

The board of directors of the Company is pleased to present its report together with the audited accounts of the Group for the Year.

## 1. Principal Activities

The Company is an investment holding company. The Company is principally engaged in development and sales of real estate and investment and management of education projects through its subsidiaries.

The analysis of the Group's results by segment for the Year is set out in note 6 to the Financial Statement on pages 58 to 62.

## 2. Subsidiaries and Joint Ventures

**Shenyang Real Estate**, with registered capital of RMB250,000,000, was incorporated in Mo Chou Hu Street, Shenyang Economic and Technological Development Zone, the PRC in June 2000. The Company holds 99.86% equity interests in it. During the Year, no debt securities were issued by it.

**Beijing Diye**, with registered capital of RMB30,000,000, was incorporated in Industry Zone, Huo County, Tongzhou District, Beijing, the PRC in July 2001. Shenyang Real Estate holds 80.00% equity interests in it, and Shenyang Education holds 20.00% equity interests in it. During the Year, no debt securities were issued by it.

**Shenyang Education**, with registered capital of RMB50,000,000, was incorporated in No.31 Canghai Road, Shenyang Economic and Technological Development Zone, Shenyang, the PRC in September 2002. The Company holds 30.00% equity interests in it. Shenyang Real Estate holds the remaining 70.00% equity interests in it. During the Year, no debt securities were issued by it.

**Zhuhai Education**, with registered capital of RMB20,000,000, was incorporated in Room 1911-1912, 19/F, Guangda International Trade Centre, Jida, Zhuhai, the PRC in May 2001. The Company holds 70.00% equity interests in it. During the Year, no debt securities were issued by it.

**Shanghai Education**, with registered capital of RMB100,000,000, was incorporated in No.48, Xinxu Road, Zhu Jia Jiao Town, Qingpu District, Shanghai, the PRC in October 2002. The Company holds 80.00% equity interests in it, and Shenyang Real Estate holds 20.00% equity interests in it. During the Year, no debt securities were issued by it.

**Shenyang Tourism**, with registered capital of RMB100,000,000, was incorporated in Qipanshan Reservoir Hotel, Shenyang, the PRC in December 2003. The Company holds 51.00% equity interests in it. During the Year, no debt securities were issued by it.

**Building Management Company**, with registered capital of RMB50,000,000, was incorporated in No.1, Xiaodong Road, Dadong District, Shenyang, the PRC in July 2002. The Company holds 92.50% equity interests in it, and Shenyang Real Estate holds 7.50% equity interests in it. During the Year, no debt securities were issued by it.

# Report of the Directors

**Shenyang Business Information**, with registered capital of RMB10,000,000, was incorporated in No.9, 6A, Wencui Road, Heping District, Shenyang, the PRC in July 2000. Shenyang Education holds 90.00% equity interests in it. During the Year, no debt securities were issued by it.

**Shenhai Co-generation**, with registered capital of RMB353,880,000, was incorporated in No. 352 Zhulin Road, Dadong District, Shenyang, the PRC in June 1993. The Company holds 22.50% equity interests in it.

### 3. Other Investments

The Company made an investment in THCI in May 2000. Its registered capital is RMB250,000,000. The Company invested RMB20,000,000 and holds 8.00% equity interests in THCI. During the Year, no debt securities were issued by THCI.

### 4. Holding Company

The controlling shareholder of the Company is SPU which was established on 26th November 1998. Currently, its registered capital is RMB2,113,060,000. Through its direct controlled companies, Shenyang Municipal Government held 50.00% equity interests in SPU, of which Shenyang Urban Infrastructure Facility Construction Investment Development Company Limited (“Shenyang Urban Construction”) and Shenyang State-owned Assets Management Company Limited (“Shenyang Asset”) held 42.23% and 7.77% equity interests respectively. Beijing Beida Hi-Tech Industry Investment Company Limited (“Beida Hi-Tech”) held the remaining 50.00% equity interests. According to the notice of SPU to the Company on 30th March 2004, SPU’s shareholder Beida Hi-Tech has recently completed a capital increase and transfers in its shareholders. Prior to the capital increase and transfer of equity interests, Beida Hi-Tech’s registered capital was RMB200,000,000, in which 50.00% equity interests were held by Beida Jade Bird, and 50.00% equity interests were held by Beijing Tianqiao Beida Jade Bird Sci-Tech Company Limited (“Beijing Tianqiao”) via its wholly-owned subsidiary. Following the capital increase and the transfer of equity interests, Beida Hi-Tech’s registered capital is RMB750,000,000, in which 60.00% equity interests were held by Weifang Beida Jade Bird Huaguang Technology Company Limited, 20.00% equity interests were held by Beijing Tianqiao and 20.00% equity interests were held by Macat Optics & Electronics Co., Ltd.

