	136,319	40.34%
Profit from main operations	363,255	226,583	136,672	60.32%
Net profit	77,002	34,622	42,380	122.41%
Net increase in cash and cash equivalents	26,782	-38,068	-	-

Explanations:

- ① Decrease in total assets was mainly because that the Company reinforced the dunning and disposal of accounts receivable in the year, resulting in the decrease in accounts receivable.
- ② Decrease in inventories was mainly because that the Company sold commercial housing and carried forward corresponding cost 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 amounting to RMB 77,001,831.44 and earnings from liabilities reorganization

amounting to RMB 39,029,293.21; accounts payable on account to be paid in long term amounting to RMB 20,197,224.05 were transferred in and non-cash assets donation amounting to RMB 90,662.02 was accepted by the affiliated subsidiaries.

⑤ Increase in profit from main operations was mainly due to sales of real estate and income carried forward.

⑥ Increase in net profit was mainly due to increase in profit from main operations.

⑦ Increase in net increase amount of cash and cash equivalents was mainly due to the sales of real estate and capital returned.

2. Changes and reasons of profit formation:

	Amount (RMB'000)		Proportion in total profits (%)	
	In 2003	In 2002	In 2003	In 2002
Total amount of profit	121,676	44,509	-	-
Profit from main operations	363,255	226,583	298.54	509.07
Profit from other operations	1,579	11,723	1.30	26.33
Period expense	182,500	194,604	149.99	437.22
Invest earnings	-15,362	-15,266	-12.63	-34.30
Subsidy income	0	0	0.00	0.00
Net amount of non-operating income and expenditure	-45,297	16,073	-37.23	36.11

Explanations:

①In the report period, total profit increased by 173% 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.

②Period expense decreased by RMB 121.04 million over the same period of last year, which was mainly because that the Company reinforced the control on cost and expense.

③There was no obvious change in investment earnings over the last year.

④In the year, net amount of non-operating income and expenditure changed by a relatively large margin, which was mainly because that there was estimated liabilities of lawsuits amounting to RMB 50,002,304.07 in the non-operating expenditure in the report period.

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

As stated in Notes to Accounting Statements (VIII) 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 (VIII) 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 and sealed 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 seal of property of Shenzhen Jiyong Property Development Company approximately amounting to 10,000 sq. m.. The Company has put forward objection to Guangdong Higher People's Court and the said objection is under examination.

As stated in Notes to Accounting Statements (VIII) 1 (3), according to (2002) YGFMYZZ 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. In the period, the Company predicted relevant losses amounting to RMB 8,229,398.

As stated in Notes to Accounting Statements (VIII) 1 (4), the lawsuit case between Huang Fumin and the Company was still under inquisition.

As stated in Notes to Accounting Statements (VIII) 1 (5), since Shenzhen Luohu Great Hotel Co., Ltd. was bankrupt and cleared, the Company has appropriated provision for bad debt amounting to RMB 6,950,000.00 to the book debt amounting to RMB 33,950,771.58 receivable from Shenzhen Luohu Great Hotel Co., Ltd. and it was estimated that the Company could withdraw amount of RMB 27 million.

As stated in Notes to Accounting Statements (VIII) 2 (1), the Company provided guarantee for Gintian Industry (Group) Co., Ltd. (Hereinafter referred to as Gintian Company) to get loan amounting to RMB 59 million from Communication Bank Changchun Branch. Since Gintian Company was unable to repay the accounts at its expiration, Communication Bank Changchun Branch required the Company to take on the joint guarantee responsibility. During the inquisition of the case, the Company found the property in corresponding amount from owned by Gintian Company and provided the said property to Jilin Higher People's Court and creditor Communication Bank Changchun Branch and Jilin Higher People's Court has sealed up the said property. With the application of this Branch, Jilin Higher People's Court sealed up 18 sets of property of the Company in International Trade Commercial Building in Dec. 2003 and sealed up 169 sets of property under construction in Junfeng Lishe developed by the Company in Mar. 31, 2004. The Company considered that the said sealing belonged to excessive sealing, thus the Company brought forward objection on this to Jilin Higher People's Court and required to release the property sealed.

