



SHENYANG PUBLIC UTILITY HOLDINGS COMPANY LIMITED

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ANNUAL REPORT

2006

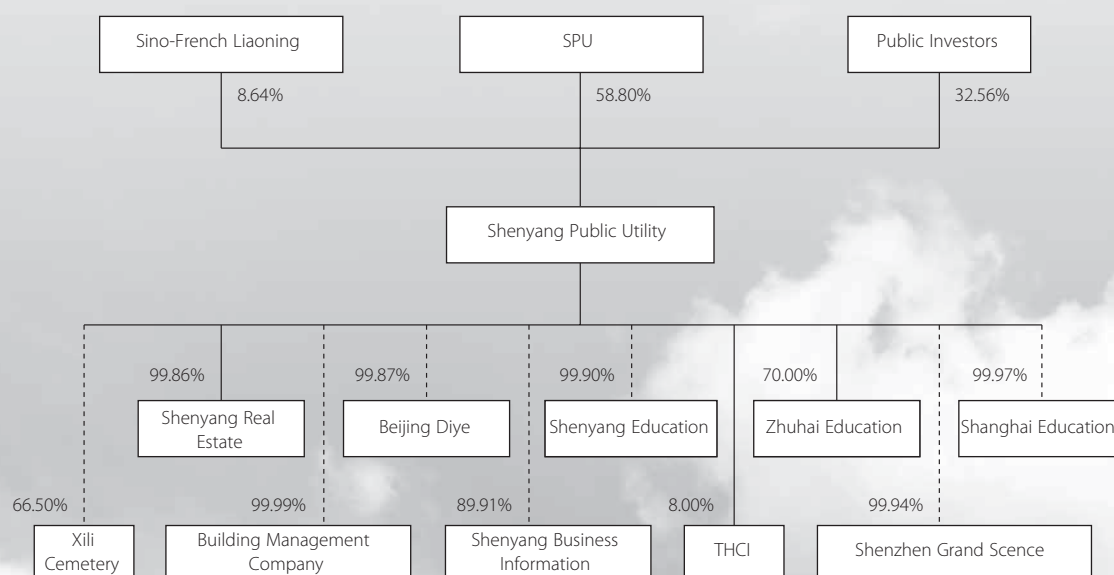
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1. THE FORMATION AND PRINCIPAL BUSINESSES OF THE COMPANY

In December 1999, the Company issued 420,400,000 H shares of par value of RMB1.00 each at an issue price of HK\$1.70, to international investors by way of a placing and an offer to the public. On 16th December 1999, the Company's H shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). At present, the registered capital of the Company is RMB1,020,400,000.

2. SHAREHOLDING STRUCTURE



Note 2:

Shenyang Real Estate: Shenyang Development Real Estate Company Limited, in which the Company directly holds 99.86% equity interests, is a real estate developer in Shenyang;

Company Profile

Shenyang Education:	Shenyang Development Beida Education Science Park Company Limited, in which the Company directly holds 30.00% equity interests and Shenyang Real Estate directly holds 70.00% equity interests. It is an education investor in Shenyang in which the Company holds 99.90% equity interests in total;
Zhuhai Education:	Zhuhai Beida Education Science Park Company Limited, in which the Company directly holds 70.00% equity interests, is an education investor in Zhuhai;
Shanghai Education:	Shanghai Beida Jade Bird Education Investment Company Limited, in which the Company directly holds 80.00% equity interests and Shenyang Real Estate directly holds 20.00% equity interests. It is an education investor in Shanghai in which the Company holds 99.97% equity interests in total;
Beijing Diye:	Beijing Diye Real Estate Development Company Limited, in which Shenyang Real Estate directly holds 80.00% equity interests and Shenyang Education directly holds 20.00% equity interests. It is a real estate developer in Beijing in which the Company holds 99.87% equity interests in total;
Building Management Company:	Shenyang Pollon Finance Building Management Company Limited, in which the Company directly holds 92.50% equity interests and Shenyang Real Estate directly holds 7.50% equity interests. It is a real estate developer in Shenyang in which the Company holds 99.99% equity interests in total;
Shenyang Business Information:	Shenyang Beida Jade Bird Business Information System Company Limited, in which Shenyang Education directly holds 90.00% equity interests and the Company indirectly holds 89.91% equity interests, is an application software developer;
Xili Cemetery:	Shenzhen Xili Baoen Fu Di Cemetery Company Limited, in which the Company indirectly holds 66.50% equity interests through its 95.00% direct equity interests in Shenzhen Jingmei Industrial Development Company Limited ("Jingmei Industrial"). Jingmei Industrial directly holds 70.00% equity interests in Xili Cemetery. Jingmei Industrial is an industrial investor in Shenzhen;
Shenzhen Grand Science:	Shenzhen Grand Science Investment Development Company Limited, in which the Company directly holds 50.00% equity interests, Shenyang Real Estate holds 25.00% equity interests and Shenyang Education holds 25.00% equity interests respectively, is an industrial investor in Shenzhen in which the Company holds 99.94% equity interests in total;
THCI:	Tsinghua Unisplendour Hi-Tech Venture Capital Inc., an investment company in which the Company directly holds 8.00% equity interests.
Note 3:	
Other assets:	The Company has the following assets with a lower investment value, which include:
Shenyang School:	Shenyang Beida Jade Bird school, in which Shenyang Education directly holds 100% equity interests and the Company indirectly holds 99.90% equity interests, is a compulsory school in Shenyang;
Shenyang Property:	Shenyang Development Property Management Company Limited, in which the Company directly holds 1.00% equity interests and Shenyang Real Estate holds 99.00% equity interests. It is a property management company in Shenyang in which the Company holds 99.86% equity interests in total.

Financial Highlights

1. RESULTS

For the period from 1st January to 31st December 2006 (the "Year"), the Group recorded revenue from principal activities of RMB18,067,000 and loss after taxation and minority interests of RMB(76,705,000), representing a decrease of approximately RMB73,154,000 and a decrease of approximately 1,152,425,000 respectively when compared with the results for 2005 (the "Previous Year"). Main reasons for the fluctuation in results are set out in the section headed "Directors' Statement" and "Management Discussion and Analysis".

2. SUMMARY OF CONSOLIDATED INCOME STATEMENT

The financial highlights of the Group for the five years ended 31st December 2006 are set out as follows:

	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	18,067	91,221	35,312	169,116	451,620
Other income	3,119	245	5,160	4,351	11,304
Total income	21,186	91,466	40,472	173,467	462,924
(Loss) profit from operations	(63,604)	(1,245,607)	(180,668)	13,569	158,560
Finance costs	(36,570)	(42,995)	(40,471)	(6,023)	(2,286)
Share of results of a jointly controlled entity	–	–	17,487	24,288	20,388
Profit (loss) on disposal of a subsidiary	–	–	2,821	–	(20,382)
Transfer of prepayment of land acquisition and gain on disposal of other current assets	19,575	–	–	–	–
(Loss) profit before taxation	(80,599)	(1,288,602)	(200,831)	31,834	156,280
Taxation	(12)	39,090	785	(14,380)	(63,087)
(Loss) profit after taxation	(80,611)	(1,249,512)	(200,046)	17,454	93,193
Minority interests	(3,906)	(20,382)	(2,487)	379	(402)
(Loss) profit attributable to shareholders	(76,705)	(1,229,130)	(197,559)	17,833	92,791
(Losses) earnings per share	RMB (0.08)	RMB (1.20)	RMB (0.19)	RMB0.02	RMB0.09

3. SUMMARY OF CONSOLIDATED BALANCE SHEET

	As at 31st December 2006	As at 31st December 2005	As at 31st December 2004	As at 31st December 2003	RMB'000 As at 31st December 2002
Property and equipment and investment properties and prepaid lease payments on land use right	567,033	643,673	931,372	547,243	10,478
Interests in a jointly controlled entity	–	–	–	103,380	100,265
Goodwill	–	–	609,372	62,638	–
Deposits paid for acquisitions of subsidiaries	–	–	–	391,100	360,994
Available-for-sale financial assets	20,000	20,000	–	–	–
Investment securities	–	–	20,000	20,000	20,000
Long-term receivables	–	–	–	58,234	–
Current assets	752,813	918,489	1,463,318	1,558,573	1,580,690
Current liabilities	926,989	1,074,881	1,070,379	660,223	(224,499)
Net current (liabilities) assets	(174,176)	(156,392)	392,939	898,350	1,356,191
	413,857	507,281	1,953,683	2,080,945	1,847,928
Capital resources:					
Share capital	1,020,400	1,020,400	1,020,400	1,020,400	1,020,400
Reserves	(666,642)	(589,937)	639,193	837,180	819,347
Minority interests	35,931	39,837	60,219	110,709	8,181
Non-current liabilities	23,168	36,981	233,871	112,656	–
	412,857	507,281	1,953,683	2,080,945	1,847,928

Directors' Statement

Dear shareholders,

Due to the macro-economic control policy, adjustment to the policies of land administration and real estate credit loan, the Group's real estate development and education investment business were affected considerably. In addition, the demand from banks and litigations further increased the challenge on the Company. Given this situation, the Group made its great effort to settle the litigations with banks, speeded up the last stage improvement of existing projects, and maximized the use of existing assets.

During the Year, the Group accelerated the claims over bank loans and assistances and litigations over the unpaid balance of construction payment, so as to provide a normal operating environment for the Group.

During the Year, the Group continued to speed up the last stage improvement of construction and completion and inspection of uncompleted projects, and has made some progress. Meanwhile, the Group discontinued the projects that failed to meet the revenue expectation, so as to improve its operation condition.

Save for the negative impact of the PRC's macro-economic control policies and the demand from banks, we must admit, the main cause of the Group's present situation was the underperformance in our operating management and internal control system. All these require improvements in the near future.

Shenyang Public Utility Holdings Company Limited

An Mu Zong

Executive directors

Shenyang, the PRC, 24th October 2008

Profiles of the Management Team

EXECUTIVE DIRECTORS:

Mr. Xu Er Hui, born in February 1966, is the chairman of the Company. Mr. Xu is also the chairman of Beijing Beida Education Investment Company Limited. Mr. Xu graduated from University of Marketing and Distribution Sciences (Japan). Mr. Xu has been an executive director of the Company since 11th October 2002, with a term expiring on 28th November 2008.

Mr. An Mu Zong, born in April 1964. Mr. An graduated from Beihang University (北京航空學院) in June 1987. He is the vice-president of the Company. Mr. An has extensive experience in the development of real estate project and corporate management. Mr. An has been an executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

Mr. Liu Chang Lin, born in May 1953. Mr. Liu graduated from Department of Chinese Language and Literature, Liaoning University (遼寧大學) in 1984. In 2002, He graduated from Northeastern University with master's degree, and obtained a master's degree in Business Administration of Honolulu University, USA in the same year. From May 1997 onwards, Mr. Liu has worked as the deputy head of the Shenyang Municipal Chamber of Commerce (瀋陽市經貿委), the deputy head of the Shenyang Municipal State-owned Assets Supervision and Administration Bureau (瀋陽市國有資產管理局), the deputy head of Shenyang Finance Bureau (瀋陽市財政局) and the deputy head of State-Owned Assets Supervision and Administration Commission (瀋陽市國資委). Mr. Liu has extensive experience in capital operations and finance management. Mr. Liu has been an executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

Mr. Wang Se, born in February 1960, is a senior economist and secretary to the board of directors of the Company. Mr. Wang graduated from Northeast Heavy Machinery Institute (中國東北重型機械學院) in the PRC in 1982 with a bachelor's degree in science and also obtained a master's degree in economics in 1992 from Liaoning University. From that date to the establishment of the Company, he served as the section head in Shenyang Construction Investment Company (瀋陽市建設投資公司). Mr. Wang has extensive experience in corporate reorganisation, assets management and investment. Mr. Wang has been an executive director of the Company since 2nd July 1999, with a term expiring on 28th November 2008.