### 5. Results, Financial Position and Analysis of Results

The Group’s results for the Year are set out in the consolidated income statement on page 45.

The Group’s financial position for the Year is set out in the consolidated balance sheet on pages 46 to 47.

The Group’s cash flow for the Year is set out in the consolidated cash flow statement on pages 50 to 51.

Analysis of the results of the Group for the Year is set out in the Management Discussion and Analysis section on pages 14 to 22.

## 6. Interim Dividend

At the board meeting of the Company held on 22 August 2003, it was resolved that no interim dividend was declared for the year 2003.

## 7. Final Dividend

The Board of the Company resolved that no final dividend would be declared for 2003. Such resolution is subject to approval at the 2003 Annual General Meeting of the Company to be held on 16th June 2004.

## 8. Reserves

Details of the reserves of the Group and the movements therein during the Year are set out in the consolidated statement of changes in equity on page 49.

## 9. Properties under Development and Properties held for Sale

As at 31st December 2003, the Group held the following properties under development and properties held for sale:

Name of properties	Address of Land /Properties	Area of Land /Properties ('000 sq.m.)	Intended Usage	Current Position	Group's interests
<b>Properties under construction</b>					
Shenyang Education Park	Portion of Land at 10th Road, Shenyang Economic and Technological Development Zone	/96	Educational property	Under construction	99.90%
"Cosmo International Mansion" in Shenyang	No.1, Xiaodong Road, Dadong District, Shenyang	/30	Hotel apartments	Internal and external decoration	99.99%
<b>Properties held for sale</b>					
"Water-Flowers City" in Shenyang	No. 36, Huaihe Street, Huanggu District, Shenyang	/36	Commercial and residential	Held for sale	99.86%
"Hongji Garden" in Shenyang	No. 71-75, Da Bei Guan Street, Dadong District, Shenyang	/1	Commercial and residential	Held for sale	99.86%

# Report of the Directors

## 10. Donation

During the Year, the Group did not make any donations to charities .

## 11. Fixed assets

Details of the movements in fixed assets of the Group during the Year are set out in note 14 in the Financial Statements on page 67.

## 12. Share Capital

During the Year, the share capital structure of the Company was as follows:

Types of shares	Number of shares	Percentage
State shares	600,000,000	58.80%
H shares	420,400,000	41.20%
Total	1,020,400,000	100.00%

There was no change in the share capital structure of the Company during the Year.

## 13. Taxation

Details of taxation of the Group are set out in note 11 in the Financial Statements on pages 65 to 66.

- (1) The Group was subject to an enterprise income tax rates from 15% to 33% during the Year.
- (2) No tax reduction and exemption was enjoyed by holders of the listed securities of the Company for their holding of such securities.

## 14. Staff Quarters

Pursuant to the “Housing Reserves Management Ordinance” stipulated by the PRC government and the document (Shenfangweihuifa [2000] No. 3) issued by Shenyang Municipal Government on 28th December 2000, the basis of contribution for the housing reserves was the monthly income of the staff, of which the ratio of contribution by the Company was 15% from 1st April 2003 onwards.

## 15. Medical Insurance

Pursuant to “the Decision of Establishing the Basic Medical Insurance System for Urban Staff and Workers” promulgated by State Council of the PRC and the document (Shen Zheng Fa [2001] No.5) issued by Shenyang Municipal Government on 30th July 2001, the basis of contribution for the basic medical insurance was the last monthly income of the staff, of which the ratio of contribution by the Company was 8% from 1st October 2002 onwards.

## 16. Distributable Reserves

Pursuant to relevant PRC regulations and the Articles of Association of the Company, profit available for distribution to shareholders shall be the lower of the accumulated distributable profits determined in accordance with PRC accounting standards and regulations as stated in the PRC statutory accounts and the accumulated distributable profits adjusted in accordance with the accounting principles generally accepted in Hong Kong (“HKGAAP”). In the PRC statutory accounts and the HKGAAP accounts as at 31st December 2003, accumulated profits after appropriation available to be carried forward for distribution to shareholders in future years amounted to RMB333,321,000 (2002: RMB324,655,000) and RMB362,838,000 (2002: RMB361,738,000) respectively. Accordingly, distributable reserves of the Company as at 31st December 2003 amounted to RMB333,321,000 (2002: RMB324,655,000).