Besides, the Company also provided guarantee for Gintian Company to get loan amounting to RMB 6 million from Agricultural Bank of China Shenzhen Branch International Sub-branch (Hereinafter referred to as International Trade Agricultural Bank). Gintian Company did not refund the loan at its expiration and the Company took on the joint responsibility. During the implementation, with the application of International Trade Agricultural Bank, Shenzhen Intermediate People's Court has sealed up the legal person's shares of Chuantouchanggang owned by the Company. The Company has found out the property in corresponding amount of Gintian Company and has provided to International Trade Agricultural Bank, which was sealed up by Shenzhen Intermediate People's Court. Agricultural Bank of China agreed not to require the Company to take on the joint responsibility temporarily.

For the said issues, the Company has predicted relevant losses reasonably. As stated in the auditors' report presented by Wuhan Zhonghuan Certified Public Accountants: The said interpretative issues do not belong to conditions that obviously disobey the accounting rules, system and criterion relevant to information disclosure stipulated in Preparation Rules No. 14 of Information Disclosure of Companies Publicly Issuing Securities – Qualified Auditing Opinion without Reservation and Disposal on its Involved Issues and are explained specially in the auditors' report just to remind the investors to pay special attention. They do not form any reservation to the accounting statements and do not influence on the type of auditing opinion released.

(VI) Business plan and main measures for 2004

In 2004, the Company shall tightly surround the operating integration guideline with development and operation of real estate and property lease as the core and with property management, automobile transport and operation of dietetic service as the accessory, further standardize the enterprise operation and management and push and organize the reform of personnel system and information construction so as to catch the opportunity and speed up the development.

In 2004, the Company shall really do the work in the following several aspects well:

1. To practically reinforce the construction and sales of key real estate projects with cost management as the core, strict the management on the project responsibility letter and fully enhance the level of all management so as to ensure the profit growth of the main operation, namely development of real estate.
2. To continue to improve the departmental objective responsibility of the headquarter of the Company and management on "Double Civilizations" responsibility letter and real estate project responsibility letter of the 2nd grade companies so as to enhance the level of operating management.
3. To reinforce the lease and operation of earning properties and establish lease department operated according to divisional system and specialized in lease business.
4. To tighten the land reserve and reinforce the aftereffect of sustainable development.
5. To actively make progress and expand and innovate facing the great situation of reform of state-owned enterprises with full consideration of the interests of the

Company and its shareholders.

(VII) Routine work of the Board of Directors

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

Time of meetings	Main contents
Jan. 24, 2003	Temporary Meeting. Engaging Fang Yibing as General Manager and Luo Junde as Deputy General Manger; Wu Gongcheng, Shao Xianghua and Zhang Tianliang's Resigning from the Positions of Directors of the Company and the Board's Nominating Fang Yibing, Guo Yuansheng and Wang Huimin as Candidates of Directors; Issue on Studying out to Hold the Temporary Shareholders' General Meeting; Disposal on Rejection of Fixed Assets; Proposal on Changes in Legal Representatives of Partial Subsidiaries.
Apr. 16, 2003	Considering Annual Report 2002 and its Summary, Work Report of the Board, Annual Financial Settlement Report; Considering Such Proposals as Profit Distribution and Losses Offsetting, Appropriating All Reserves, Business and Investment Plan, Director Changes and Supplementing Independent Directors, Changing Certified Public Accountants, Amending the Articles of Association and Cancellation of Fixed Assets etc.
Apr. 25, 2003	Temporary Meeting. Passing the 1 st Quarterly Report of the Company by means of Communications Voting.
Aug. 11, 2003	Considering Semi-annual Report and its Summary, Profit Distribution Project for the First Half of the Year, Proposal on Rejection of Fixed Assets, Detailed Rules on Implementation of Collecting Voting Rights and Amendment on Rules of Procedure of the Shareholders' General Meeting.
Oct. 22, 2003	Temporary Meeting. Passing the 3 rd Quarterly Report of the Company by means of Communication Voting.
Nov. 14, 2003	Temporary Meeting. Passing to Sign Letter of Intent on Trade of Fumin Building with the Large Shareholder by means of Communication Voting.
Dec. 18, 2003	Aviso of Tour Inspection of CSRC Shenzhen Securities Regulatory Bureau, Considering Report on Rectification Measures, Amending Rules of Procedure of the Board, Considering and Establishing Management Regulations on External Guarantees and Proposal on Amending the Articles of Association of the Company and Establishing Management Regulations on Transfer-back of Impairment Losses of Assets

