

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, sales and leasing of real estate, investment and management of education projects, and development and sales of cemetery through its subsidiaries.

The analysis of the Group's results by segment for the Year is set out in note 5 to the Financial Statement on page 57.

### 2. SUBSIDIARIES AND JOINT VENTURES

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

**Beijing Diye**, a limited liability company with registered capital of RMB30,000,000, was incorporated at Industrial Zone, Huo County, Tongzhou District, Beijing, the PRC in July 2001. Its principal operations are located in the PRC. 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.

**Building Management Company**, a limited liability company with registered capital of RMB50,000,000, was incorporated at No.1, Xiaodong Road, Dadong District, Shenyang, the PRC in July 2002. Its principal operations are located in the PRC. 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.

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

**Zhuhai Education**, a limited liability company with registered capital of RMB20,000,000, was incorporated at Rooms 1911-1912, 19/F, Guangda International Trade Centre, Jida, Zhuhai, the PRC in May 2001. Its principal operations are located in the PRC. The Company holds 70.00% equity interests in it. During the Year, no debt securities were issued by it.

**Shanghai Education**, a limited liability company with registered capital of RMB100,000,000, was incorporated at No.48, Xinxi Road, Zhu Jia Jiao Town, Qingpu District, Shanghai, the PRC in October 2002. Its principal operations are located in the PRC. 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.



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

**Jingmei Industrial**, a limited liability company with registered capital of RMB10,000,000, was incorporated at No. 3, First Floor, Building No. 2, Jingmei New Village, Futian District, Shenzhen, the PRC on 30th August 1994. Its principal operations are located in the PRC. The Company holds 95.00% equity interests in it. During the Year, no debt securities were issued by it.

**Xili Cemetery**, a limited liability company with registered capital of RMB5,000,000, was incorporated at First Floor, Building No. 2, Jingmei New Village, Futian District, Shenzhen, the PRC on 29th April 2001. Its principal operations are located in the PRC. Jingmei Industrial holds 70.00% equity interests in it. During the Year, no debt securities were issued by it.

**Shenzhen Grand Science**, a limited liability company with registered capital of RMB100,000,000, was incorporated at First Floor, Building No. 2, Jingmei New Village, No. 6003, Bei Huan Avenue, Futian District, Shenzhen, the PRC in May 2004. Its principal operations are located in the PRC. The Company holds 50.00% equity interests in it, Shenyang Real Estate holds 25.00% equity interests in it and Shenyang Education holds 25.00% equity interests in it. During the Year, no debt securities were issued by it.

**Shenyang Tourism**, a limited liability company with registered capital of RMB100,000,000, was incorporated at Qipanshan Reservoir Hotel, Shenyang, the PRC in December 2003. Its principal operations are located in the PRC. During the Year, it had been liquidated and deregistered.

**Shinning Festival Real Estate**, a limited liability company with registered capital of RMB10,000,000, was incorporated at No.1, Xiaodong Road, Dadong District, Shenyang, the PRC in March 2004. Its principal operations are located in the PRC. During the Year, the Group entered into an agreement with a third party to dispose of its entire 100% equity interests in it.

**Shenhai Co-generation**, a sino-foreign equity joint venture with registered capital of RMB353,880,000, was incorporated at No. 352 Zhulin Road, Dadong District, Shenyang, the PRC in June 1993. Its principal operations are located in the PRC. During the Year, the Company completed all formalities relating to the equity transfer and the company is no longer a joint venture of the Company.