## 17. Five-Year Financial Highlights

Highlights of the results and assets and liabilities of the Group during the Year and the past years are set out on pages 6 to 7.

## 18. Major Customers and Suppliers

During the Year, the Group's sales to its five largest customers accounted for approximately 2.70% of the Group's total sales, of which sales to Zhuhai School, the largest customer, accounted for approximately 1.48% of the Group's total sales for the Year. Purchases from the five largest suppliers accounted for approximately 60.22% of the Group's total purchases for the Year, of which purchases from North Company of China Construction 4th Bureau 6th Corporation, Shenyang branch, the largest supplier, accounted for approximately 30.85% of the Group's total purchases of the Year.

None of the directors, their associates or any shareholder (to which the knowledge of the directors, owns 5.00% or more of the share capital of the Company) had an interest in the above-mentioned five largest suppliers or customers.

## 19. Use of Proceeds of H Shares

Details of use of proceeds of H shares during the Year are set out in Management Discussion and Analysis section on page 21.

## 20. Directors and Supervisors

Directors and supervisors of the Company during the Year were as follows:

Directors: Mr. Xu Er Hui, Mr. Zhang Jian Bo, Mr. Zhang Ying Jian, Mr. Wang Se, Mr. Geng Jian Wei, Mr. Chan Kam Ling, Mr. Chen Shu Xin, Mr. Lin Wen Bin, Mr. Zhang Wan Zhong, Dr. Michel P Detay, Mr. Cheng Wei and Mr. Choy Shu Kwan, Wilson. Mr. Choy Shu Kwan, Wilson and Mr. Cheng Wei are independent non-executive directors.

# Report of the Directors

Supervisors: Mr. Wang Hong Yu, Mr. Cai Hong Yuan (resigned in April 2003), Mr. Lin Dong Hui, Ms. Li Shu Lian, Mr. Zhao Xue Zhi, Ms. Gao Jing Juan and Mr. Yang Zhi An.

## 21. Directors' and Supervisors' Service Contracts

The Company entered into service contracts with all the existing directors and supervisors on 11 October 2002. Each director and supervisor shall act in accordance with his duty as required by the service contract. In the event of breach of any provision of the service contract, the Company may immediately terminate the appointment of the director or supervisor by way of written notice.

Except for the supervisor who has earlier resigned (Mr. Cai Hong Yuan), all service contracts for the existing directors and supervisors will expire on 10th October 2005.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

## 22. Directors', Supervisors' and Senior Management's Holding of Shares in the Company

During the year ended 31st December 2003, none of the Company's directors or supervisors or chief executives had any interests and/or short position in any shares, underlying shares or debentures in the Company or any of its associated corporations (within the meaning of Part XV in the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong) or entered into any transaction thereof which are: (1) required to be recorded in the register kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance, Chapter 571 of the Law of Hong Kong; or (2) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, nor was any interest generated from sales of such shares, underlying shares or debentures in the Company or any of its associated corporations.

## 23. Directors' and Supervisors' Right to Purchase Shares

During the Year, the Company did not make any arrangements for directors, supervisors, chief executive officer or their spouses or their children under 18 years old, to acquire benefits by means of the acquisition of the shares, securities or equity interests of the Company or associated corporations.

## 24. Total remuneration of Directors and Supervisors

Each of the directors of the Board received an annual salary of RMB30,000. The service contracts have not mentioned any adjustment to the annual salary of the directors. The executive directors may be entitled to certain cash bonuses according to the profitability of the Company upon the Board's approval (in which case the interested directors will abstain from voting) and are entitled to the welfare benefit provided under the relevant PRC laws and regulations. Each supervisor of the supervisory committee received an annual salary of RMB15,000.

During the Year, the total emoluments payable to the directors and supervisors amounted to RMB1,880,000 (2002: RMB1,997,000). Directors did not receive any cash bonuses on the basis of the profits of the Company or other additional benefits.