2. In 2003, the Company strictly carried out all proposals of the Shareholders' General Meeting, including such proposals as offsetting the losses in previous years, engaging domestic and oversea certified public accountants and implementing the trade agreement with Shenzhen Construction Investment Holdings Company etc..

(VIII) After researched and determined by the Board, the Company did not distribute profits or convert capital reserve into share capital in 2003. The profit earnings were used to offset the losses in the previous years. This preplan would be submitted to Annual Shareholders' General Meeting for consideration.

(IX) Issues to be explained according to the requirements in ZJF [2003] No. 56 Document

1. Explanation of CPA on the capital occupied by the related parties

Accepting the commission of Shenzhen Properties & Resources Development (Group) Ltd. (Hereinafter referred to as the Company), Wuhan Zhonghuan Certified Public Accountants has audited the financial report of the Company in 2003. According to the requirements in Circular on Standardizing Listed Companies' Capital Current with Related Parties, External Guarantees and Other Some Problems, the capital occupied by the controlling shareholder and other related parties of the Company is specially explained as follows: In the whole year of 2003, the controlling shareholder and other related parties of the Company accumulatively occupied the capital of the listed company amounting to RMB 7,872,732.80, including operationally occupying the capital of the listed company amounting to RMB 226,800.00 and non-operationally occupying the capital of the listed company amounting to RMB 7,645,932.80. Ended Dec. 31, 2003, the controlling shareholder and other related parties totally occupied the capital of the listed company amounting to RMB 212,694,772.19 including operationally occupying the capital of the listed company amounting to RMB 205,048,839.39 and non-operationally occupying the capital of the listed company amounting to RMB 7,645,932.80. For details, please refer to the following statement:

Number	Name of parties occupying capital	Relationship with listed company	Corresponding accounting subjects	Total accumulated occurred amount of debit of accounting subjects in 2003	Total accumulated occurred amount of credit of accounting subjects in 2003	Amount of occupied capital ended as at Dec. 31, 2002	Amount of occupied capital ended as at Dec. 31, 2003	Reason of occupancy	Way of occupancy
	Operational occupied capital								
1	Shenzhen International Trade Tianan Property Co., Ltd.	Affiliated company	Other receivables			44,188,904.22	44,188,904.22		
2	Shenzhen Tianan International Building Property Management Co., Ltd.	Affiliated company	Other receivables			82,948.22	82,948.22		
3	Shun Yip Properties Development Co., Ltd.	Share-controlling subsidiary	Other receivables	226,800.00		144,893,862.22	145,120,662.22		
4	Shenzhen International Trade Industrial Development Co., Ltd.	Holding 38.33% equity of it	Other receivables		150,000.00	2,581,652.48	2,431,652.48		