### 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, namely, Shenyang Urban Infrastructure Facility Construction Investment Development Company Limited ("Shenyang Urban Construction") and Shenyang State-owned Assets Management Company Limited ("Shenyang Asset"), Shenyang Municipal Government held 50.00% equity interests in SPU (Shenyang Urban Construction and 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. In November 2004, Beijing Beida Boya Investment Company Limited ("Beida Boya") injected an additional capital of RMB30,000,000 to Beida Hi-Tech. The shareholding structure of Beida Hi-Tech subsequent to the capital injection is as follows: 57.69% equity interests are held by Weifang Beida Jade Bird Huaguang Technology Company Limited ("Jade Bird Huaguang"), 19.23% equity interests are held by Beijing Tianqiao Beida Jade Bird Sci-Tech Company Limited, 19.23% equity interests are held by Macat Optics & Electronics Co., Ltd and 3.85% equity interests are held by Beida Boya.

## 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 42.

The Group's financial position for the Year is set out in the consolidated balance sheet on page 43 to 44.

The Group's cash flow for the Year is set out in the consolidated cash flow statement on pages 48 to 49.

Analysis of the results of the Group for the Year is set out in the Management Discussion and Analysis section on pages 15 to 22.

## 6. INTERIM DIVIDEND

At the board meeting of the Company held on 23rd August 2004, it was resolved that no interim dividend was declared for the year 2004.

## 7. FINAL DIVIDEND

The board of directors of the Company resolved that no final dividend would be declared for the year of 2004. Such resolution is subject to approval at the 2004 Annual General Meeting of the Company to be held on 20th September 2005.

## 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 47.

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### 9. PROPERTIES UNDER DEVELOPMENT AND PROPERTIES HELD FOR SALE

As at 31st December 2004, the Group held the following properties under development and properties held for sale:

Name of Plots/ 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	/84	School project and real estate development	Under construction	99.90%
Shanghai Beida Education Science Park	Fuxing Road, Zhu Jia Jiao Town, Qingpu District, Shanghai	200/	School project	Held for construction	99.97%
Undeveloped portion in Xili cemetery	Liu Xian Dong, Xili, Nanshan District, Shenzhen	60.8/	Cemetery	Held for construction	66.50%
<b>Properties held for sale</b>					
Phase two of “Water-Flowers City” in Shenyang	No. 36, Huaihe Street, Huanggu District, Shenyang	/29.3 /0.3	Commercial and residential	On pre-sale Held for sale	99.86%
6th-25th Floor of “Cosmo International Mansion” in Shenyang	No.1, Xiaodong Road, Dadong District, Shenyang	/9.6 /9.4	Hotel apartments	On pre-sale Held for sale	99.99%
“Hongji Garden” in Shenyang	No. 71-75, Da Bei Guan Street, Dadong District, Shenyang	/0.3	Commercial and residential	On pre-sale	99.86%
“Scenic Bay” in Beijing	Hui Village, Guang Zhuang, Chaoyang District, Beijing	129/	Commercial and residential	Held for construction	99.87%

## 10. DONATION

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

## 11. FIXED ASSETS

Details of the movements in fixed assets of the Group during the Year are set out in note 14 to the Financial Statements on page 66.

## 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%

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 to the Financial Statements on page 64.

- (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 ("HKGAAAP"). In the PRC statutory accounts and the HKGAAP accounts as at 31st December 2004, accumulated profits after appropriation available to be carried forward for distribution to shareholders in future years amounted to RMB103,825,000 (2003: RMB333,321,000) and RMB312,032,000 (2003: RMB362,838,000) respectively. Accordingly, distributable reserves of the Company as at 31st December 2004 amounted to RMB103,825,000 (2003: RMB333,321,000).

### 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 4 to 5.

### 18. MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the Group's sales to its five largest customers accounted for approximately 46.52% of the Group's total sales, of which sales to Zhuhai School, the largest customer, accounted for approximately 27.60% of the Group's total sales for the Year. Purchases from the five largest suppliers accounted for approximately 39.74% of the Group's total purchases for the Year, of which purchases from North Construction Group Company Limited, the largest supplier, accounted for approximately 9.45% of the Group's total purchases of the Year.