## 25. Directors' and Supervisors' Interests in Business Contracts

During the Year or as at the end of the Year, the director Mr. Lin Wen Bin is also the chairman of SPU. The directors Mr. Zhang Jian Bo, Mr. Cheng Shu Xin and Mr. Zhang Ying Jian are also the directors of SPU. The directors Mr. Xu Er Hui, Mr. Zhang Jian Bo, Mr. Cheng Shu Xin and Mr. Zhang Wang Zhong are also the vice presidents of Beida Jade Bird, the ultimate controlling shareholder of Beida High-Tech. Except for the above, no other contracts of significance in relation to the Company's business to which the Company, any of its subsidiaries and holding company was a party and in which any director or supervisor had a material interest, whether directly or indirectly.

# Report of the Directors

## 26. Change in Share Capital and Shareholders of Substantial Shareholders

As at 31st December 2003, save as the Company's directors, supervisors and chief executive, the register of holders maintained by the Company pursuant to section 336 of the Securities and Futures Ordinance showed that the following companies and persons had interests and /or short positions in the Company's shares, underlying shares, securities, equity derivatives and/or debentures:

	<b>Beneficial Owners</b>	<b>Shares</b>	<b>Percentage to Total Issued Share Capital</b>
1	SPU	600,000,000 state shares (unlisted shares)	58.80%
2	Shenyang Urban Construction (note 1)	600,000,000 state shares	58.80%
3	Beida Hi-Tech (note 2)	600,000,000 state shares	58.80%
4	Beida Jade Bird (note 3)	600,000,000 state shares	58.80%
5	Beijing Tianqiao (note 4)	600,000,000 state shares	58.80%
6	Peking University (note 5)	600,000,000 state shares	58.80%
7	HKSCC Nominees Limited (note 6)	419,201,990 H shares (listed shares)	41.08%

Notes:

- 1 Shenyang Urban Construction is a limited company established in the PRC. It holds 42.23% equity interests in SPU. Pursuant to section 316 of the Securities and Futures Ordinance, Shenyang Urban Construction is regarded as holding interests in the underlying shares of the Company held by SPU.
- 2 Beida Hi-Tech is a limited company established in the PRC. It holds 50.00% equity interests in SPU. Pursuant to section 316 of the Securities and Futures Ordinance, Beida Hi-Tech is regarded as holding interests in the underlying shares of the Company held by SPU.



- 3 Beida Jade Bird is a limited company established in the PRC. It holds 50.00% equity interests in Beida Hi-Tech. Through Beida Hi-Tech, it holds 50.00% equity interests in SPU. Pursuant to section 316 of the Securities and Futures Ordinance, Beida Jade Bird is regarded as holding interests in the underlying shares of the Company held by SPU.
- 4 Beijing Tianqiao is a joint stock limited company established in the PRC and listed on Shanghai Stock Exchange. Beijing Tianqiao holds 50.00% equity interests in Beida Hi-Tech through its subsidiary. Through Beida Hi-Tech, it holds 50.00% equity interests in SPU. Pursuant to section 316 of the Securities and Futures Ordinance, Beijing Tianqiao is regarded as holding interests in the underlying shares of the Company held by SPU.
- 5 Peking University is a famous comprehensive university in the PRC. Through its subsidiary Beijing Beida Jade Bird Software System Company, Peking University holds 46.00% equity interests in Beida Jade Bird. As Beida Jade Bird holds 50.00% equity interests in Beida Hi-Tech and Beida Hi-Tech holds 50.00% equity interests in SPU, pursuant to section 316 of the Securities and Futures Ordinance, Peking University is regarded as holding interests in the underlying shares of the Company held by SPU.
- 6 As notified by HKSCC Nominees Limited, as at 31st December 2003, the following participants in the central clearance system had interests amounting to 5.00% or more of the total issued H shares of the Company as shown in the securities accounts in the central clearance system:
  - (1) Tai Fook Securities Company Limited as nominee holds 100,506,000 H shares, representing 23.91% of the issued H shares of the Company, of which Sino-French Liaoning beneficially owned 88,146,000 H shares, representing 20.97% of the issued H shares of the Company.
  - (2) The Hong Kong and Shanghai Banking Corporation Limited as nominee holds 44,344,000 H shares, representing 10.55% of the issued H shares of the Company.
  - (3) Shenyin Wanguo Securities (Hong Kong) Limited as nominee holds 23,880,000 H shares, representing 5.68% of the issued H shares of the Company.