5	Anhui Nanpeng Paper Making Co., Ltd.	Holding equity of it 30%	Other receivables			11,477,408.00	11,477,408.00		
6	Shenzhen Wufang Pottery & Porcelain Industrial Co., Ltd.	Holding equity of it 26%	Other receivables			1,747,264.25	1,747,264.25		
	Subtotal of operational occupied capital			226,800.00	150,000.00	204,972,039.39	205,048,839.39		
	Non-operational occupied capital								
1	Shenzhen Construction Investment Holdings	The biggest shareholder of the Company	Other receivables	7,645,932.80			7,645,932.80		
	Subtotal of non-operational occupied capital			7,645,932.80			7,645,932.80		
	Total occupied capital			7,872,732.80	150,000.00	204,972,039.39	212,694,772.19		

Note: (1) The balance at period-end of Shun Yip Properties Development Co., Ltd. is RMB 145,120,662.22 and appropriated provision for doubtful debts amounting to RMB 103,181,589.82.

(2) The total amount of the current balance among Shenzhen International Trade Industrial Development Co., Ltd., Anhui Nanpeng Paper Making Co., Ltd. and Shenzhen Wufang Pottery & Porcelain Industrial Co., Ltd. was appropriated provision for doubtful debts.

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. Ended as of the report period, the share-controlling shareholder and other related parties of the Company occupied capital amounting to RMB 212,694,772.19 of the Company, among it, operational occupied capital was RMB 205,048,839.39 and the occupying parties were the subsidiaries and share-holding companies of the Company; non-operational occupied capital was RMB 7,645,932.80 and the occupying party was Shenzhen Construction Investment Holdings. The above amounts were caused based on the normal production and operation and history. According to the requirement of Notification, 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. SIGNIFICANT EVENTS of this report for detail; ② The guarantee for loan totally RMB 70 million of the subsidiary, Shenzhen Huangcheng Real Estate Co., Ltd. from Industrial and Commercial Bank of China was based on the need of the normal operation and the decision-making procedure was in accordance with the regulations of the Company. ③ The Company and its subsidiaries provided guarantee for pledged loan totaling RMB 761,550,000 of the subscriber of commercial houses from the bank. The guarantee was that development merchant of real estate provided for the small owners who purchased the commercial houses of the Company and was common phenomenon in the industry.

The Company has held the meeting of the Board on Dec. 18, 2003 and approved Proposal on Constituting Management Regulation of Guarantee for External Parties and Amendment of Articles of Association of the Company, further strictly controlled the risk of guarantee for external parties and standardized the procedure of examining and approving. We believe that the above measures of the Company will be in favor of promoting standardization of the Company and protecting legal right and interest of minority shareholders.

VIII. REPORT OF THE SUPERVISORY COMMITTEE

In 2003, the Supervisory Committee held five meetings:

The 1st meeting was held on Apr. 16, 2003, examined and approved Work Report of the

Supervisory Committee in 2002, checked and examined whether the annual report of the Company objectively and truly reflected the operation situation and financial status of the Company.

The 2nd meeting was held on June 27, 2003, studied the spirit of Work Report of the Supervisory Committee in 2002 of Shenzhen Construction Investment Holdings, discussed “Key Points of Work in 2003” of Report, deepened understanding and adjusted the key points of the Supervisory Committee’s work of the Company in 2003 based on it. The meeting listened to work report of the Supervisory Committee of the subsidiaries and report of financial situation and capital operation of the Company in the first half year. The Supervisory Committee examined and approved the proposal on setup of work institution and work persons of the Supervisory Committee of the Company.

The 3rd meeting was held on Aug. 11, 2003, examined and approved Work Report of the Supervisory Committee in the First Half Year of 2003. The Supervisory Committee expressed independent opinion for Report of the First Half Year of 2003 and Summary, formed resolutions and published notice for all shareholders through the medias.

The 4th meeting was held on Dec. 8, 2003 and the main content was to study and comprehend the spirit of Notification of Problems on Requiring Shenzhen Properties & Resources Development (Group) Ltd. to Rectify and Reform with SZJBZ [2003] NO. 266 of Shenzhen Securities Regulatory Office, discussed the opinion on fulfilling of rectifying and reforming, formed the meeting summary and submitted to Shenzhen Securities Regulatory Office.