None of the directors, their associates or any shareholder (who to the knowledge of the directors, owns 5.00% or more of the share capital of the Company) had an interest in the above-mentioned four largest customers except for Zhuhai School or five largest suppliers (further details of the transactions with Zhuhai School are disclosed in the section headed "Connected Transactions" on page 31).

### 19. USE OF PROCEEDS OF H SHARES

Details of use of proceeds of H shares of the Company are set out in "Management Discussion and Analysis" section on page 22.

### 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. Chen Shu Xin, Mr. Chan Kam Ling (resigned in April 2005), Mr. Lin Wen Bin (resigned in March 2005), Mr. Zhang Wan Zhong, Dr. Michel P. Detay, Mr. Cheng Wei, Mr. Choy Shu Kwan, Wilson and Mr. Cui Yan. Mr. Choy Shu Kwan, Wilson, Mr. Cheng Wei and Mr. Cui Yan are independent non-executive directors.

Supervisors: Mr. Wang Hong Yu (resigned in February 2005), Mr. Lin Dong Hui, Ms. Li Shu Lian, Mr. Zhao Xue Zhi, Ms. Gao Jing Juan (resigned in October 2004) and Mr. Yang Zhi An.



## 21. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

The Company entered into service contracts with all existing directors and supervisors in October 2002 except for director Mr. Cui Yan, with whom the Company entered into a service contract in November 2004. Each existing director and supervisor shall act in accordance with his duty as required by the service contract. In the event of a 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 director (Mr. Lin Wen Bin and Mr. Chan Kam Ling) and the supervisors (Mr. Wang Hong Yu and Ms. Gao Jing Juan) who have resigned, 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 2004, 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, neither the Company nor its fellow subsidiaries or holding company made 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 Company received an annual salary of RMB30,000. The service contracts with the directors 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 of directors' approval (in which case the interested directors will abstain from voting) and are entitled to the welfare benefits 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 RMB1,899,000 (2003: RMB1,880,000). None of the directors received 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. Chen Shu Xin and Mr. Zhang Ying Jian are also the directors of SPU. The directors Mr. Xu Er Hui, Mr. Zhang Jian Bo, Mr. Chen Shu Xin and Mr. Zhang Wang Zhong are also the vice presidents of Beida Jade Bird, which is 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 or its holding company was a party and in which any director or supervisor had a material interest, whether directly or indirectly, were entered into.

### 26. CHANGE IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31st December 2004, 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 bodies and persons had interests and /or short positions in the Company's shares, underlying shares, securities, equity derivatives and/or debentures:

	Beneficial Owners	Shares	Percentage to Total Issued Share Capital
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.	Jade Bird Huaguang (note 3)	600,000,000 state shares	58.80%
5.	HKSCC Nominees Limited (note 4)	418,749,990 H shares (listed shares)	41.04%

Notes:

- 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.
- 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.
- Jade Bird Huaguang is a joint stock limited company established in the PRC. It directly holds 57.69% equity interests in Beida Hi-Tech and owns 50.00% equity interests in SPU through Beida Hi-Tech. Pursuant to section 316 of the Securities and Futures Ordinance, Jade Bird Huaguang is regarded as holding interests in the underlying shares of the Company held by SPU.



4. As notified by HKSCC Nominees Limited, as at 31st December 2004, 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 103,964,000 H shares, representing 24.73% 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 50,955,000 H shares, representing 12.12% of the issued H shares of the Company.
- (3) Shenyin Wanguo Securities (Hong Kong) Limited as nominee holds 28,346,000 H shares, representing 6.74% 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) On 2nd November 2004, the Company and Shenyang Real Estate entered into the First Share Transfer Agreement, the Second Share Transfer Agreement and the Land Deposit Transfer Agreement with Dalian Dongte Real Estate Development Company Limited ("Dalian Dongte") and Dalian Zhengda Real Estate Development Company Limited ("Dalian Zhengda"), pursuant to which the Company and Shenyang Real Estate transferred 90.00% and 10.00% equity interests in Shinning Festival Real Estate to Dalian Dongte and Dalian Zhengda respectively for an aggregate consideration of RMB27,714,000; and the land deposit, with the original price of RMB67,286,000, was also transferred to Dalian Dongte and Dalian Zhengda (Details are set out in the announcement of the Company dated 30th November 2004, circular to shareholders dated 14th January 2005 and under "Report of the Directors – 31. Significant Events (2)").