Save as disclosed above, during the Year, the Company has not been notified of any interests and/or short positions in shares, underlying shares, securities, equity derivatives and/or debentures of the Company required to be recorded in the register maintained in accordance with section 336 of the Securities and Futures Ordinance.

## 27. Material Contracts

- (1) During the Year, no material contracts had been entered into between the Group and SPU, the controlling shareholder of the Company. Apart from the Company, SPU and its subsidiary had also not entered into any material contracts with the Group.
- (2) During the Year, the Company convened a board meeting on 26th April 2003 which approved the “Agreement on Transfer of Shares of Beijing Diye Real Estate Development Company Limited” entered into between the Company’s subsidiaries — Shenyang Real Estate and Shenyang Education and independent third parties — Shenzhen Diye Real Estate Company Limited, Beijing Xinruida Decoration Company Limited and other natural persons. Pursuant to the agreement, Shenyang Real Estate and Shenyang Education jointly acquired 100% equity interests in Beijing Diye at a consideration of RMB 33,000,000 (in which Shenyang Real Estate acquired 80.00% equity interests and Shenyang Education acquired 20.00% equity interests). The Group owned 100% shareholding and the relevant equity interests in Beijing Diye with effect from 30th June 2003.

# Report of the Directors

- (3) During the Year, the Company convened a board meeting on 26th April 2003 which approved the “Agreement for the Transfer of Equity interests in Shenyang Pollon Finance Building Management Company Limited” which was entered into between the Company and its subsidiary — Shenyang Real Estate and independent third parties — Pollon Industrial and Dadong Development. Pursuant to the agreement, the Company and Shenyang Real Estate acquired 100% equity interests in Building Management Company (in which the Company acquired 92.50% equity interests and Shenyang Real Estate acquired 7.50% equity interests), at a total consideration of RMB141,000,000 in cash and an assignment of debts. The Group owned 100% shareholding and the relevant equity interests in Building Management Company with effect from 31st December 2003.
- (4) During the Year, the Company convened a board meeting on 16th June 2003 which approved the “Agreement for the Transfer of Equity interests in Shenyang Beida Jade Bird Business Information System Company Limited” entered into between the Company’s subsidiary Shenyang Education and Beijing Tianqiao. Pursuant to the agreement, Shenyang Education acquired 90.00% equity interests in Shenyang Business Information from Beijing Tianqiao at a consideration of RMB8,901,000. The Group owned 90.00% shareholding and the relevant equity interests in Shenyang Business Information with effect from 31st December 2003. The Directors are of the view that the acquisition of Shenyang Business Information will ensure that the Group will have the in-house technical know-how in designing software solutions for the management of the Group’s various property development and educational complexes and for providing application software design services for the Group’s projects relating to the provision of non Compulsory Education (for details please refer to the Company’s announcement dated 30th June 2003).
- (5) During the Year, the Company convened a board meeting on 30th December 2003 which approved the “Agreement for the Transfer of Equity interests in Shenzhen Jingmei Industrial Development Company Limited” entered into between the Company and Beijing Hengyu Real Estate Development Company Limited (“Hengyu Real Estate”, an independent third party). Pursuant to the agreement, the Group acquired 95.00% equity interests in Jingmei Industrial at a consideration of RMB570,000,000. Hengyu Real Estate agreed that the Company may transfer its 30.00% equity interests in Shenyang Education valued at RMB70,500,000, as a part of the consideration, to Hengyu Real Estate or any of the third party nominated by it. The remaining part of consideration shall be paid in cash. The Group owned approximately 95.00% shareholding and the relevant equity interests in Jingmei Industrial with effect from 1st January 2004 (for details please refer to the Company’s announcement dated 7th January 2004 and the section headed “Significant Events” in the Report of the Directors).

## 28. Connected Transactions

During the Year, the connected transactions of the Group were as follows:

- (1) Zhuhai Education and Zhuhai School established by Beida Education Investment entered into a Lease Contract in September 2003. The transaction under the agreement constituted the Company's ongoing connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") (for details please refer to the Company's announcement dated 28th November 2002 and the Company's circular dated 23rd December 2002). Pursuant to the Lease Contract, Zhuhai Education leased the phase one properties of Zhuhai Education Park to Zhuhai School, with a term of 20 years from September 2003 which is renewable upon expiry. The annual rental comprises a fixed rent for the three years ending 31st August 2006 and from then on, the rent will comprise fixed rent plus a variable amount. During the Year, Zhuhai Education received rent amounting to RMB2,500,000 (2002: nil).
- (2) For details of the connected transactions of the acquisition of 90.00% equity interests in Shenyang Business Information by the Company's subsidiary, Shenyang Education, please refer to the sections headed "Material Contracts (4)" and "Significant Events (5)" in the Report of the Directors and the Company's announcement dated 30th June 2003.