Mr. Wang Zai Xing, born in November 1970. Mr. Wang graduated from Beijing Forestry University (北京林業大學) in June 1993 with a bachelor's degree in statistics. Since March 1999, he has been a financial director and financial manager of Beijing Beida Jade Bird Company Limited ("Beida Jade Bird"). Mr. Wang has extensive experience in corporate reorganisation, asset appraisal and auditing. Mr. Wang has been an executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

Profiles of the Management Team

NON-EXECUTIVE DIRECTORS:

Mr. Shi Jian Ming, born in September 1965. He has been appointed as the chief financial officer in Sino-French Holdings (Hong Kong) Limited since 2001. Mr. Shi Jian Ming was the senior auditor of PricewaterhouseCoopers, the chief accountant of 怡和安安全護衛有限公司 and the assistant to chief financial officer of Jardine OneSolution (HK) Limited. Mr. Shi Jian Ming graduated from the University of Hong Kong with a bachelor's degree in Social Sciences and Queensland University of Technology, Australia, with Master of Commerce. He is also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Shi has extensive experience in finance, investment management and financial business. Mr. Shi has been a non-executive director of the Company since 20th September 2005, with a term expiring on 28th November 2008.

Mr. Deng Yan Bin, born in August 1970, is an accountant. Mr. Deng graduated with a bachelor's degree in economics from Renmin University of China (中國人民大學) in March 1996, majoring in accounting. Mr. Deng works in the Company. He has extensive experience in finance management and investment management. Mr. Deng has been a non-executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

Mr. Lin Dong Hui, born in December 1967, is an economist. Mr. Lin graduated from the China Academy of Social Science (中國社會科學院) in September 1998 with a master's degree in investment management. During the period from 1995 to July 1999, he worked as deputy division head of Shenyang Construction Investment Company. During the period from 1999 to 2002, he worked as the head of the office for the board of directors of the Company. He is the head of the office for the president of the Company. Mr. Lin has been a non-executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

Mr. Wang Hui, born in May 1975. Mr. Wang graduated from Peking University (北京大學) in June 2001 with a master's degree in economics. Mr. Wang has worked in the Company since March 2002. Mr. Wang has a certain experience in corporate operation, reorganization, and mergers and acquisitions. Mr. Wang has been a non-executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

Dr. Michel P. Detay, born in June 1956. He has worked in the Suez Group since 1980. During the period from 1993 to 1996, he served as general manager for the headquarters of Lyonnaise des Eaux in western France. From 1996 to 1999 he was president and chief executive officer of Maynilad Water Services (a subsidiary of Suez Group in the Philippines). From 1999 to 2002 he was senior vice president, and managed the project development department of Ondeo Services (water services subsidiary of Suez Group). He is currently the executive vice president of Group in the Asia-Pacific Region. Dr. Detay has been a non-executive director of the Company since 11th October 2002, with a term expiring on 28th November 2008.

Profiles of the Management Team

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Choy Shu Kwan, Wilson, born in February 1955, is the managing director of the asset management department of CITIC Capital Markets Limited and the executive director of the CITIC Capital Active Partner Fund Limited. Mr. Choy graduated from the University of Western Ontario of Canada with a bachelor's degree (honours) in business administration in 1979. Mr. Choy also obtained an executive master's degree in business administration from the University of Western Ontario of Canada in 2001. From 1980 onwards, he had worked with Barclays Bank PLC of the UK, Bank of Boston of the US, Royal Bank of Canada, First Chicago Bank of the US and CITIC Ka Wah Bank. Mr. Choy has more than 20 years of extensive experience in financial business and investment management. Mr. Choy has been an independent non-executive director and a member of audit committee of the Company since 11th May 2001, with a term expiring on 28th November 2008.

Mr. Cui Yan, born in February 1965, is currently the general manager and deputy party secretary of Chang Bai Calculator Group Company. Mr. Cui graduated from Nanjing Aviation Institute in the PRC with a bachelor's degree in engineering in 1987. Since 1987, Mr. Cui had worked in Shenyang Aviation Engine Institute, Chang Bai Group Hong Kong Office, Chang Bai Group Import and Export Company, Chang Bai Calculator Company Limited and Chang Bai Calculator Group Company. Mr. Cui has extensive experience in aviation engine design and foreign economy and trade business as well as enterprise management. Mr. Cui has been an independent non-executive director and a member of audit committee of the Company since 15th November 2004, with a term expiring on 28th November 2008.

Mr. Cai Lian Jun, born in December 1950, is a senior accountant. Since 1992, Mr. Cai had worked in the Management Committee of Beijing DaXing Industrial Development Zone (北京市大興工業開發區管理委員會) and served as the party secretary, the head of management committee and general manager in Beijing DaXing Industrial Development Zone Operation General Corporation (北京市大興工業開發區經營總公司). He was the secretary of Industry Committee of Beijing Daxing District Committee (北京市大興區委工業工委書記) during the period from November 2001 to July 2004. Mr. Cai is currently on retirement. Mr. Cai has been a non-executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

SUPERVISORS:

Mr. Yang Zhi An, born in January 1963, is a professor and tutor of doctoral students. Mr. Yang graduated from Liaoning University in 1986 with a bachelor's degree in economics. In July 1991, he obtained a master's degree of public finance from Liaoning University and in 1998 he obtained a doctor's degree of economics in corporate management from Liaoning University. In August 2002, he completed the post-doctoral research work in applied economics of Dongbei University of Finance and Economics. Mr. Yang has been working as deputy faculty head of the economic faculty of Liaoning University since November 1998. He has extensive experience in teaching and research of finance, taxation and corporate management. Mr. Yang has been the supervisor of the Company since 11th October 2002, with a term expiring on 28th November 2008.

Ms. Wan Li Na, born in February 1975, is an economist. Ms. Wan graduated from Nanjing University of Science and Technology (南京理工大學) with a bachelor's degree in engineering in 1997. Ms. Wan works in the Company. She has a certain experience in the board of directors of companies listing overseas and capital operations. Ms. Wan was appointed as the supervisor of the Company on 28th November 2005, and resigned as supervisor on 3rd December 2006 due to work reallocation.

Mr. Wang Xing Ye, born in June 1977. Mr. Wang graduated from Xi'an University of Technology (西安理工大學) with a bachelor's degree in economics in 1999. Mr. Wang is currently the manager of Listing Rules Compliance in Beijing Beida Jade Bird Universal Sci-Tech Company Limited. He has a certain experience in investment and financing, asset reorganization and business reorganization. Mr. Wang has been the supervisor of the Company since 28th November 2005, with a term expiring on 28th November 2008.

											RMB'000
	2006 Turnover	% on total turnover	2005 Turnover	% on total turnover	2004 Turnover	% on total turnover	2003 Turnover	% on total turnover	2002 Turnover	% on total turnover	
Total turnover	18,067	100	91,221	100	35,312	100	169,116	100	451,620	100	
Of which:											
Property development	9,521	52.70	77,040	84.45	21,128	59.83	165,762	98.02	125,820	27.90	
Education Investment	6,370	35.26	6,472	7.09	10,658	30.18	2,500	1.48	-	-	
Cemetery development and lease	1,602	8.87	926	1.02	494	1.40	-	-	-	-	
Other operations	574	3.17	6,783	7.44	3,032	8.59	854	0.50	400	0.05	
Shenyang Water	-	-	-	-	-	-	-	-	325,400	72.05	

Management Discussion and Analysis

2. ANALYSIS OF REAL ESTATE DEVELOPMENT BUSINESS**Summary of operating results**

	2006	2005
Turnover (RMB'000)	9,521	77,040
Profit before taxation (RMB'000)	(24,477)	(301,109)

During the Period, the sales and the occupation arrangement of the phase two project of Shenyang Real Estate "Water-Flowers City" was completed in early section, with the last stage improvement of construction, completion and inspection and certificate registration are still under progress. Based on the ongoing effort of the Group, the relevant registration of the phase two project of "Water-Flowers City" was finished in September 2008 and the registration of property title certificate was started.

The project "Cosmo International Mansion" in Shenyang is the reconstruction of an incomplete project, with gross floor area of approximately 30,000 square metres. In December 2006, the Higher People's Court of Liaoning Province held an auction in which the shops in 1-5F and 95 apartments of Cosmo International Mansion were disposed of. The sale proceeds were used to settle the debt of the Company.

The "Scenic Bay" of Beijing Diye has obtained the approval for land requisition and certificate of land approval. However, it was required to sale by listing in the market due to the suspension of the "Green Belt" construction project policy of Beijing Municipal Government. Under the active negotiation of Beijing Diye, the Level 1 Development Qualification of "Scenic Bay" has been obtained.

3. ANALYSIS OF EDUCATION INVESTMENT BUSINESS

The site area of phase one of Shenyang Education Park, a project invested by Shenyang Education, was 128,600 square metres. Shenyang School was officially opened in September 2004 and ended in the fall semester of 2006. Since the number of student was much less than expectation, the Group shut down Shenyang Beida Jade Bird School at the end of 2006 to lower the operation cost. Students at school have been properly accepted by other schools in Shenyang.

Zhuhai School has paid Zhuhai Education a rental fee amounting to RMB4,000,000 during the Year. During the Year, Zhuhai School was honoured City-Level School by Education Bureau of Zhuhai. The students of Zhuhai School amounted to approximately 600 at present.

During the Period, the commencement of the project construction of Shanghai Beida Education Science Park ("Shanghai Education Park") invested by Shanghai Education was delayed as a result of the Shanghai Municipal Government's adjustment to the land use policy of substantial projects. Shanghai Education actively negotiated with Shanghai Municipal Government about the change of the land. The parties, however, did not reach an agreement on conditions such as the price of land and planning, and the change of the land did not work out.

4. ANALYSIS OF CEMETERY DEVELOPMENT BUSINESS

During the Year, Xili Cemetery realized rental income of approximately RMB1,521,000.

5. ANALYSIS OF THE GROUP'S ASSETS AND FINANCIAL POSITION

(1) Financial statistics of the Group

Items	Basis	As at 31st December 2006	As at 31st December 2005
Gearing ratio	Total liabilities/total assets x 100%	70.92%	70.27%
Current ratio	Current assets/current liabilities	0.81	0.85
Quick ratio	(Current assets – inventories – properties held for sale)/current liabilities	0.28	0.61
Earnings/net assets ratio	Net profit/net assets x 100%	(19.68%)	(261.35%)
Sales profit margin	Net profit/sales x 100%	(424.56%)	(1,347.42%)
Debt equity ratio	Total liabilities/shareholders' equity x 100%	243.82%	236.42%

(2) Overall position of the Group's assets

During the Year, there was a decrease in the total assets of the Group when compared with that of the Previous Year. The total assets of the Group decreased to approximately RMB1,339,846,000 from approximately RMB1,582,162,000, representing a decrease of approximately RMB242,316,000 or 15.32%.

Items	As at 31st December 2006	As at 31st December 2005	RMB'000 Change in amounts
Total assets	1,339,846	1,582,162	(242,316)
Of which:			
Property and equipment	159,931	160,863	(932)
Investment properties	317,786	390,930	(73,144)
Prepaid lease payment on land use right	89,316	91,880	(2,564)
Available-for-sale financial assets	20,000	20,000	–
Current assets	752,813	918,489	(165,676)

Management Discussion and Analysis

(3) Current assets of the Group

During the Year, the current assets of the Group decreased by approximately RMB165,676,000 to RMB752,813,000 as compared with RMB918,489,000 in the Previous Year, representing a decrease of approximately 18.04%.

Items	As at 31st December 2006	As at 31st December 2005	RMB'000 Change in amounts
Current assets	752,813	918,489	(165,676)
Of which:			
Properties held for sale	495,715	266,768	228,947
Inventories	469	361	108
Accounts receivables	1,192	674	518
Other receivables and prepaid expenses	190,697	299,782	(109,085)
Amount due from parent company	55,296	268,194	(212,898)
Tax prepaid	–	2,059	(2,059)
Pledged bank deposits	–	71,598	(71,598)
Bank balances and cash	9,444	9,053	391

(4) Bank borrowings of the Group

As at 31st December 2006, the Group's bank borrowings totalled RMB181,344,000 (2005: RMB351,490,000). The abovementioned borrowings bear interest at 4.70% to 7.97% per annum.