## 28. CONNECTED TRANSACTIONS

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

Pursuant to the Lease Contract entered into between Zhuhai Education and Zhuhai School, Zhuhai Education leased the phase one properties of Zhuhai Education Park to Zhuhai School, with a term of 20 years from 1st 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 RMB10,000,000 (2003: RMB2,500,000).

Approval of independent shareholders has been obtained and a waiver has been granted by the Stock Exchange in respect of the connected transaction mentioned above. Independent non-executive directors of the Company have reviewed the above connected transaction and expressed their opinions. Details of their opinions are set out on page 33 under the section "Work of the Audit Committee".

### 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 convertible securities, futures options, warrants or other similar rights.

### 31. SIGNIFICANT EVENTS

#### (1) Establishment and cancellation of Shenyang Tourism

On 5th December 2003, the Company incorporated Shenyang Tourism jointly with Liaoning Qianghui Technology Development Company Limited ("Qianghui Technology", an independent third party) with a registered capital of RMB100,000,000, in which 51.00% equity interests were held by the Company and 49.00% equity interests were held by Qianghui Technology. Shenyang Tourism was principally engaged in the operation of tourism projects and development of tourism properties. During the Year, Shenyang Tourism was unable to continue its principal business and was liquidated and cancelled in December 2004 due to reasons including Shenyang Municipal Government's reprogramming of the urban construction layout of Qipanshan district. The cancellation of Shenyang Tourism incurred a loss of RMB1,071,000.

#### (2) Establishment and disposal of Shinning Festival Real Estate and transfer of the land in Laoguapu

To develop the land in Laoguapu, Dadong District of Shenyang, the Group incorporated Shinning Festival Real Estate in March 2004. However, the Group decided to give up development and investment in the land due to the change in the State's policy regarding real estate. Therefore, on 2nd November 2004, the Company and Shenyang Real Estate entered into the First Share Transfer Agreement, the Second Share Transfer Agreement and the Land Deposit Transfer Agreement with Dalian Dongte and Dalian Zhengda to transfer the entire equity interests in Shinning Festival Real Estate to Dalian Dongte and Dalian Zhengda; and the land deposit, with the original price of approximately RMB67,286,000, was also transferred to Dalian Dongte and Dalian Zhengda (Details are set out in the circular to shareholders dated 14th January 2005).

#### (3) Establishment of Shenzhen Grand Science

The Company established Shenzhen Grand Science jointly with Shenyang Education and Shenyang Real Estate in May 2004. Shenzhen Grand Science was incorporated with a registered capital of RMB100,000,000, in which the Company holds its 50.00% equity interests, Shenyang Education holds its 25.00% equity interests and Shenyang Real Estate holds its 25.00% equity interests. Shenzhen Grand Science is an industrial investor in Shenzhen City.

#### (4) Suspension of trade

On 15th December 2004, the Company applied to the Stock Exchange for suspension of trade in accordance with the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") due to overdue of large-cap loans. On 12th July 2005, the Company issued the Announcement in Relation to Writ of Summons and its Settlement. Currently, the Company is actively submitting an application for listing resumption and the relevant information to the Stock Exchange and no reply has been received yet (Details are set out in "Report of the Directors – 39. Material Litigations").

## 32. BANK BORROWINGS

As at 31st December 2004, the total amount of the Group's bank borrowings was RMB708,858,000 (2003: RMB425,000,000). The bank borrowings were used as the Group's working capital. As at the balance sheet date, the Group had an outstanding bank loan of RMB199,638,000.