A waiver from the approval of independent shareholders has been granted by the Stock Exchange in respect of the connected transactions mentioned in (1) above.

Independent non-executive directors of the Company have reviewed the above connected transaction (1) and expressed their opinions. Details of their opinion are set out on page 37 under the section "Work of the Audit Committee". The Company has made disclosure of the connected transaction (2) pursuant to the relevant provisions of the Listing Rules.

## 29. Purchase, Sale or Redemption of Shares

During the Year, the Group did not purchase, sell or redeem any of the Company's shares.

## 30. Share Options

During the Year, the Group did not issue or grant any of convertible securities, futures options, warrants and other similar rights.

## 31. Significant Events

### (1) Acquisition of 70.00% equity interests in Zhuhai Education and 100% equity interests in Shanghai Education

The Company convened an extraordinary general meeting on 10th February 2003 which considered and approved the acquisition by the Company from Beida Education Investment and Beijing Beida Public School Education Investment Company Limited (“Beida Public School”) of 70.00% equity interests in Zhuhai Education jointly held by them (in which each of Beida Education Investment and Beida Public School held 35% equity interests) at a consideration of approximately RMB 166,600,000; and considered and approved the acquisition by the Company and its subsidiary, Shenyang Real Estate, from Beida Education Investment and Beida Public School of 80.00% and 20.00% equity interests respectively in Shanghai Education at a total consideration of approximately RMB 194,400,000 (please refer to the Company’s 2002 annual report for details).

### (2) Application for conversion into a foreign-invested joint stock investment company with limited liabilities and amendment to Articles of Association of the Company

In order to obtain possible PRC tax benefits and more favourable investment preferences, the Company intends to apply to the relevant PRC authorities for conversion into a foreign-invested joint stock investment company with limited liabilities. At the extraordinary general meeting of the Company held on 26th April 2003, it was approved that the Company be converted into a foreign investment joint stock limited company. Afterward, at the board meeting on 14 November 2003, a proposal for revising the scope of business stated in the Articles of Association of the Company was approved. The proposed amendments was further approved at the extraordinary general meeting of the Company held on 30th December 2003 (for details please refer to the Company’s circulars dated 19th March 2003 and 14th November 2003 and the Company’s announcement dated 31st December 2003).

### (3) Acquisition of 100% equity interests in Beijing Diye

The Company convened a board meeting on 26th April 2003 which considered and approved the acquisition jointly by the Company’s subsidiaries, Shenyang Real Estate and Shenyang Education, from independent third parties — Shenzhen Diye Real Estate Company Limited, Beijing Xinruida Decoration Company Limited and other natural persons of 100% equity interests in Beijing Diye at a consideration of RMB 33,000,000 (in which Shenyang Real Estate acquired 80.00% equity interests and Shenyang Education acquired 20.00% equity interests).

## **(4) Acquisition of 100% equity interests in Building Management Company**

The Company convened a board meeting on 26th April 2003, which considered and approved the acquisition jointly by the Company and its subsidiary, Shenyang Real Estate, from Pollon Industrial and Dadong Development of 100% equity interests in Building Management Company (in which the Company acquired 92.50% equity interests and Shenyang Real Estate acquired 7.50% equity interests). The only asset held by Building Management Company was Shenyang Pollon Finance Building. The Company has reconstructed the building as hotel apartments and renamed it as “Cosmo International Mansion”.