	As at 31 December 2006 (RMB'000)	As at 31 December 2005 (RMB'000)
Bank borrowings repayable in the following periods		
Overdue	49,977	29,000
Within one year	131,367	309,290
Within one to two years	–	13,200
	181,344	351,490

As at 31st December 2006, the Group's overdue bank borrowings were RMB49,977,000.

Management Discussion and Analysis

(5) Currency risks

According to the "Quotations of the Exchange Rates for Converting Renminbi to Foreign Currencies by the Head Office of Designated Banks" periodically promulgated by the State Administration of Foreign Exchange of the PRC in 2006, the exchange rates of Renminbi to US dollar and to Hong Kong dollar were stable as a whole, and the exchange rate of the Hong Kong dollar to Renminbi experienced slight fluctuations during the Year. Accordingly, the Company has no currency risk.

(6) Land reserves

During the Year, the Group has two parcels of land in its reserves with a total area of 613,000 square metres as follows:

1. Portion of land at 10th Road in Shenyang Economic and Technological Development Zone with an area of approximately 484,000 square metres already paid up, in which the Group holds 99.9% interests;
2. A parcel of land in Guan Zhuang Xin Cun, Chaoyang District, Beijing with an area of approximately 129,000 square metres already paid up, in which the Group holds 99.89% interests.

(7) Contingent liabilities

Save as disclosed in note 42 and 43 to the financial statements, as at the balance sheet date, the Group did not have any other contingent liabilities.

(8) Analysis of equity and profits

	31st December 2006	31st December 2005	RMB'000 Change in amounts
Share capital	1,020,400	1,020,400	–
Share premium	323,258	323,258	–
Statutory surplus reserve	103,582	69,054	34,528
Statutory public welfare reserve	–	34,528	(34,528)
Accumulated losses	(1,093,482)	(1,016,777)	(76,705)

6. EMPLOYEES

As at 31st December 2006, the Group had 106 employees.

During the Year, the aggregate salaries and allowances and termination compensation paid to the employees amounted to RMB7,686,200 (2005: RMB12,442,000) and RMB267,800. The Group has not established any share option scheme for any of its senior management or employees.

Report of the Directors

The board of directors of the Company is pleased to present its report together with the audited financial statements 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 leasing of cemetery through its subsidiaries.

The analysis of the Group's results by business segment for the Year is set out in note 8 to the Financial Statement on page 49 to 51.

2. SUBSIDIARIES

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 No.6 Guan Zhuang, Jianguo Road, Chaoyang 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 Zhuhai Beida Education Science Park, Qi'ao Island, 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, Xinx 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.

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% equity interests in it. During the Year, no debt securities were issued by it.

Report of the Directors

Shenzhen Grand Science, a limited liability company with registered capital of RMB100,000,000 (actual capital: RMB50,000,000), 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.

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.

As at 31st December 2006, the shareholding structure of Beida Hi-Tech 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 30.

The Group's financial position for the Year is set out in the consolidated balance sheet on page 31.

The Group's cash flow for the Year is set out in the consolidated cash flow statement on pages 35 to 36.

Analysis of the results of the Group for the Year is set out in the Management Discussion and Analysis section on pages 10 to 14.

6. INTERIM DIVIDEND

The Board resolved not to declare any interim dividend in 2006.

7. FINAL DIVIDEND

The Board resolved not to declare any final dividend in 2006. Such resolution is subject to approval at the 2006 Annual General Meeting of the Company.

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 34.

9. PROPERTIES UNDER DEVELOPMENT AND PROPERTIES HELD FOR SALE

As at 31st December 2006, 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
Properties under construction					
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%
Undeveloped portion in Xili cemetery	Liu Xian Dong, Xili, Nanshan District, Shenzhen	280/	Cemetery	Held for construction	66.50%
Properties held for sale					
Phase two project of “Water-Flowers City” in Shenyang	No. 36, Huaihe Street, Huanggu District, Shenyang	/29.6	Commercial and residential	On pre-sale	99.86%
6th-25th Floor of “Cosmo International Mansion” in Shenyang	No.1, Xiaodong Road, Dadong District, Shenyang	/14.6 /5.3	Hotel apartments	On pre-sale Held for sale	99.99%
“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. PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the Year are set out in note 16 to the Financial Statements on page 57.

Report of the Directors

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 13 to the Financial Statements on page 56.

- (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 8% from 1st June 2005 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

As at 31st December 2006, accumulated losses after appropriation available to be carried forward for distribution to shareholders in future years amounted to RMB1,093,000 (2005: RMB1,017,000).

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 04 and 05.

18. MAJOR CUSTOMERS AND SUPPLIERS

Among the operation results in the Year, the Group's sales to its five largest customers accounted for approximately 57.28% of the Group's total sales, of which sales to the largest customer accounted for approximately 22.14% of the Group's total sales for the Year. Since the sales of the Year are mainly derived from properties leasing, cemetery leasing and property management, there is no purchase for operations occurred during the Year.

Save as the connected transactions disclosed, 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 five largest customers or five largest suppliers.

19. DIRECTORS AND SUPERVISORS

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

Directors: Mr. Xu Er Hui, Mr. An Mu Zong, Mr. Liu Chang Lin, Mr. Wang Se, Mr. Wang Zai Xing, Mr. Shi Jian Ming, Mr. Deng Yan Bin, Mr. Lin Dong Hui, Mr. Wang Hui, Dr. Michel P. Detay, Mr. Cai Lian Jun, Mr. Choy Shu Kwan, Wilson, and Mr. Cui Yan. Mr. Choy Shu Kwan, Wilson, Mr. Cui Yan and Mr. Cai Lian Jun are independent non-executive directors.

Supervisors: Mr. Yang Zhi An, Ms. Wan Li Na (resigned in December 2006), Mr. Wang Xing Ye.

20. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

The Company entered into service contracts with the 3rd directors and supervisors on 28th November 2005. 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 and the supervisors who have resigned, all service contracts for the existing directors and supervisors will expire on 28th November 2008.

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.

Report of the Directors

21. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S HOLDING OF SHARES IN THE COMPANY

As at 31st December 2006, 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 ("SFO"), 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 SFO; 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.

22. 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.

23. 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 paid or payable to the directors and supervisors amounted to RMB405,000 (2005: RMB1,213,000). None of the directors received any cash bonuses on the basis of the profits of the Company or other additional benefits.

24. DIRECTORS' AND SUPERVISORS' INTERESTS IN BUSINESS CONTRACTS

During the Year or as at the end of the Year, the directors Mr. Xu Er Hui is 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.

25. CHANGE IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31st December 2006, save as the Company's directors, supervisors and chief executive, the register of holders maintained by the Company pursuant to section 336 of the SFO 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:

	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 interest in SPU. Pursuant to section 316 of the SFO, 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 interest in SPU. Pursuant to section 316 of the SFO, 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 holds 57.69% equity interest in Beida Hi-Tech. Through Beida Hi-Tech, it holds 50% equity interest in SPU. 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.
- As notified by HKSCC Nominees Limited, as at 31st December 2005, 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:
 - 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 Water Development (Liaoning) Company Limited beneficially owned 88,146,000 H shares, representing 20.97% of the issued H shares of the Company.
 - The Hongkong and Shanghai Banking Corporation Limited as nominee holds 50,955,000 H shares, representing 12.12% of the issued H shares of the Company.
 - Shenyin Wanguo Securities (H.K.) 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 which are required to be recorded in the register maintained in accordance with section 336 of the SFO.

26. MATERIAL CONTRACTS

During the Year, no material contracts had been entered into between the Group and SPU, the controlling shareholder of the Company and SPU's subsidiaries apart from the Company.

27. 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 properties of Zhuhai Education Park to Zhuhai School. During the Year, Zhuhai Education received rent amounting to RMB4,000,000 (2005: RMB4,000,000).

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.

28. PURCHASE, SALE OR REDEMPTION OF SHARES

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

29. SHARE OPTIONS

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

30. SIGNIFICANT EVENTS

(1) Suspension of Trading

On 15th December 2004, the Company applied to the Stock Exchange for suspension of trading according to the Listing Rules due to the Company's litigation with Guangdong Development Bank Dalian Branch in December 2004. As at 31st December 2006, the trading of the Company's shares has not resumed.

(2) Litigation with Liao Ning Hua Jin Hua Gong Group Company Limited

Details please refer to the section headed "Material Litigation".

(3) Litigation with Guangdong Development Bank Shenyang Branch

Details please refer to the section headed "Material Litigation".

(4) Litigation over the unpaid balance of construction payment of Shenyang Real Estate

Details please refer to the section headed "Material Litigation".

(5) Close of Shenyang Beida Jade Bird School

Since the number of student was much less than expectation, the Group shut down Shenyang Beida Jade Bird School at the end of 2006 to lower the operation cost. Students at school have been properly accepted by other schools in Shenyang.

(6) The Management Committee of Shenyang Economic and Technological Development Zone took back the land use rights of a parcel of land from Shenyang Education

On 12th October 2005, the Management Committee ("Management Committee") of Shenyang Economic and Technological Development Zone ("Development Zone") issued The Decision of Taking Back the State-Owned Land Use Rights (Shen Kai Wei Fa (2005) No.271) 《關於收回國有土地使用權的決定》(瀋開委發(2005) 271號) and proposed to cancel Contract for Assignment of the Right to the Use of State-Owned Land entered between the Economic Technology Branch Office Of The Bureau of Planning and Land Resources of Shenyang (瀋陽市規劃和國土資源局經濟技術分局) and Shenyang Education and take back the state-owned land use rights freely (excluding the area occupied by Shenyang School).

Under the active communication and negotiation between the Group and the Management Committee, the Management Committee did not carry out any further action.

31. BANK BORROWINGS

As at 31st December 2006, the total amount of the Group's bank borrowings was RMB181,344,000 (2005: RMB351,490,000). The bank borrowings were used as the Group's working capital. As at the balance sheet date of this year, the Group had an overdue bank loan of RMB50,717,000 (2005: RMB35,240,000).

32. TRUST DEPOSITS

There were no deposits managed by trustees for the Year.

33. RETIREMENT SCHEME

Details of the retirement scheme and the amount of contributions to the retirement scheme are set out in note 12 to the Financial Statements on page 55.

34. 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.

35. LOANS TO SENIOR MANAGEMENT

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

36. WORK OF THE AUDIT COMMITTEE

As at October 2008, the Audit Committee only comprises of an independent non-executive director, namely Mr. Cai Lian Jun. Mr. Cai Lian Jun has reviewed the financial statements and the connected transactions of the Company.

37. CODE OF BEST PRACTICE

Due to the suspension of trading and litigations, the Company has not complied with the Code of Best Practice as set out in the Listing Rules during the Year.

38. MATERIAL LITIGATION

(1) Liaoning Hua Jin Hua Gong Group Company Limited's claim of the assistance provided by it as a result of the Shenzhen Development Bank Dalian branch litigation

In the litigation over the loan dispute between the Company and Shenzhen Development Bank Dalian branch, Liaoning Hua Jin Hua Gong Group Company Limited ("Hua Jin") discharged the liability of guarantee and repaid the loan of RMB161,380,000 to Shenzhen Development Bank Dalian branch for the Company (details please refer to the Company's announcement dated 12th July 2005). Meanwhile, Beida Jade Bird, Building Management Company, Beijing Diye provided another guarantee to Hua Jin. On 17th May 2005, Hua Jin commenced legal action against the Company, Building Management Company, Beijing Diye and Beida Jade Bird for a total sum of RMB161,380,000 and the interest accrued.

On 12th December 2005, the Higher People's Court of Liaoning Province issued the Judgement, pursuant to which the Company, Building Management Company, Beijing Diye and Beida Jade Bird were liable to repay the sum of RMB161,380,000 it had paid for SPU together with interest thereof.

In December 2006, the Higher People's Court of Liaoning Province held an auction in which the equity interest and property assets of Beida Jade Bird and shops in 1-5F and 95 apartments of Cosmo International Mansion held by Building Management Company were disposed of.