## 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 44 to the Financial Statements on page 90.

## 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 its 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 its senior management.

## 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. The Company held a board meeting to make adjustment to the Audit Committee on 28th September 2004 and finally gained approval of the Shareholders' General Meeting on 15th November 2004. As such, the Audit Committee is now in compliance with the newly revised Rule 3.21 of Chapter 3 of the 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 of directors, is to review and supervise the financial reporting procedures and methods of the Group. The Audit Committee comprises three independent non-executive directors of the Company, namely Messrs. Choy Shu Kwan, Wilson, Cheng Wei and Cui Yan.

At the meeting held on 27th July 2005, 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.

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- (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 2004, the rent paid by Zhuhai School to Zhuhai Education did not exceed RMB10,000,000.

### 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

In December 2004, Shenzhen Development Bank Dalian Branch (the "Plaintiff") and the Company had disputes on the loan of RMB200,000,000 (the "Loan"). Shenzhen Development Bank Dalian Branch sued the Company at the Supreme People's Court in Liaoning Province and sequestered parts of the Company's bank accounts. The parties of the litigation reached settlement on 22nd January 2005. The Supreme People's Court in Liaoning Province issued the Civil Mediation (2004) (Liao Min San He Chu Zi No.59) and the Release Notification of Bank Accounts.

On 28th January 2005, the Company has obtained the release of the cash held in various banks from sequestration and detainment. As at 28th April 2005, the Company has repaid an aggregate amount of RMB50,000,000 to the Plaintiff. Around 28th April 2005, the Plaintiff sequestered an amount of RMB155,000,000 from Liao Ning Hua Jin Hua Gong Group Company Limited, one of the guarantors of the Loan. From then on, the Plaintiff has already received the outstanding amount due under the Loan and interest from the Company and its guarantors for the Loan.

On 17th May 2005, that guarantor began to take measures against the Company and its related parties as a result of the sequestration of its monies by the Plaintiff and the guarantee it gave for the Loan. On 14th June 2005, 80 residential units of Cosmo International Mansion (with a value of around RMB24,000,000) owned by the Company's subsidiary, Building Management Company and bank deposits of around RMB200,000 from another subsidiary of the Company, Beijing Diye, were sequestered by that guarantor.



At present, the Company and Beida Jade Bird, an indirect shareholder of the Company, are in negotiations with that guarantor on the above matters and repayment but has not reached any final agreement. The Company will publish further announcements as necessary to keep its shareholders and the public informed when final agreement between the parties is reached (For details please refer to the Company's announcement dated 12th July 2005).

#### **40. AUDITORS**

Since the Group's former 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 & Company, Certified Public Accountants ("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 for the year 2003. 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 2003 annual general meeting of the Company. The Company proposed a resolution at the 2003 annual general meeting to re-appoint Ho and Ho and Liaoning Pan-China as the international and the PRC auditors of the Group with a term up to the conclusion of the 2004 annual general meeting.

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

The Group's accounts for the year 2004 prepared in accordance with HKGAAP and the accounting standards issued by the Hong Kong Society of Accountants have been audited by Ho and Ho. 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.

#### **41. PUBLICATION OF INFORMATION ON THE WEB-SITE OF THE STOCK EXCHANGE**

Financial and other relevant information of the Company in accordance with 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 or has been in breach of 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 held a board meeting on 28th September 2004 to adjust the composition of the board of directors of the Company to comply with the requirements of revised Rule 3.10(1) and (2) in the Listing Rules which had come into effect on 31st March 2004. The above adjustment was approved at the Shareholders' General Meeting convened on 15th November 2004.

In addition, each independent non-executive director of the Company has, on or before the agreed date, confirmed to the Company and the Stock Exchange that he has no connection with the Company or any of 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 29th July 2005 (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*

Shenyang, the PRC, 29th July 2005