The 5th meeting was held on Dec. 19, 2003, studied the report of Improving Level of Administration and Standardization and Promoting Development of Listed Companies of Director of Shenzhen Securities Regulatory Office Zhang Yundong, discussed the shortage existed in the process of normative operation and measures of rectifying and reforming. The discussion of the meeting was formed words and was submitted to Shenzhen Securities Regulatory Office.

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 2003, 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: the Company strengthened the management of production and operation in 2003, achieved

clear operation harvest, realized the total profit amounting to RMB 121 million and it resulted from the Board of Directors and the management team of the Company led all staff of the Company and made efforts together.

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. The Company hadn't raised funds publicly in the report year.

4. 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.

5. Related transaction

The Company sold the commercial houses on the 2nd and 3rd floor of Fumin Building as reasonable price to the share-controlling shareholder, Shenzhen Construction Investment Holdings and the transaction had active influence on liquidizing remnant assets and improving financial situation of the Company. According to the legal procedure, the Company held the Provisional Shareholders' General Meeting on Dec. 18, 2003 and examined this related transaction, started to implement after approval and made information disclosure according to regulations. The Supervisory Committee believes that the related transaction existed no situations of breaking relevant laws and regulations or damaging the interest of minority shareholders.

6. Particular about auditor's opinion

Wuhan Zhonghuan Certified Public Accountants issued the unqualified auditor's report with explanation. 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 Annual Report, 2001 Annual Report and 2002 Annual Report of the Company, because the 2nd 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 Annual Report, the provisional public notice dated Apr. 12, 2001, 2001 Annual Report and 2002 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.

3. Concerning "Huang Fuming" lawsuit disclosed in the provisional public notice dated Aug. 18, 2001, 2001 Annual Report, 2002 Annual Report and the provisional public notice dated Jan. 29, 2003 of the Company, it is still in process of cognizance.

4. Concerning "Luohu Hotel's Bankruptcy" lawsuit disclosed in 2001 Annual Report, 2002 Annual Report and the provisional public notice dated July 23, 2003 of the Company, the Company has reported credit of over HKD 32 million and RMB 22 million to Shenzhen Intermediate People's Court. The case is in the process of check and callback of bankrupted possession. The liquidation team of Luohu Hotel primarily confirmed the total amount of the Company's credit was RMB 38,431,233.92 on July 4, 2003. In the auction on July 17, 2003 held by Guangdong Xutongda Auction Co., Ltd., the noumenon section of the hotel building of Luohu Hotel was sold as the price of RMB 73.50 million. Concerning the credit reported by the Company, it is estimated that RMB 27 million can be taken back.

(II) Significant sale of purchase

1. Shun Yip Properties Development Co., Ltd., the wholly-owned subsidiary registered in HK of the Company, sold the commercial buildings in Sydney, Australia as AUD 10.20 million in Jan. 2003. The Company disclosed it in the 1st quarterly report on Apr. 29, 2003 and the payment for trade has been received. This transaction made the Company clean the left problems in the history and take back the investment with a little surplus.

2. The Company disclosed Trade Contract of Real Estate in Shenzhen signed with Commercial Bank in the provisional public notice on Aug. 21, 2003 and sold the properties with construction area of 2851.34 sq.m. of one floor of Fumin Building developed by the Company to Commercial Bank and the contract price was RMB 65,580,820.00. In order to be convenient with capital settlement, the Company counteracted the principal and interest of the loan owed to Commercial Bank as payment from sale of properties amounting to RMB 65,580,820.00. Concerning the event, the Company confirmed the capital public reserve totaling RMB 39,029,293.21. Ended as at Dec. 31, 2003, the Company has finished relevant procedures of change of properties' owners in register.

(III) Significant related transaction

1. The Company disclosed Contract on Construction of Building Project in Shenzhen signed with Shenzhen Yuezhong (Group) Co., Ltd. (Yuezhong Company) in the provisional public notice on Jan. 15, 2003. Through public bid, Yuezhong Company undertook the project construction of "City Golden Castle" developed by the Company.