On 16 July 2007, the Higher People's Court of Liaoning Province issued the Civil Execution Order (2006) Liao Zhi Er Zi No.53 民事裁定書(2006)遼執二字第53號, pursuant to which RMB55,000 from the Company, RMB195,000 from Beijing Diye and the sale proceeds of Beida Jade Bird's assets after those payment to preferred creditors and part of the sale proceeds of Building Management Company's real property from an auction after those payment to preferred creditors were applied to settle the arrearage of RMB161,380,000. The amount received by Hua Jin covered the claim of RMB161,380,000, the interest in the sum of RMB22,000,000 and other fees arising from litigation and execution of RMB3,388,730. (Details please refer to the Company's announcement dated 26th September 2008)

(2) Litigation with Guangdong Development Bank Shenyang Branch

On 27th December 2005, Guangdong Development Bank Shenyang branch ("Guangdong Development Bank") commenced legal action for the RMB29,000,000 loan dispute in the Intermediate People's Court of Shenyang against the Company and SPU, Hua Jin, Beida Jade Bird and Liaoning Huajin Tongda Chemicals Co. Ltd. ("Huajin Tongda"), as the guarantors of the RMB29,000,000 loan. Guangdong Development Bank then commenced legal action for the RMB171,000,000 loan dispute in the Higher People's Court of Liaoning Province against the Company and Hua Jin, SPU, Beida Jade Bird and Huajin Tongda, as the guarantors of the RMB171,000,000 loan.

On 18th February 2006, the Intermediate People's Court of Shenyang issued the Civil Judgement (2006) Shen Zhong Min (3) He Chu Zi No.34 《判決書》(2006)瀋中民三合初字第34號, pursuant to which the Company and the guarantors were liable to repay the loan and interest thereof of RMB29,000,000.

On 6th April 2006, RMB70,000,000 and RMB80,000,000 were sequestrated from the accounts of the Company and Hua Jin respectively by Guangdong Development Bank. As such, the unpaid balances of the RMB29,000,000 loan and the RMB171,000,000 loan were RMB19,000,000 and RMB30,895,700 respectively.

During the litigation, Guangdong Development Bank applied to the Higher People's Court of Liaoning to withdraw the claim for the RMB171,000,000 loan. In May 2006, the Higher People's Court of Liaoning issued the (2006) Liao Min San Chu Zi No.31, Civil Execution Order, (2006)遼民三初字第31號《民事裁定書》to approve the withdrawal of the claim from Guangdong Development Bank.

Report of the Directors

On 12th May 2006, Guangdong Development Bank commenced legal action against the Company, Hua Jin, SPU, Beida Jade Bird and Huajin Tongda for the unpaid balance of RMB30,896,000 of the RMB171,000,000 loan in Intermediate People's Court of Shenyang.

On 31st January 2007, the Intermediate People's Court of Shenyang issued the Civil Judgement (2006) Shen Zhong Min (3) He Chu Zi No.234 《判決書》(2006) 瀋中民三合初字第234號, pursuant to which the Company and the guarantors were liable to repay the unpaid balance at RMB30,896,000 and the interest thereof to Guangdong Development Bank.

In August 2007, RMB56,462,000 was sequestered from the account of Hua Jin by the Intermediate People's Court of Shenyang in settlement of the unpaid balance of RMB19,000,000 of the RMB29,000,000 loan, and RMB30,896,000 of the RMB171,000,000 loan respectively, and the interest thereof. As a result, Guangdong Development Bank has fully recovered the loans from the Company and the guarantors. (Details please refer to the Company's announcement dated 26th September, 2008)

(3) The claim of RMB80,000,000 assistance from Hua Jin in respect of Guangdong Development Bank litigation

Since RMB80,000,000 was sequestered from the account of Hua Jin in settlement of the loan of the Company due to Guangdong Development Bank (details please refer to previous section), Hua Jin then commenced legal action in the Higher People's Court of Liaoning Province against the Company, SPU and Beida Jade Bird.

The parties reached a settlement after negotiation. On 19th June 2006, the Higher People's Court of Liaoning Province issued the Civil Mediation Agreement (2006) Liao Min San Chu Zi No.43 民事調解書(2006) 遼民三初字第43號, pursuant to which the Company was liable to pay off the plaintiff Hua Jin's claim of RMB80,000,000 together with interest thereof before 25 November 2006, and each of SPU and Beida Jade Bird would assume the guarantee liabilities for one-third of the amount.

Owing to the fact that the Company did not implement the repayment within the designated period, the Railway Transport Intermediate Court of Shenyang (瀋陽鐵路運輸法院) held an auction in December 2007 in which the Company's 95% equity interest in Shenzhen Jingmei Industrial Development Company Limited was disposed of. Part of the proceeds from such auction in the sum of RMB83,540,000 was applied to settle Hua Jin's RMB80,000,000 claim together with the interest thereof, acceptance fee and enforcement fee. In March 2008, the Railway Transport Intermediate Court of Shenyang (瀋陽鐵路運輸法院) issued the Civil Execution Order (2007) Shen Tie Zhi Zi No.3-1 民事裁定書(2007) 鐵瀋執指字第3-1號 and confirmed the conclusion of Hua Jin's claim.

Report of the Directors

(4) The litigation commenced by No.6 Construction Work Company of No.4 Works Bureau of China Construction against Shenyang Real Estate for the unpaid balance of construction payment

In July 2006, No.6 Construction Work Company of No.4 Works Bureau of China Construction ("China Construction") commenced legal action against Shenyang Real Estate for the unpaid balance of construction payment. The parties reached a settlement after negotiation. The Intermediate People's Court of Shenyang issued the Civil Mediation Agreement in 14th February 2007, pursuant to which Shenyang Real Estate was liable to pay RMB2,000,000 and RMB3,865,000 to China Construction before 14th February 2007 and 10th April 2007 respectively, and Shanghai Hanhua Property Management Company Limited jointly guaranteed the payment as the guarantor.

Owing to the fact that the Shenyang Real Estate did not implement the repayment within the designated period, Shanghai Hanhua discharged the liability of guarantee and paid the unpaid balance of construction payment of approximately RMB5,865,000 to China Construction on 15th May 2007.

Since Shenyang Real Estate failed to pay the assistance to Shanghai Hanhua within the designated period, Shanghai Hanhua Property Management Company Limited then applied to the Intermediate People's Court of Shenyang for the enforcement against Shenyang Real Estate according to the Civil Mediation Agreement (2006) Liao Zhong Min (2) Fang Chu Zi No.129 民事調解書 (2006)遼中民(2)房初字第129號. In the process of execution, the parties reached a settlement and agreed to pay off all the debts with the 70% equity interest in Shenyang Education held by Shenyang Real Estate, the executed party, at a price of RMB5,866,000. The parties signed the Agreement of Settlement of Debts by Equity Interest (股權抵債協議書) on this matter. On 15th January 2008, the Intermediate People's Court of Shenyang issued the Civil (Execution) Judgement Order (2007) Shen Fa Zhi Zi No.577 民事(執行)裁定書(2007)瀋法執字第577號 and confirmed the Agreement of Settlement of Debts by Shareholding (股權抵債協議書) signed by the parties is legal and effective, and the parties may process the transfer of equity interest, and the Civil Mediation Agreement (2006) Liao Zhong Min (2) Fang Chu Zi No.129 民事調解書(2006)遼中民(2)房初字第129號 issued by the Intermediate People's Court of Shenyang ceased to be effective.

(5) The litigation commenced by Shenyang Tianbei Construction Installation Work Company against Shenyang Real Estate for the unpaid balance of construction payment

In September 2006, Shenyang Tianbei Construction Installation Work Company ("Tianbei Construction") commenced legal action in Intermediate People's Court of Shenyang against Shenyang Real Estate for the unpaid balance of construction payment. The parties reached a settlement after negotiation, the Intermediate People's Court of Shenyang issued the Civil Mediation Agreement (2006) Shen Zhong Min (2) Fang Chu Zi No.190 民事調解書(2006)瀋中民(2)房初字第190號 on 9th July 2007, pursuant to which (1) Shenyang Real Estate was liable to pay RMB4,130,000 to Tianbei Construction before 28th June 2007, Shanghai Hanhua jointly guaranteed the payment, (2) Shenyang Real Estate was liable to pay RMB12,870,000 to Tianbei Construction before 6th July 2007, Mingyude jointly guaranteed the payment.

Owing to the fact that the Shenyang Real Estate did not implement the repayment within the designated period, Shanghai Hanhua and Mingyude discharged the liabilities of guarantee and paid RMB4,130,000 and RMB12,870,000 to Tianbei Construction in July 2007 respectively. Up to August 2008, the Company has repaid the said assistance and interest thereof to Shanghai Hanhua and Mingyude.

Report of the Directors

39. AUDITORS

Ho and Ho & Company ("Ho and Ho") have resigned as auditor of the Company and its subsidiaries with effect from 25 August 2008. On 30th August 2008, the Board of the Company held a Board meeting and decided to appoint Lo & Kwong C.P.A. Co. Ltd. ("Lo & Kwong C.P.A.") as auditor of the Company and its subsidiaries with effect from 1 September 2008 to fill the casual vacancy following the resignation of Ho and Ho as auditor of the Company, and to hold office until the conclusion of the next annual general meeting of the Company. The Company will propose a resolution at the forthcoming annual general meeting to re-appoint Lo & Kwong C.P.A. as the international auditor of the Company and its subsidiaries.

The Group's accounts for the year 2005, 2006, 2007 and 2008 prepared in accordance with HKGAAP and accounting standards issued by the Hong Kong Institute of Certified Public Accountants will be audited by Lo & Kwong C.P.A.. At the forthcoming annual general meeting, a resolution will be proposed to reappoint Lo & Kwong C.P.A. as the Group's international auditors. (Details please refer to the Company's announcement dated 3rd September, 2008)

40. PUBLICATION OF INFORMATION ON THE WEB-SITE OF THE STOCK EXCHANGE

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

41. 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.

42. INDEPENDENT NON-EXECUTIVE DIRECTORS

In the extraordinary general meeting held on 28th November 2005, Mr. Choy Shu Kwan, Wilson, Mr. Cui Yan and Mr. Cai Lian Jun were elected as the independent non-executive director of the Company. Since Mr. Choy Shu Kwan, Wilson and Mr. Cui Yan have resigned in 2007, the number of independent non-executive directors is less than the minimum required by the Listing Rules.

After the trading of the Company's shares is resumed, the Board will try its best to nominate new director to meet the requirements of Listing Rules and the Articles of Association of the Company. (Details please refer to the Company's announcement dated 6th October 2008)

43. 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 24th October 2008 (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
An Mu Zong
Executive Directors

Independent Auditor's Report

TO THE SHAREHOLDERS OF

Shenyang Public Utility Holdings Company Limited

(incorporated in the People's Republic of China with limited liability)

We were engaged to audit the consolidated financial statements of Shenyang Public Utility Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on page 30 to 87 which comprise the consolidated balance sheet as at 31st December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making reasonable accounting estimates in different circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not resume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

However, because of the matters described in the paragraph described in the basis for disclaimer of opinion, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. As disclosed in note 22(b) to the consolidated financial statements, the Group's subsidiary, Beijing Diye Real Estate Development Company Limited, had a held-for-sale property under development project in Beijing with a carrying value of RMB 405,014,000 as at 31st December 2006. The land use right of the land used for such property development project must be obtained by way of public tender as a result of the change in the related land policy. If the Group ultimately succeeded in winning the tender of the land and completing the development, the recoverable amount of such project shall depend on the realisable value of the completed property in the future. If the Group did not participate in the public tender or it failed to obtain the land use right of the land in the tender, the recoverable amount of such project shall depend on the amount invested by the Group and such amount should be confirmed by the relevant authorities of the People's Republic of China ("PRC"). Based on our on-site investigation, no buildings were erected on the land nor had it been put on a public tender up to the date of this report. Due to insufficient evidence, we were not able to confirm whether the Group could successfully recover the development cost invested in such project in full, and whether impairment provision should be made in respect of the development cost of RMB405,014,000 paid.
2. As disclosed in note 16(d) and 18 to the consolidated financial statements, the Group had a building and its corresponding leasehold land with carrying value of RMB135,987,000 and RMB91,880,000 respectively as of 31st December 2006. We were unable to obtain the corresponding Real Estate Title Certificates and the land use right certificate of a portion of the land with carrying value of RMB74,599,000 to ensure the ownership of the abovementioned assets at the balance sheet date.