## **(5) Acquisition of 90.00% equity interests in Shenyang Business Information**

The Company convened a board meeting on 16th June 2003, which considered and approved the acquisition by the Company's subsidiary, Shenyang Education, from Beijing Tianqiao of 90.00% equity interests in Shenyang Business Information at a consideration of approximately RMB 8,901,000. As the acquisition constituted a connected transaction, the Company published an announcement on 30th June 2003. (For details please refer to the Company's announcement dated 30th June 2003)

## **(6) Issue of new H shares**

At the 2002 annual general meeting of the Company, a resolution was passed which authorized the Board to issue new shares up to 20.00% of the Company's issued share capital for that class of shares. Pursuant to the resolution, the Board passed a resolution on 14th November 2003 approving the Company, among others, to arrange for the issue of up to an additional 84,080,000 new H shares. Pursuant to the document (Guo Fa [2001] No.22) promulgated by the State Council of the PRC, holders of state shares of a joint stock limited company in the PRC shall offer for sale such number of its state shares equivalent to 10.00% of the funds to be raised upon new issue of shares by the joint stock limited company, and the net proceeds raised therefrom shall be remitted to the National Social Security Fund of the PRC. On 10th December 2003, the State-owned Assets Supervision and Administration Commission of the State Council approved the proposed reduction in state shares of the Company. Pursuant to the requirements of China Securities Regulatory Commission, new issue of shares and reduction in state shares shall be subject to resolutions from class meetings of the Company's shareholders. Therefore, a board meeting of the Company was held on 5th March 2004 to propose the convening of an extraordinary general meeting and class meetings to consider and approve, among others, the proposed reduction in state shares in relation to the issue of new H shares (for details please refer to the Company's announcement dated 11th March 2004). The said proposal was finally approved respectively by the extraordinary general meeting, state shares class meeting and H shares class meeting convened on 26th April 2004.

## (7) Establishment of Shenyang Tourism

In order to create a new base for profit growth, a board meeting of the Company was held on 14th November 2003 to approve the establishment of Shenyang Tourism with joint investment by the Company and Liaoning Qianghui Technology Development Company Limited (“Qianghui Technology”, an independent third party). Shenyang Tourism is principally engaged in operation of tourism projects and development of tourism properties, with a registered capital of RMB100,000,000 in which 51.00% equity interests were held by the Company and 49.00% by Qianghui Technology. Shenyang Tourism was incorporated on 5th December 2003. Currently, Shenyang Tourism is negotiating with Qipanshan Committee for land acquisition.

## (8) Acquisition of Land in Laoguapu by way of Auction

On 9th December 2003, the Company acquired a parcel of land in Laoguapu, Dadong District of Shenyang by way of auction. The total payment under the auction was approximately RMB360,000,000 of which the Company has paid RMB100,000,000. With a site area of approximately 203,000 square metres, the land is planned to be used for commercial and residential development of the project named “Shining Festival”. Currently, the project is in progress of preliminary preparation.

## (9) Acquisition of 95.00% equity interests in Jingmei Industrial

At the board meeting of the Company on 30th December 2003, the directors considered and approved the Company to acquire 95.00% equity interests in Jingmei Industrial from Hengyu Real Estate, an independent third party, at a consideration of RMB570,000,000. The main assets of Jingmei Industrial is 70.00% equity interests in Xili Cemetery, while the remaining 30.00% equity interests were held by Shenzhen Municipal Funeral Services Company. Pursuant to the equity interests transfer agreement entered into between the Company and Hengyu Real Estate, the Company will transfer 30.00% equity interests in Shenyang Education valued at RMB70,500,000, as a part of the consideration, to Hengyu Real Estate or any of the third party nominated by it. The remaining part of consideration will be satisfied by cash (for details please refer to the Company’s announcement dated 7th January 2004).

## 32. Bank Borrowings

As at 31st December 2003, the total amount of the Group’s bank borrowings was RMB425,000,000 (2002: RMB120,000,000). The bank borrowings were used as the Group’s working capital. During the Year, the Group had no delay in repayment of bank borrowings.

## 33. Trust deposits

There were no deposits managed by trustees for the Year.

## 34. Retirement Scheme

Details of the retirement scheme and the amount of contributions to the retirement scheme are set out in note 37 in the Financial Statements in page 84.

## 35. Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association and the laws of the PRC which would require the Company to offer new shares to existing shareholders on a pro rata basis.

## 36. Loans to Senior Management

During the Year, the Group did not give any loan or other kinds of financial assistance to the senior management of the Group.