The Company and the controlling shareholder of Yuezhong Company, Shenzhen Changcheng Real Estate (Group) Holdings Co., Ltd. both belong to Shenzhen Construction Investment Holdings and this transaction is related transaction. The implementation term of the contract is from Dec. 30, 2002 to May 2, 2004.

The pricing principle: the Company made pricing budget report of project based on General Price of Construction Projects in Shenzhen and Pricing Method of General Price of Construction Projects in Shenzhen and confirmed the floor bid price of the project for public bid after being checked by Shenzhen Pricing Administration Station of Construction Project and confirmed the tender party with lower price in the way of the assessed reasonable lower price.

The transaction amount: RMB 259,989,660 (including tax)

Settlement method: pay project payment according to the progress of the project. Ended as at Dec. 31, 2003, the payment for project amounting to RMB 25,000,000.00 has been paid.

Influence on the profit of the Company: confirming of the construction unit of real estate project through public bid is in favor of guaranteeing the project quality of the real estate of the Company, reducing the development cost and improving earning level.

2. The Company disclosed Intent of Trade of Real Estate signed with Shenzhen Construction Investment Holdings in the provisional public notice on Nov. 18, 2003 and sold the properties with 6,837.24 sq.m. of the 2nd and 3rd floor of Fumin Building developed by the Company to Shenzhen Construction Investment Holdings. The involved amount was RMB 82,046,900, taking by 7.6% of income from main business of the Company this year. Ended as at Dec. 31, 2003, the Company has received all payment for houses and the procedures of change of properties' owner in register have been finished.

The pricing principle: The two parties of the transaction negotiated and confirmed based on the market price.

Settlement method: cash settlement

Account value of the trade assets: 29,800,671.55

Taking by 7.6% of income from main business of the whole year

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

(IV) Implementation of significant contracts

1. Significant lease of assets

In the report period, the Company signed Lease Contract of Real Estate with Shenzhen Shengfeng Road International Trade Jewelry Co., Ltd. and leased the commercial bunks (1st to 5th floors of A Zone) of International Trade Building self-operated by the Company to Shenzhen Shengfeng Road International Trade Jewelry Co., Ltd. which continued to use it for the operation of sale of commodities. The lease term is ten years from May 1, 2003 to Apr. 30, 2013. The rent from the 1st to the 3rd year is RMB 22 million. Since the 4th year, on the basis of the rent of RMB 22 million, the rent increases RMB 1.1 million each year. The Company believes that it has active meaning in the

respect of change of operation mode, guarantee of lease income and dropping of operation risk. The rent of RMB 6,722,222.25 was received in 2003, taking by 5% of total amount of current profit.

2. Significant guarantee

① For the detail of guarantee for Gintian Company disclosed in 2002 Annual Report and the previous annual reports, please refer to Note (VIII) 2. (1) of Financial Report.② In the report period, the Company provided guarantee for the loan of RMB 70 million of Shenzhen Huangcheng Real Estate Co., Ltd., the subsidiary from Shenzhen Futian Subbranch of Industrial and Commercial Bank of China.

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

(V) In the report period, the Company has no commitment of the shareholders holding more than 5% equity.

(VI) Engagement of Certified Public Accountants: as examined and approved in 2003 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 2003. Since the first Agreement of Audit Business, Wuhan Zhonghuan Certified Public Accountants Co., Ltd. and Hong Kong Huarong Certified Public Accountants Co., Ltd. have provided audit service for the Company for 2 years. The total audit expense of the Company in 2003 is RMB 0.5 million (including business journey expense).

(VII) 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.