Independent Auditor's Report

3. As disclosed in note 43 to the consolidated financial statements, the Group had contingent liabilities in respect of the involvement in a number of litigations in the PRC. Since we were unable to carry out the necessary audit procedures to assure the completeness of the litigation claims and other liabilities should be incurred, we were unable to satisfy ourselves as to whether or not the litigations and total liabilities up to the date of this report were fairly stated.

Any adjustment to the abovementioned figures could have a consequential and significant effect on the Group's equity interests as at 31st December 2006 and its loss for the year then ended.

MATERIAL FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in the consolidated financial statements concerning the adoption of the going concern basis in preparing such consolidated financial statements. As set out in note 2 the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation of certain financing and share capital restructuring plans and the debt restructuring result reached with the creditors including, among other things, the successful recovery in full of the development cost invested in the property development project in Beijing. We consider that appropriate disclosures have been made in such consolidated financial statements concerning the relevant material uncertainty, but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme, we have disclaimed our opinion on material uncertainty relating to the going concern basis.

The consolidated financial statements of the Group do not include any adjustment that would be necessary if the Group failed to operate as a going concern. Had the going concern basis not been used, adjustments would have to be made to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY CONSOLIDATED FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph and material uncertainty relating to going concern basis paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the financial position of the Group as at 31st December 2006 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Lo and Kwong C.P.A. Company Limited

Certified Public Accountants

Lo Wah Wai

Practising Certificate Number: P02693

Hong Kong

24th October 2008

Consolidated Income Statement

For the year ended 31st December 2006

	Note	2006 RMB'000	2005 RMB'000
Turnover	7	18,067	91,221
Bank interest received		2,982	245
Other income		137	–
Transfer of prepayment of land acquisition and gain on disposal of other current assets		19,575	–
Cost of properties sold		(7,328)	(119,995)
Taxes on sales of properties		(1,126)	(4,265)
Staff costs		(7,954)	(12,442)
Depreciation and amortisation		(26,051)	(27,817)
Impairment loss on properties held for sale		–	(26,675)
Impairment loss on investment properties		–	(53,293)
Impairment loss on property and equipment		–	(114,429)
Impairment loss on goodwill		–	(609,372)
Loss on disposal of property and equipment		(595)	(100,001)
Loss on sales of investment properties		(6,978)	–
Allowance for amount due from a former customer		–	(96,656)
Allowance for bad and doubtful debt		(10,127)	(136,398)
Other operating expenses		(24,631)	(35,730)
Finance costs	9	(36,570)	(42,995)
Loss before taxation	10	(80,599)	(1,288,602)
Taxation	13	(12)	39,090
Loss for the year		(80,611)	(1,249,512)
Attributable to:			
Loss attributable to shareholders of the Company		(76,705)	(1,229,130)
Minority interests		(3,906)	(20,382)
		(80,611)	(1,249,512)
Loss per share	15		
– Basic		RMB0.08	RMB1.20
– Diluted		N/A	N/A

Consolidated Balance Sheet

As at 31st December 2006

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property and equipment	16	159,931	160,863
Investment properties	17	317,786	390,930
Prepaid lease payments on land use rights	18	89,316	91,880
Goodwill	20	–	–
Available-for-sale financial assets	21	20,000	20,000
		587,033	663,673
Current assets			
Properties held for sale	22	495,715	266,768
Inventories	23	469	361
Accounts receivable	24	1,192	674
Amount due from a former customer	25	–	–
Amount due from parent company	26	55,296	268,194
Prepaid lease payments on land use rights	18	2,564	2,564
Prepayments	27	2,518	102,561
Other receivables	28	185,615	188,937
Tax prepaid		–	2,059
Other current assets	29	–	5,720
Pledged bank deposits	30	–	71,598
Bank balances and cash	30	9,444	9,053
		752,813	918,489
Current liabilities			
Accounts payable	31	58,249	58,744
Investment cost payable	32	–	39,512
Other payables and accrued charges		540,283	350,502
Receipts in advance	33	65,356	232,048
Income tax payable		1,159	–
Deferred income		62,096	33,895
Provision for potential liabilities	34	18,502	21,890
Bank loans – repayable within one year	35	181,344	338,290
		926,989	1,074,881
Net current liabilities		(174,176)	(156,392)
		421,857	507,281

Consolidated Balance Sheet

	Note	2006 RMB'000	2005 RMB'000
Capital and reserves			
Share capital	36	1,020,400	1,020,400
Reserves	37	(666,642)	(589,937)
Equity attributable to shareholders of the Company		353,758	430,463
Minority interests		35,931	39,837
Total equity		389,689	470,300
Non-current liabilities			
Bank loans – repayable after one year	35	–	13,200
Deferred taxation	38	23,168	23,781
		23,168	36,981
		412,857	507,281

The consolidated financial statements on pages 30 to 87 were approved and authorized for issuing by the Board of Directors on 24th October 2008 and are signed on its behalf by:

Xu Er Hui
DIRECTOR

An Mu Zong
DIRECTOR

Balance Sheet

As at 31st December 2006

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property and equipment	16	653	2,605
Investment in subsidiaries	19	626,646	626,646
Available-for-sale financial assets	21	20,000	20,000
		647,299	649,251
Current assets			
Amount due from parent Company	26	59,264	330,373
Amount due from subsidiaries		833,635	487,378
Other receivables	28	69,351	156,639
Other current assets	29	1,000	1,000
Pledged bank deposits	30	–	71,053
Bank balances and cash	30	2,226	438
		965,476	1,046,881
Current liabilities			
Investment cost payable	32	39,512	39,512
Other payables and accrued charges		177,796	260,017
Amount due to subsidiaries		275,697	94,229
Bank loans – repayable within one year	35	49,975	200,000
		542,980	593,758
Net current assets		422,496	453,123
		1,069,795	1,102,374
Capital and reserves			
Share capital	36	1,020,400	1,020,400
Reserves	37	49,395	81,974
		1,069,795	1,102,374

Xu Er Hui
DIRECTOR

An Mu Zong
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December 2006

Equity attributable to shareholders of the Company

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare reserve RMB'000	Retained profits/(losses) RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1st January 2005	1,020,400	323,258	69,054	34,528	212,353	1,659,593	60,219	1,719,812
Loss for the year	–	–	–	–	(1,229,130)	(1,229,130)	(20,382)	(1,249,512)
At 31st December 2005 and 1st January 2006	1,020,400	323,258	69,054	34,528	(1,016,777)	430,463	39,837	470,300
Transfer	–	–	34,528	(34,528)	–	–	–	–
Loss for the year	–	–	–	–	(76,705)	(76,705)	(3,906)	(80,611)
At 31st December 2006	1,020,400	323,258	103,582	–	(1,093,482)	353,758	35,931	389,689

SHARE PREMIUM

Share premium comprises surplus between the value of net assets acquired and the nominal value of State shares issued as a result of the incorporation of the Company as a joint stock limited company and the share premium from the issue of H shares.

STATUTORY SURPLUS RESERVE

The Group is required to set aside 10% of their profit after taxation prepared in accordance with the PRC accounting regulations to the statutory surplus reserve until the balance reaches 50% of their respective paidup capital or registered capital, where further appropriation will be at the Directors' recommendation. Such reserve can be used to reduce any losses incurred or to increase the capital. As the Group recorded a loss for the year, no appropriation was made.

STATUTORY PUBLIC WELFARE RESERVE

The Group is required to transfer 5% to 10% of their profit after taxation prepared in accordance with the PRC accounting regulations to the statutory public welfare reserve. The use of this reserve is restricted to capital expenditure for staff collective welfare facilities which are owned by the Group. The statutory public welfare reserve is not available for distribution to the shareholders (except upon liquidation of the Company). Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare reserve to a discretionary surplus reserve. No such capital expenditure was incurred for both years. As the Group recorded a loss for the year, no appropriation was made.

The Company is not required to make appropriation since 2006 onwards according to PRC relevant financial regulations. The amount of appropriation which had been made in prior years was transferred to statutory surplus reserve.

DISTRIBUTABLE RESERVES

Pursuant to the relevant PRC regulations, distributable reserve shall be the lower of the accumulated distributable profits determined in accordance with PRC accounting standards and regulations as stated in the PRC statutory audited financial statements and the accumulated distributable profits determined in accordance with accounting principles generally accepted in Hong Kong. The Company did not have reserve available for distribution as at 31st December 2006 and 31st December 2005.

Pursuant to the relevant PRC regulations, the retained profits of school operations are non-distributable. As such, the retained profits of the Group's subsidiaries, Shenyang Beida Jade Bird School ("Jade Bird School") and Shenyang Beida Jade Bird Foreign Language Training School ("Shenyang Training School") shall not be used for dividend distribution. As at 31st December 2006, Jade Bird School and Shenyang Training School did not have any retained profits.

Consolidated Cash Flow Statement

For the year ended 31st December 2006

	Note	2006 RMB'000	2005 RMB'000
Operating activities			
Loss before taxation		(80,599)	(1,288,602)
Adjustments for:			
Transfer of prepayment of land acquisition and gain on disposal of other current asset		(19,575)	–
Bank interest received		(2,982)	(245)
Depreciation on property and equipment		9,585	13,322
Depreciation on investment properties		13,902	11,931
Amortisation of prepaid lease payments on land use rights		2,564	2,564
Impairment loss on properties held for sale		–	26,675
Impairment loss on investment properties		–	53,293
Impairment loss on property and equipment		–	114,429
Impairment loss on goodwill		–	609,372
Finance costs		36,570	42,995
Loss on disposal of property and equipment		595	100,001
Loss on sales of investment properties		6,978	–
Bad debt provision for amount due from a former customer		–	96,656
Provision for bad and doubtful debt		10,127	136,398
Operating cash flows before movements in working capital		(22,835)	(81,211)
(Increase) decrease in properties held for sale		(228,947)	28,420
(Increase) decrease in inventories		(108)	1,738
Increase in accounts receivable		(573)	(119)
Decrease in amount due from a former customer		–	400
Decrease in prepayments		100,043	5,689
(Decrease) increase in accounts payable		(495)	43,972
Decrease in bills payable		–	(31,000)
Increase in other payables and accrued charges		112,940	45,366
Decrease in provision for potential liabilities		(3,388)	–
Loss on provision for potential liabilities		–	19,660
Decrease in receipts in advance		(166,692)	(68,802)
Increase in deferred income		28,201	18,494
Cash used in operations		(181,854)	(17,393)
PRC Enterprise Income Tax refund (paid)		2,568	(15)
Net cash used in operating activities		(179,286)	(17,408)

Consolidated Cash Flow Statement

	Note	2006 RMB'000	2005 RMB'000
Investing activities			
Bank interest received		2,982	245
Decrease (increase) in other current assets		5,720	(5,100)
Advanced receipt for disposals of subsidiaries and transfer of land deposit		–	15,000
Purchase of property and equipment		(9,545)	(8,333)
Purchase of investment properties		(6,729)	–
Decrease (increase) in amount due from parent company		212,898	(268,194)
(Increase) decrease in other receivables		(6,750)	298,469
Decrease in pledged bank deposits		71,598	108,801
Proceeds from disposal of property and equipment		297	2,017
Proceeds from disposal of investment properties		58,993	–
Decrease in investment payable		(39,512)	–
Net cash generated from investing activities		289,952	142,905
Financing activities			
New bank loans raised		65,000	180,490
Repayment of bank loans borrowed		(235,146)	(537,858)
Interests payment		(16,970)	(44,520)
Increase in other payables		76,841	161,380
Net cash used in financing activities		(110,275)	(240,508)
Increase (decrease) in cash and cash equivalents		391	(115,011)
Cash and cash equivalents at the beginning of the year		9,053	124,064
Cash and cash equivalents at the end of the year, analysis of Bank balances and cash		9,444	9,053

Notes to the Consolidated Financial Statements

For the year ended 31st December 2006

1. GENERAL INFORMATION

Shenyang Public Utility Holdings Company Limited (the "Company") is a joint stock limited company incorporated in the People's Republic of China (the "PRC"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in this annual report.