## 37. Work of the Audit Committee

Pursuant to the Code of Best Practice as set out in Appendix 14 to the Listing Rules, the Company established an Audit Committee at the fifth meeting of the first Board. Adjustment will be made to the Committee by 30th September 2004 for compliance with the new requirements of Rule 3.21 of Chapter 3 in the revised Listing Rules which came into effect on 31st March 2004. The main function of the Audit Committee, which is a special committee under the Board, is to review and supervise the financial reporting procedures and methods of the Group. The Audit Committee comprises two independent non-executive directors of the Company, namely Messrs. Choy Shu Kwan, Wilson and Cheng Wei.

At the meeting held on 21st April 2004, the Audit Committee reviewed the accounts of the Company and expressed its opinion in respect of the connected transactions of the Company as follows:

- (1) The information disclosed in the accounts of the Company is complete, accurate and fair and the accounting policies adopted are correct, without any material problems being discovered.



# Report of the Directors

- (2) The connected transactions of the Company have been carried out:
- A. in the ordinary and usual course of business of the Company;
  - B. on normal commercial terms (by reference to transactions of a similar nature and as made by similar entities in the PRC) or (where there is no available comparison) on terms no less favourable than those available to third parties;
  - C. in accordance with the terms of the respective agreements governing such transactions;
  - D. are fair and reasonable so far as the shareholders of the Company are concerned; and
  - E. the total amount of the connected transactions does not exceed the cap in respect of the waiver for the connected transactions granted by the Stock Exchange, that is, as at 31st December 2003, rent paid by Zhuhai School to Zhuhai Education did not exceed RMB2,500,000.

## 38. Code of Best Practice

The directors of the Company are pleased to confirm that the Company has complied with the Code of Best Practice as set out in the Listing Rules during the Year.

## 39. Material Litigation

During the Year, the Group was not involved in any material litigation or arbitration.

## 40. Auditors

The accounts of the Group for the Year prepared in accordance with the HKGAAP and the accounting standards issued by the Hong Kong Society of Accountants have been audited by Ho and Ho & Company, Certified Public Accountants (“Ho and Ho”).

During the Year, since our previous PRC auditors Deloitte Touche Tohmatsu Certified Public Accountant Ltd. and international auditors Deloitte Touche Tohmatsu, Certified Public Accountants, tendered their resignation respectively on 10th February 2004 and 23rd December 2003, the Company held an extraordinary board meeting (by way of telecommunication) on 5th March 2004 and decided to appoint Ho and Ho and Liaoning Pan-China Certified Public Accountants Company Limited (“Liaoning Pan-China”) as the international and the PRC auditors of the Group respectively. A proposal was considered and approved at the extraordinary general meeting convened on 26th April 2004 to appoint Ho and Ho and Liaoning Pan-China as the international and the PRC auditors of the Group with a term up to the end of the forthcoming annual general meeting of the Company. The Company will propose a resolution at the forthcoming annual general meeting to re-appoint Ho and Ho and Liaoning Pan-China as the international and the PRC auditors of the Group.



Details of the resolution of the Board in respect of change of auditors was published by the Company on the newspaper in Hong Kong on 11th March 2004.

## 41. Publication of Information on the Web-site of the Stock Exchange

Financial and other relevant information of the Company in accordance with the paragraphs from 45(1) to 45(3) of Appendix 16 to the Listing Rules will be available for publication on the web-site of the Stock Exchange in due course.

## 42. Model Code for Securities Transactions by Directors of Listed Issuers

During the Year, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“the Code”) in Appendix 10 of the Listing Rules to govern purchase and sales of the Company’s securities by the directors and supervisors of the Company. The Company has also issued enquiry in writing with each director and supervisor as to whether he has fully observed the Code. Each director or supervisor replied to the Company in writing and confirmed that he has fully observed the Code and no violation of the Code has occurred.

## 43. Independent non-executive directors

The Company will adjust the composition of the Board of the Company before 30th September 2004 to comply with the requirements of Rule 3.10(1) and (2) in the revised Listing Rules which came into effect on 31st March 2004.

In addition, the Company will issue a letter to each independent non-executive director who will be required to make confirmation, on 30th September 2004 or before, to the Company and the Stock Exchange that he has no connection with any of the Company or its connected persons with reference to the matters set out in Rule 3.13 of the Listing Rules.

## 44. Public float

As far as the public information available to the Company is concerned and to the best of knowledge of the directors and supervisors, at least 25.00% of the Company’s issued share capital were held by members of the public as at 26th April 2004 (being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining the relevant information contained).

By order of the Board

**Xu Er Hui**

*Chairman*

26th April 2004, Shenyang, the PRC