CSRC Shenzhen Office made a duty circling check for the Company during the last ten-day of Oct. 2003 and issued the notification of rectifying and reforming in regulated term (SZBFZ [2003] NO. 266). The Company held the spread meeting of the Board of Directors on Dec. 18, 2003, researched and set up measures of rectifying and reforming aiming for the problems put forward and formed the resolutions. For the relevant fulfilling of rectifying and reforming, please refer to (V) 1. "Administration of the Company" in this report and the report of rectifying and reforming published in the provisional public notice dated Dec. 19, 2003.

(VIII) Particular about implementation of Notification of Problems on Standardizing Current Capital between Listed Companies and Associated Parties and Guarantee for External Parties of Listed Companies

After the document of [2003] No. 56 of CSRC was promulgated, the Company patiently self-checked and held the spread meeting of the Board of Directors on Dec. 18, 2003 and examined Proposal on Establishing Management Regulation of Guarantee for External Parties and Amendment of Articles of Association of the Company. The Company factually protected the legal right and interest of the most shareholders through strictly controlling risk of guarantee for external parties and standardizing procedure of examination and authorization. For the capital occupied by the associated parties and guarantee, please refer to VII (IX) of this report.

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.
April 19, 2004**

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, 2003

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

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

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

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

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

Fundamental uncertainty relating to the outcome of a litigation

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

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

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

Lee Ka Leung, Daniel

Practising Certificate Number P01220

April 15, 2004

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

CONSOLIDATED INCOME STATEMENT
 YEAR ENDED DECEMBER 31, 2003

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

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

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

DIRECTOR 董事

DIRECTOR 董事

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, 2003

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

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, 2003

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

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

1. CORPORATE INFORMATION

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

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

2. GOING CONCERN

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

3. BASIS OF PREPARATION

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

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

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, 2003

4. **PRINCIPAL ACCOUNTING POLICIES**

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

(a) Subsidiaries

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

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

(b) Associates

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

(c) Property, plant and equipment

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

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

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

4. PRINCIPAL ACCOUNTING POLICIES - continued

(c) Property, plant and equipment - continued

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

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

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

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

(d) Land use rights

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

(e) Intangible assets

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

(f) Investment in equity securities

(i) Long term investments

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

(ii) Trading securities

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

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

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

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, 2003

4. **PRINCIPAL ACCOUNTING POLICIES – continued**

(g) Properties under development

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

(h) Completed properties for sale

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

(i) Inventories

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

(j) Impairment loss

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

(k) Revenue recognition

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

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

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

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

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, 2003

4. **PRINCIPAL ACCOUNTING POLICIES - continued**

(l) Retirement benefit costs

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

(m) Taxation

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

(n) Foreign currencies translation

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

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

(o) Operating leasing

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

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

(p) Cash and cash equivalents

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

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2003

4. **PRINCIPAL ACCOUNTING POLICIES - continued**

(q) Related parties

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

5. **TURNOVER**

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

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

6. SEGMENTS REPORTING

(a) Business segment

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

Principal activities are as follows:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2003

6. SEGMENTS REPORTING - continued

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

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

	Sales of properties, management services and <u>rental income</u> RMB'000	Sales of <u>goods</u> RMB'000	Taxi services, hotel and restaurant operations <u>and others</u> RMB'000	<u>Eliminations</u> RMB'000	<u>Consolidated</u> RMB'000
Revenue					
External sales	634,462	101,352	42,498	-	778,312
Inter-segment sales	<u>12,508</u>	<u>-</u>	<u>-</u>	<u>(12,508)</u>	<u>-</u>
Total revenue	<u>646,970</u>	<u>101,352</u>	<u>42,498</u>	<u>(12,508)</u>	<u>778,312</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, 2003