The Company is an investment holding company. Its ultimate holding company is Shenyang Public Utility Group Company Limited ("SPU"), a limited company incorporated in the PRC.

These consolidated financial statements are presented in Renminbi ("RMB"). RMB is the functional currency of the Company and all of its subsidiaries.

The Company and its subsidiaries are collectively referred to as the Group.

The Group is presently engaged in the development, sale and rental of properties, investment and management of education projects and cemetery development business.

The Company's H shares are listed on The Stock Exchange of Hong Kong Limited. As requested by the Company, trading in the shares of the Company in the Stock Exchange of Hong Kong Limited was suspended since 15th December 2004 until further notice.

2. ADOPTION OF GOING CONCERN BASIS

The Group recorded loss attributable to shareholders of the Company of RMB76,705,000 for the year and had overdue bank loans totaling RMB50,717,000 as at 31st December 2006. In addition, some creditors have filed a claim to the court demanding the Group for repayment of amounts due to them. All these legal claims against the Group have been properly provided for and disclosed in note 35 and 43.

The management of the Company has taken the following measures:

- (i) Carry out debt restructuring with its creditors. Up to the date of approval of these consolidated financial statements, the Group has reached agreements with its creditors in respect of debt restructuring and the court litigations have been discharged. Therefore, these consolidated financial statements have been prepared on the assumption that the Group will continue to operate as a going concern;
- (ii) The management of the Company is considering to strengthen the capital base of the Company and provide immediate cash flow through various financing activities and capital restructuring, including, but not limited to, private placement of the Company's shares;
- (iii) The management of the Company continues to take action to strengthen cost control in respect of various administrative and other operating expenses, and is actively seeking new investment and business opportunities to pursue profitable businesses that would bring positive cash flow.

The management of the Company believes that, in the light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, notwithstanding that the Group had recorded a significant amount of loss for the year and had overdue debts as at 31st December 2006, the management of the Company is of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Notes to the Consolidated Financial Statements

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORT STANDARD

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as “new HKFRSs”) that are effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The application of those new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustments are required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective as at 31st December 2006. The directors of the Company anticipate the application of these new standards, amendments or interpretations will have no material impact on the Group’s results and financial position.

HKAS 1 (Amendment)	Capital disclosure ¹
HKAS 1 (Revised)	Presentation of financial statements ²
HKAS 23 (Revised)	Borrowing costs ²
HKAS 27 (Revised)	Consolidated and separate financial statements ³
HKAS 32 & 1 (Amendment)	Puttable financial instruments and obligations arising on liquidation ²
HKFRS 2 (Amendment)	Share-based Payment – vesting conditions and cancellations ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 7	Financial instruments – Disclosures ¹
HKFRS 8	Operating segments ²
HK(IFRIC)-Int 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁴
HK(IFRIC)-Int 8	Scope of HKFRS 2 ⁵
HK(IFRIC)-Int 9	Reassessments of embedded derivatives ⁶
HK(IFRIC)-Int 10	Interim financial reporting and impairment ⁷
HK(IFRIC)-Int 11	HKFRS 2 – Group and treasury share transactions ⁸
HK(IFRIC)-Int 12	Service concession arrangements ⁹
HK(IFRIC)-Int 13	Customer loyalty programmes ¹⁰
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁹

¹ Effective for annual periods beginning on or after 1st January 2007.

² Effective for annual periods beginning on or after 1st January 2009.

³ Effective for annual periods beginning on or after 1st July 2009.

⁴ Effective for annual periods beginning on or after 1st March 2006.

⁵ Effective for annual periods beginning on or after 1st May 2006.

⁶ Effective for annual periods beginning on or after 1st June 2006.

⁷ Effective for annual periods beginning on or after 1st November 2006.

⁸ Effective for annual periods beginning on or after 1st March 2007.

⁹ Effective for annual periods beginning on or after 1st January 2008.

¹⁰ Effective for annual periods beginning on or after 1st July 2008.

Notes to the Consolidated Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The principal accounting policies adopted are as follows:

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustment will be made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Goodwill

Goodwill arising on an acquisition of a subsidiary, with an agreement dated on or after 1st January 2005, represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

With respect to goodwill previously capitalized, the Group has discontinued amortizing such goodwill from 1st January 2005 onwards. A cash-generating unit to which goodwill is tested for impairment annually, and whenever there is an indication that the unit may be impaired (see the accounting policies below).

Goodwill arising on an acquisition of a subsidiary, with an agreement dated before 1st January 2005, represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalized goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Notes to the Consolidated Financial Statements

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business. The bases are as follows:

Sales of properties are recognized on execution of legally binding, unconditional and irrevocable sale contracts.

Sales of other goods are recognized when goods are delivered and title has passed.

Rental income for leasing of tomb sets and niches for cremation urns is received when the legally binding contract is signed with the lessees. Rental income is recognized in the consolidated income statement on a straight-line basis over the relevant lease terms. The unrecognized portion is classified as deferred income in the consolidated balance sheet.

Rental income under operating leases is recognized in the consolidated income statement in equal installments over the accounting periods covered by the lease terms. Lease incentives granted are recognized in the consolidated income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the consolidated income statement in the accounting period in which they are earned.

Income from provision of property management services is recognized when the services are rendered.

Tuition fee is recognized over the tuition period in the consolidated income statement on a straight-line basis.

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property and Equipment

Property and equipment including buildings held for use in the production or supply of goods and services or for administrative purposes, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of properties and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An item of properties and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

Construction in progress represents property and equipment under development or installment is stated at cost less any identified impairment losses. Upon completion of construction, the relevant costs are transferred to appropriate category of property and equipment when they are ready for use.

No depreciation or amortization is provided on construction in progress until the asset is completed and put into use.

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Investment Properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on investment properties over their estimated useful lives and residual value, using the straight-line method at the rate of 2-10% per annum.

An item of investment properties is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

Land Use Rights

Land use rights are stated at cost less accumulated amortization and accumulated impairment losses. The cost of land use rights is amortized on a straight-line basis over the period of the land use rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter.

Properties under Development for Sale

Properties under development for sale are stated at cost less any identified impairment loss. Cost comprises the land cost with development expenditure, which includes construction costs, capitalized interest and direct costs attributable to the development of the properties.

Completed Properties Held for Sale

Completed properties held for sale are classified under current assets and stated at the lower of cost and net realizable value. Cost comprises land cost, direct purchase cost or expenditure incurred for the construction and, where applicable, other incidental expenses that has been incurred in bringing the properties to their present location and condition, is calculated using the weighted average method. Net realizable value represents the actual or estimated selling price in the ordinary course of business less all related selling and marketing costs.

Inventories

Inventories comprise consumable supplies and spare parts held for consumption and usage and are stated at the lower of cost and net realizable value.

Consumable supplies and spare parts are charged to the income statement upon consumption and usage.

Financial Instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial Assets

The Group's financial assets are classified into one of the following four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

Financial Assets *(Continued)*

Financial Assets at fair value through profit or loss

There are two categories of financial assets at fair value through profit or loss, including the financial assets held for trading and financial assets designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including account receivable, amount due from a former customer, amount due from parent company, other receivables, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are investments in unlisted equity securities which are intended to be held for a continuing strategic or long term purpose and are stated at fair value, except for those equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any accumulated identified losses.

In respect of available-for-sale financial assets carried at fair value, the gains or losses arising from changes in the fair value of an investment are dealt with as movements in the investment revaluation reserve, until the investment is sold, collected, or otherwise disposed of, or until the investment is determined to be impaired. Under this circumstance, when the cumulative gain or loss derived from the investment recognised in the investment revaluation reserve, together with the amount of any further impairment, is charged to the consolidated income statement in the year in which the impairment arises.

In respect of available-for-sale financial assets carried at cost less any accumulated impairment losses, when there is objective evidence that an impairment loss has been incurred on an investment, the carrying amount of the investment should be reduced to the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset and the amount of the impairment is charged to the consolidated income statement in the year in which it arises. Any impairment losses recognised shall not be reversed in the subsequent periods.

Financial liabilities and equity

Financial liabilities and equity investment instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity investment instrument.

An equity investment instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

Other financial liabilities including accounts payable, bills payable, investment cost payable, other payables, receipts in advance, estimated liabilities and bank loans are subsequently measured at amortised cost, using the effective interest rate method.

Equity investments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at FVTPL is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets", and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in consolidated income statement.

Financial liabilities are derecognised from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated income statement.

Impairment (other than goodwill (see the accounting policies in respect to goodwill above))

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

When reverses an impairment loss, the carrying amount of the asset can be increased to its revised recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under other standard, in which case the reversal of the impairment loss is treated as a revaluation increase.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising in the settlement of monetary items, and in the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising in a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising in the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising in the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because the former excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

4. **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes, state-managed retirement benefit schemes and mandatory provident fund are charged from profit or loss as an expense as they fall due.

Provision

Provision are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

5. **CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation of property and equipment

Property and equipment are depreciated on a straightline basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual value involve management's estimation. The Group assesses annually the residual value and useful life of the property and equipment and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period. The Group intends to derive future economic benefits from the use of it.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

Impairment of held-for-sale properties

Impairment loss of held-for-sale properties is recognised for the amounts by which the carrying amounts exceeds its realisable value, in accordance with the Group's accounting policy. The realisable value are determined based primarily on the latest invoice prices and current market conditions.

Allowances for bad and doubtful debts

The Group performs ongoing credit revaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include accounts receivable, amount due from a former customer, amount due from parent company, other receivables, pledged bank deposits, bank balances, accounts payable, bills payable, investment cost payables, other payables, receipts in advance, estimated liabilities and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain deposits of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's exposure to risk for changes in interest rate relates primarily to the interest bearing bank loans. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2006 in relation to each class of recognised financial assets is the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual accounts receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

The Group records a loss attributable to the shareholders of the Company of RMB76,705,000, and as at 31st December 2006, there are RMB49,977,000 of bank loans overdue and not yet settled. In addition, some of the creditors have filed claims to the Court for the Group's settlement on the outstanding amounts, all of these legal claims against the Group are duly provided and disclosed in note 35 and 43.

The company's management has carefully considered the policies adopted in respect to the Group's liquidity. As mentioned in note 2, the management believes the Group is able to discharge financial obligations in the future.

7. TURNOVER

Turnover represents the amounts received and receivable for development, sale, rental and management of properties less sale returns and discounts; revenue from education projects and cemetery development businesses for the year, and is analysed as follows:

	THE GROUP	
	2006 RMB'000	2005 RMB'000
Development, sale, rental and management of properties	9,521	77,040
Education projects	6,370	6,472
Cemetery development (note)	1,602	926
Others	574	6,783
	18,067	91,221

Note: The subsidiary of the Group, Shenzhen Xili Baoen Fu Di Cemetery Company Limited ("Xili Cemetery") operates cemetery business in Shenzhen of Guangdong Province, the PRC. The land on which the business is situated is a leasehold land with a medium lease terms expiry until 10th May 2048. Xili Cemetery develops tomb sets and niches for cremation urns on the land and conveys to the lessees for the period as same as the lease terms of the land. The rental income is wholly received from the lessee when the legally binding contract is signed. Such rental income is recognised on a straight-line basis in the income statement over the relevant lease terms. The rental income received but not yet recognised to consolidated balance sheet is classified as deferred income in the balance sheet.

Notes to the Consolidated Financial Statements

8. SEGMENT INFORMATION**Business Segments**

For management purposes, the Group is currently organised into three (2005: three) operating divisions: property development, education projects and cemetery development. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property development	–	development, sale, rental and management of properties
Education projects	–	leasing of campus and equipment, investment and management of education projects
Cemetery development	–	development and lease of tomb sets and niches for cremation urns

There was no significant business and other transactions between the segments for both years.