6. SEGMENTS REPORTING - continued

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

(b) Geographical segment

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

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

NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2003

7. **PROFIT FROM OPERATIONS**

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

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

8. **FINANCE COSTS**

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

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

NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED DECEMBER 31, 2003

9. (LOSS ON)/INCOME FROM INVESTMENTS

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

10. TAXATION

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

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

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

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

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, 2003

11. EARNINGS PER SHARE

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

12. PROPERTIES, PLANT AND EQUIPMENT

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

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

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, 2003

13. INTANGIBLE ASSETS

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

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

14. PRINCIPAL SUBSIDIARIES

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

Names of subsidiary	Proportion of ownership interest/ Proportion of voting power held		Principal activities	Place of incorporation
	Direct %	Indirect %		
Hainan Xinda Development Headquarter Company	100	-	Property development and trading	The People's Republic of China
Shenzhen Property and Construction Development Company	100	-	Property development	The People's Republic of China
Shenzhen ITC Estate Management Company	95	5	Property management	The People's Republic of China
Shenzhen Huangcheng Real Estate Company Limited	95	5	Property development, construction and management	The People's Republic of China
Shenzhen ITC Vehicles Services Company	90	10	Transportation and vehicles rental service	The People's Republic of China
Shanghai Shenzhen Properties Development Company Limited	80	20	Property management and construction	The People's Republic of China
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, 2003

15. INTEREST IN SUBSIDIARIES NOT CONSOLIDATED

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

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

<u>Name of subsidiary</u>	<u>Proportion of ownership interest/Proportion of voting power held</u>		<u>Principal activities</u>	<u>Place of incorporation</u>
	<u>Direct</u> %	<u>Indirect</u> %		
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
Zhanjing Shenzhen Estate Development Company Limited	100	-	Property development and retailing of general merchandise	The People's Republic of China
Shenzhen ITC Plaza & Development Company Limited	70	-	Property investment and development	The People's Republic of China
大連深圳物業發展有限公司	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
深圳市物業建築設計公司	100	-	Property development	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
深圳市皇城物業管理有限公司	100	-	Property management	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, 2003

15. INTEREST IN SUBSIDIARIES NOT CONSOLIDATED (Continued)

<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 %		
深圳市龍耀房地產開發公司	100	-	Property development	The People's Republic of China
深杉公司	100	-	Dormant	The People's Republic of China
深市國貿旅遊公司	100	-	Tourism	The People's Republic of China
南京深圳物業發展有限公司	100	-	Property development	The People's Republic of China

16. INTEREST IN ASSOCIATES

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

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, 2003

16. INTEREST IN ASSOCIATES

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

<u>Names of associates</u>	<u>Proportion of ownership interest/ Proportion of voting power held</u> Direct %	<u>Principal activities</u>	<u>Place of incorporation</u>
Shenzhen Carrier Service Company Limited	40	Air-conditioning	The People's Republic of China
ITC Tian An Company Limited	50	Property investment and development	The People's Republic of China
Shenzhen Lingnan Jifa Warehouse Company Limited	50	Warehousing	The People's Republic of China
Anhui Nan Peng Paper Manufacturing Company Limited	30	Manufacturing and sales of coated art paper	The People's Republic of China
Suzhou Fuda Property Development Company Limited	25	Property development	The People's Republic of China
Shenzhen Matform Ceramics Industry Company Limited	26	Ceramics craft	The People's Republic of China
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
龍華地產公司	20	Property investment	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, 2003

17. LONG-TERM INVESTMENTS

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

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

18. INVENTORIES

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

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

19. TRADING SECURITIES

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

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, 2003

20. PROVISIONS

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

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

21. BORROWINGS

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

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

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

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

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, 2003

22. LONG-TERM DEFERRED INCOME

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

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

23. SHARE CAPITAL

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

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

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, 2003

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

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

25. PLEDGE OF ASSETS

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

26. CONTINGENT LIABILITIES

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

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, 2003

27. OPERATING LEASES

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

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

28. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties including Shenzhen Construction Investment Holding Co. (深圳市建設投資控股有限公司), the company's holding company:

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

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

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

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

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

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, 2003

29. IMPACT OF IAS ADJUSTMENTS ON PROFIT/LOSS FOR THE YEAR

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

30. IAS IMPACT ON CONSOLIDATION NET ASSETS

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