Segment information about these businesses is presented below:

(a) For the year ended 31st December 2006/as at 31st December 2006:

	Property development RMB'000	Education projects RMB'000	Cemetery development RMB'000	Other business RMB'000	Total RMB'000
Consolidated Income Statement					
Turnover	9,521	6,370	1,602	574	18,067
Segment results	(24,477)	(19,666)	(14,298)	(172)	(58,613)
Interest income					2,982
Unallocated corporate profit					11,602
Finance costs					(36,570)
Loss before taxation					(80,599)
Taxation					(12)
Loss for the year					(80,611)
Consolidated Balance Sheet					
Segment assets	649,992	422,793	81,462	193	1,154,440
Amount due from parent company					55,296
Unallocated corporate assets					130,110
Total assets					1,339,846
Segment liabilities	178,593	120,509	109,921	2,990	412,013
Unallocated corporate liabilities					538,144
Total liabilities					950,157

8. SEGMENT INFORMATION (Continued)**Business Segments** (Continued)**(a) For the year ended 31st December 2006 / as at 31st December 2006:** (Continued)

	Property development RMB'000	Education projects RMB'000	Cemetery development RMB'000	Other business RMB'000	Total RMB'000
Other Information					
Additions to properties and equipment, and investment properties					
– segment	1	16,089	184	–	16,274
– corporate					–
Depreciation and amortisation					
– segment	2,316	20,323	2,046	11	24,696
– corporate					1,355
Loss on disposal of properties and equipment, and investment properties					
– segment	5,442	1,653	45	–	7,140
– corporate					433
Allowances for bad and doubtful debts					
– segment	10,064	–	–	–	10,064
– corporate					63

(b) For the year ended 31st December 2005/as at 31st December 2005:

	Property development RMB'000	Education projects RMB'000	Cemetery development RMB'000	Other business RMB'000	Total RMB'000
Consolidated Income Statement					
Turnover	77,040	6,472	926	6,783	91,221
Segment results	(301,109)	(307,451)	(35,047)	(5,190)	(648,797)
Interest income					245
Unallocated corporate expenses					(597,055)
Finance costs					(42,995)
Loss before taxation					(1,288,602)
Taxation					39,090
Loss for the year					(1,249,512)
Consolidated Balance Sheet					
Segment assets	586,538	423,703	82,912	3,349	1,096,502
Amount due from parent company					268,194
Unallocated corporate assets					217,466
Total assets					1,582,162
Segment liabilities	223,785	96,403	75,416	2,630	398,234
Unallocated corporate liabilities					713,628
Total liabilities					1,111,862

8. SEGMENT INFORMATION *(Continued)***Business Segments** *(Continued)***(b) For the year ended 31st December 2005/as at 31st December 2005:** *(Continued)*

	Property development RMB'000	Education projects RMB'000	Cemetery development RMB'000	Other business RMB'000	Total RMB'000
Other Information					
Additions to properties and equipment, and investment properties					
– segment	48	8,924	630	3	9,602
– corporate					256
Depreciation and amortization					
– segment	2,247	19,873	3,149	11	25,280
– corporate					2,537
(Profit) Loss on disposal of properties and equipment, and investment properties					
– segment	(107)	100,074	–	–	99,967
– corporate					34
Impairment loss					
– segment	–	–	114,429	–	114,429
– corporate					–
Allowances for bad and doubtful debts					
– segment	110,968	12,888	124	13,556	137,536
– corporate					95,518

For the year ended 31st December 2006 and 2005, all of the Group's businesses were taken place in the PRC. All of the Group's turnover and operating results were originated in the PRC. In addition, all of the Group's assets were located in the PRC, accordingly no geographical segment information is presented.

9. FINANCE COSTS

	THE GROUP	
	2006 RMB'000	2005 RMB'000
Interest on bank borrowings wholly repayable within five years	36,570	44,520
Less: amount capitalized in construction in progress	–	(1,525)
	36,570	42,995

The Group did not applied any capitalisation rate on bank loans borrowed and used for the construction in progress for education projects (2005: 6.138%).

10. LOSS BEFORE TAXATION

	THE GROUP	
	2006	2005
	RMB'000	RMB'000
Loss before taxation is arrived at after charging:		
Directors', Supervisors' and Senior Managements' remuneration (note 11)	405	1,213
Staff salaries, allowances and bonuses	6,351	9,269
Contributions to retirement and other benefits schemes	1,198	1,960
	7,954	12,442
Inventory cost recognised as expense	256	5,899
Auditor's remuneration	1,100	1,260
Depreciation of property and equipment	9,585	13,322
Depreciation of investment properties	13,902	11,931
Amortisation for prepaid lease payment for land use right	2,564	2,564
Minimum lease payments made in respect of rented premises	–	670

11. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENTS' REMUNERATION**(a) Directors' and Supervisors' Remuneration**

The remuneration paid or payable to directors and supervisors were as follows:

	THE GROUP	
	2006	2005
	RMB'000	RMB'000
Fees:		
Executive Directors	150	178
Non-executive Directors	150	89
Independent non-executive Directors	60	90
Supervisors	45	61
	405	418
Other remunerations:		
Salary allowances and benefits in kind	–	795
Contributions to retirement benefits schemes	–	–
	–	795
	405	1,213

11. DIRECTORS', SUPERVISORS' AND SENIOR MANAGERMENTS' REMUNERATION

(Continued)

(a) Directors' and Supervisors' Remuneration (Continued)

The remuneration of each of the Directors and supervisors were disclosed as below:

For the year ended 31st December 2006

Name	Fees RMB'000	Other remunerations		Total remuneration RMB'000	Note
		Salary allowances and benefits in kind RMB'000	Contributions to retirement benefits schemes RMB'000		
Executive Directors:					
Xu Er Hui	30	–	–	30	Resigned on 5th May 2007
Wang Se	30	–	–	30	Resigned on 5th May 2007
An Mu Zong	30	–	–	30	
Liu Chang Lin	30	–	–	30	Resigned on 1st March 2007
Wang Zai Xing	30	–	–	30	
	150	–	–	150	
Non-executive Directors:					
Dr. Michel P. Detay	30	–	–	30	Resigned on 22nd January 2007
Deng Yan Bin	30	–	–	30	
Lin Dong Hui	30	–	–	30	
Wang Hui	30	–	–	30	
Shi Jian Ming	30	–	–	30	Passed away in January 2007
	150	–	–	150	
Independent Non-executive Director:					
Choy Shu Kwan	30	–	–	30	Resigned on 8th June 2007
Cui Yan	–	–	–	–	Resigned on 1st February 2007
Cai Lian Jun	30	–	–	30	
	60	–	–	60	
Supervisors:					
Yang Zhi An	15	–	–	15	Resigned on 6th March 2007
Wang Xing Ye	15	–	–	15	
Wan Li Na	15	–	–	15	Resigned on 3rd December 2006
	45	–	–	45	
Total in 2006	405	–	–	405	

11. DIRECTORS', SUPERVISORS' AND SENIOR MANAGERMENTS' REMUNERATION*(Continued)***(a) Directors' and Supervisors' Remuneration** *(Continued)***For the year ended 31st December 2005**

Name	Fees RMB'000	Other remunerations		Total remuneration RMB'000	Note
		Salary allowances and benefits in kind RMB'000	Contributions to retirement benefits schemes RMB'000		
Executive Directors:					
Xu Er Hui	30	–	–	30	Resigned on 5th May 2007
Wang Se	30	190	–	220	Resigned on 5th May 2007
An Mu Zong	2	–	–	2	
Liu Chang Lin	2	–	–	2	Resigned on 1st March 2007
Wang Zai Xing	2	–	–	2	
Zhang Jian Bo	28	33	–	61	Retired on 28th November 2005
Zhang Ying Jian	28	184	–	212	Retired on 28th November 2005
Geng Jian Wei	28	124	–	152	Retired on 28th November 2005
Chen Shu Xin	28	–	–	28	Retired on 28th November 2005
	178	531	–	709	
Non-executive Directors:					
Dr. Michel P. Detay	30	–	–	30	Resigned on 22nd January 2007
Deng Yan Bin	2	–	–	2	
Lin Dong Hui	2	–	–	2	
Wang Hui	2	67	–	69	
Chan Kam Ling	10	–	–	10	Retired on 28th November 2005
Lin Wen Bin	5	–	–	5	Retired on 28th November 2005
Zhang Wan Zhong	28	–	–	28	Retired on 28th November 2005
Shek Kim Ming	10	–	–	10	Passed away in January 2007
	89	67	–	136	
Independent Non-executive Director:					
Choy Shu Kwan	30	–	–	30	Resigned on 8th June 2007
Cheng Wei	30	–	–	30	Resigned on 1st February 2007
Cai Lian Jun	2	–	–	2	
Cui Yan	28	–	–	28	
	90	–	–	90	

11. DIRECTORS', SUPERVISORS' AND SENIOR MANAGERMENTS' REMUNERATION

(Continued)

(a) Directors' and Supervisors' Remuneration (Continued) For the year ended 31st December 2005 (Continued)

Name	Fees RMB'000	Other remunerations		Total remuneration RMB'000	Note
		Salary allowances and benefits in kind RMB'000	Contributions to retirement benefits schemes RMB'000		
Supervisors:					
Yang Zhi An	15	–	–	15	Resigned on 6th March 2007
Wang Xing Ye	1	–	–	1	
Wan Li Na	1	42	–	43	Resigned on 3rd December 2006
Wang Hong Yu	2	–	–	2	Retired on 28th November 2005
Lin Dong Hui	14	62	–	76	Retired on 28th November 2005
Li Shu Lian	14	47	–	61	Retired on 28th November 2005
Zhao Xue Zhi	14	46	–	60	Retired on 28th November 2005
	61	197	–	258	
Total in 2005	418	795	–	1,213	

No directors and supervisors waived or agreed to waive any remunerations for the years ended 31st December 2006 and 31st December 2005. No remuneration has been paid by the Group to the directors or supervisors as an inducement to join the Group or as compensation for loss of office.

(b) Senior Managements' Remuneration

For the year ended 31st December 2006, the senior management of the Group did not receive any remuneration. For the year ended 31st December 2005, all of the five highest paid individuals of the Group were directors and their remuneration had been include in above. The emoluments of each of the directors and supervisors who received emoluments were below RMB1,040,000 (equivalent to HK\$1,000,000).

12. RETIREMENT BENEFITS SCHEMES

The employees of the Group are members of state-managed retirement benefits schemes operated by the PRC Government. The Group is required to contribute at a certain percentage on the total compensation paid to the Group's employees for the year to fund the retirement benefits. The rate of contributions for the current year is 25.5% (2005: 25.5%). The only obligation of the Group with respect to the retirement benefits schemes is to make such specified contributions.

13. TAXATION

	THE GROUP	
	2006	2005
	RMB'000	RMB'000
The taxation comprises of:		
The Company and subsidiaries		
– PRC enterprise income tax	(625)	–
– Deferred taxation (Note 36)	613	39,090
	(12)	39,090

No provision for Hong Kong profits tax has been made as the Group's income neither arises in, nor is derived from Hong Kong for each of the two years ended 31st December 2006 and 2005.

The taxation rates applicable to the Group in the PRC is 15% – 33% (2005: 15% – 33%).

During the 5th Session of the 10th National People's Congress, which was concluded on 16th March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and has become effective on 1st January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The income tax rate adopted by the Company and its subsidiaries has been changed from 15%–33% to 15%–25% with effect from 1st January 2008.

The taxation for the year can be reconciled to the loss per the consolidated income statement as follows:

	2006	2005
	RMB'000	RMB'000
Loss before taxation	(80,599)	(1,288,602)
Income tax at the applicable tax rates	(24,873)	(413,485)
Tax effect of expenses not deductible for tax purpose	17,357	205,097
Tax effect of unrecognized tax losses	7,528	169,298
Tax expense (credit) for the year	12	(39,090)

14. DIVIDENDS

No dividend was paid or proposed during the year ended 31st December 2006, nor has any dividend been proposed since the balance sheet date (2005: Nil).

15. LOSS PER SHARE

The calculation of loss per share for the year is based on the loss attributable to shareholders of the Company for the year of RMB76,705,000 (2005: RMB1,229,130,000) and the number of 1,020,400,000 shares (2005: 1,020,400,000 shares) in issue during the year.

No diluted loss per share are presented as the Company has no dilutive potential shares outstanding in both years.

16. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvement	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
THE GROUP						
Cost						
At 1st January 2005	51,181	5,962	21,837	8,603	306,035	393,618
Transfer from construction in progress	207,669	–	–	–	(207,669)	–
Additions	6,840	–	314	49	2,655	9,858
Disposal/write-off	–	–	(3)	(3,278)	(100,025)	(103,306)
At 31st December 2005 and 1st January 2006	265,690	5,962	22,148	5,374	996	300,170
Transferred from construction in progress	36	–	–	–	(36)	–
Additions	–	–	196	136	9,213	9,545
Disposals/write-off	–	(5,962)	(1,765)	(932)	–	(8,659)
At 31st December 2006	265,726	–	20,579	4,578	10,173	301,056
Accumulated depreciation						
At 1st January 2005	1,192	3,378	5,960	2,314	–	12,844
Provided for the year	6,999	1,192	3,878	1,253	–	13,322
Eliminated on disposals/write off	–	–	(2)	(1,286)	–	(1,288)
At 31st December 2005 and 1st January 2006	8,191	4,570	9,836	2,281	–	24,878
Provided for the year	7,106	1,192	652	635	–	9,585
Eliminated on disposals/write off	–	(5,762)	(1,544)	(461)	–	(7,767)
At 31st December 2006	15,297	–	8,944	2,455	–	26,696
Impairment losses						
At 1st January 2005	–	–	–	–	–	–
Provided for the year	114,429	–	–	–	–	114,429
At 31st December 2005, 1st January 2006 and 31st December 2006	114,429	–	–	–	–	114,429
Net book value						
At 31st December 2006	136,000	–	11,635	2,123	10,173	159,931
At 31st December 2005	143,070	1,392	12,312	3,093	996	160,863

Notes to the Consolidated Financial Statements

16. PROPERTY AND EQUIPMENT (Continued)

	Leasehold improvement RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
THE COMPANY				
Cost				
At 1st January 2005	5,962	1,703	3,008	10,673
Additions	–	256	–	256
Disposal	–	–	(1,638)	(1,638)
At 31st December 2005 and 1st January 2006	5,962	1,959	1,370	9,291
Additions	–	–	–	–
Disposals/write-off	(5,962)	(687)	(1,370)	(8,019)
At 31st December 2006	–	1,272	–	1,272
Accumulated depreciation				
At 1st January 2005	3,378	957	1,183	5,518
Provided for the year	1,192	490	156	1,838
Eliminated on disposals	–	–	(670)	(670)
At 31st December 2005 and 1st January 2006	4,570	1,447	669	6,686
Provided for the year	1,191	93	88	1,372
Eliminated on disposals/write off	(5,761)	(921)	(757)	(7,439)
At 31st December 2006	–	(619)	–	(619)
Net book value				
At 31st December 2006	–	653	–	653
At 31st December 2005	1,392	512	701	2,605

- (a) The depreciation of the property and equipment is provided for based on the estimated useful lives and residual value, using the straight-line method and the following annual discount rates:

Buildings	2–10%
Leasehold improvement	20%
Furniture, fixture and office equipment	8–16%
Motor Vehicles	8–16%

- (b) As at the balance sheet date, all of the Group's buildings were located in the PRC. The land on which the Group's buildings were erected had been granted lease periods ranging from 25 to 50 years.
- (c) Included in construction in progress of the Group was a piece of land located in Shanghai, for education project purpose. The land was acquired by the Group at its existing appraisal value through the acquisition of a subsidiary in 2003. At the time of acquisition, the Group had obtained the construction land planning permit which was issued by Shanghai Planning Bureau of Qingpu District and began to plan the education project. The Group was informed that the land was recovered by the PRC Government in 2005 due to failure to develop the land in the term. Accordingly, the land (the net book value was RMB 97,396,000) was derecognised in 2005.
- (d) As at 31st December 2006, the Group failed to obtain the Real Estate Title Certificates of the building, and the book value was approximately RMB135,987,000 (2005: RMB143,057,000). The management does not believe the value of the buildings will be impaired for being lack of the Real Estate Title Certificates.

17. INVESTMENT PROPERTIES**THE GROUP**

RMB'000

Cost

At 31st December 2005 and 1st January 2006	466,994
Additions	6,729
Disposal	(77,684)
At 31st December 2006	396,039

Accumulated depreciation

At 1st January 2005	10,840
Provided for the year	11,931
At 31st December 2005 and 1st January 2006	22,771
Provided for the year	13,902
Eliminated on disposal	(6,106)
At 31st December 2006	30,567

Impairment losses

At 1st January 2005	—
Provided for the year	53,293
At 31st December 2005 and 1st January 2006	53,293
Eliminated on disposal	(5,607)
At 31st December 2006	47,686

Net book value

At 31st December 2006	317,786
At 31st December 2005	390,930

Investment properties represent land and buildings located in the PRC under medium terms and held for leasing.

Notes to the Consolidated Financial Statements

17. INVESTMENT PROPERTIES *(Continued)*

At the balance sheet date, investment properties classified by their nature were as follows:

	THE GROUP	
	2006	2005
	RMB'000	RMB'000
Properties	–	66,272
Campus	264,341	270,004
Cemetery (note 17(a))	53,445	54,654
	317,786	390,930

The investment properties were valued by an independent professional valuer, Dudley Surveyors Limited, on 31st December 2006 based on open market basis. Their fair value was RMB483,000,000.

- (a) The investment property represents the land and building which was using for cemetery business carried out by the Group's subsidiary, Xili Cemetery. The land was acquired and paid by the Group's another subsidiary, Shenzhen Jingmei Industrial Development Company Limited ("Jingmei Industrial"). The land cost was reimbursed by Xili Cemetery to Jingmei Industrial sequentially.

As at 31st December 2006, the Court sequestered the book value of the investment property amounting to RMB 53,445,000 (2005: RMB 54,654,000).

The investment property was transferred upon the disposal of Shenzhen Jingmei in 2007 (Note 43(g)(ii)).

18. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	THE GROUP	
	2006	2005
	RMB'000	RMB'000
Prepaid lease payments on land use rights of leasehold land in the PRC held under medium terms	91,880	94,444
Analysed for reporting purposes as:		
Non-current assets	89,316	91,880
Current assets	2,564	2,564
	91,880	94,444

Above amount was the prepaid lease payment for a piece of land located in Shenyang PRC used for education project purpose. In respect of a portion of the land with book value of RMB74,599,000 (2005: RMB76,624,000), the land use right certificate hasn't been obtained as at the balance sheet date.

Notes to the Consolidated Financial Statements

19. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2006	2005
	RMB'000	RMB'000
Unlisted investment, at cost less accumulated impairment losses	626,646	626,646

Particulars of the Company's subsidiaries, as at 31st December 2006 are as follows:

Name of subsidiary	Paid-up registered capital RMB'000	Percentage of effective equity interests held by the Company		Principal activities
		Directly	Indirectly	
瀋陽發展房產開發有限公司 Shenyang Development Real Estate Company Limited	250,000	99.86%	–	Development and sale of properties
瀋陽江勝金融大廈管理有限公司 Shenyang Pollon Finance Building Management Company Limited ("Building Management Company")	50,000	92.5%	7.5%	Development and sale of properties
北京地業房地產開發有限公司 Beijing Diye Real Estate Development Company Limited ("Beijing Diye")	30,000	–	100%	Development and sale of properties
瀋陽發展物業管理有限公司 Shenyang Development Property Management Company Limited	500	1%	99%	Provision of property management services
瀋陽發展北大教育科學園有限公司 Shenyang Development Beida Education Science Park Company Limited	50,000	30%	70%	Development and sale of properties, investment and management of education projects
上海北大青鳥教育投資有限公司 Shanghai Beida Jade Bird Education Investment Company Limited	100,000	80%	20%	Investment and management of education projects
珠海北大教育科學園有限公司 Zhuhai Beida Education Science Park Company Limited	20,000	70%	–	Investment and management of education projects
瀋陽北大青鳥學校 Shenyang Beida Jade Bird School ("Shenyang School")	–	–	100%	Operation of school

Notes to the Consolidated Financial Statements

19. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Paid-up registered capital RMB'000	Percentage of effective equity interests held by the Company		Principal activities
		Directly	Indirectly	
瀋陽北大青鳥外國語培訓學校 Shenyang Beida Jade Bird Foreign Language Training School ("Shenyang Training School")	30	–	100%	Operation of school
瀋陽北大青鳥商用信息 系統有限公司 Shenyang Beida Jade Bird Business Information System Company Limited	10,000	–	90%	Development of business information system and provision of consultation services
景梅實業 Jingmei Industrial	10,000	95%	–	Investment holding and management of cemetery business
西麗墓園 Xili Cemetery business	5,000	–	70%	Operation of cemetery
深圳市盛景投資發展有限公司 (Shenzhen Grand Scene Investment Development Company Limited) ("Shenzhen Grand Scene")	50,000	50%	50%	Not yet commence business

19(a) Apart from Shenyang School and Shenyang Training School which are unincorporated entities in the PRC, all the Group's subsidiaries are companies with limited liabilities established in the PRC. All the subsidiaries are operating in the PRC.

19(b) In May 2004, the Group established Shenyang School.

19(c) In June 2004, the Group invested RMB30,000 to establish Shenyang Training School.

19(d) In 2003, the Company entered into an agreement to acquire 95% equity interests in Jingmei Industrial and its subsidiary, Xili Cemetery at a consideration of RMB570,000,000. With effect from 1st January 2004, the Company obtained the control over Jingmei Industrial and Xili Cemetery and they became the subsidiaries of the Group.

19(e) In May 2004, the Group invested RMB50,000,000 to establish Shenzhen Grand Scene.

19(f) During the year, one of the Group's subsidiary, 瀋陽發展旅遊開發有限公司 Shenyang Development Tourism Industrial Company Limited ("Shenyang Tourism") was undergone deregistration.

Notes to the Consolidated Financial Statements

20. GOODWILL

	THE GROUP RMB'000
Cost	
At 1st January 2005	644,158
Elimination of accumulated amortization upon the application of HKFRS 3	(34,786)
At 31st December 2005 and 31st December 2006	609,372
Accumulated amortisation	
At 1st January 2005	34,786
Elimination of accumulated amortization upon the application of HKFRS 3	(34,786)
At 31st December 2005 and 31st December 2006	–
Impairment	
At 1st January 2005	–
Impairment loss recognized for the year	609,372
At 31st December 2005, 1st January 2006 and 31st December 2006	609,372
Net book value	
At 31st December 2006	–
At 31st December 2005	–

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	THE GROUP		THE COMPANY	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Unlisted equity securities, at cost	20,000	20,000	20,000	20,000

The amount represents investment in Tsinghua Unisplendour Hi-Tech Venture Capital, Inc. ("Tsinghua Unisplendour"). The Group had 8% (2005: 8%) equity interests in Tsinghua Unisplendour. Tsinghua Unisplendour is an unlisted company established in the PRC and is engaged in investment in technology projects. The above investment is an unlisted equity securities issued by private companies. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimate is so significant that the directors of the Group are of the opinion that their fair values cannot be measured reliably.

22. PROPERTIES HELD FOR SALE

	THE GROUP	
	2006 RMB'000	2005 RMB'000
Properties under development		
At cost	405,014	136,295
Completed properties		
At cost	163,448	216,061
Less: Impairment loss	(72,747)	(85,588)
At net realizable value	90,701	130,473
	495,715	266,768

- (a) The Group's properties held for sale were all located in PRC and under medium-term leases (lease periods of 20 years or more but less than 50 years).
- (b) Included in the cost of properties under development was a property development project held by the subsidiary of the Group, Beijing Diye, in Beijing with its book value of RMB405,014,000 (2005: RMB136,295,000). The development right for the land was acquired from the Municipal Government of Zhaoyang District of Beijing in previous years.

Relevant land policies in the PRC have been revised in recent years, so the land use right of the land must be obtained through open bidding procedures. Having not obtained the land use right of the land, the Group must participate in the open bidding no matter whether the Group plans to continue developing or transfer the land. The Group has registered in the bidding for the use right of the land. Pursuant to the opinion of the Group's lawyer, if the highest price in the bidding is offered by the Group, the Group will obtain the land use right after paying the land premium. On the other hand, if the land is obtained by others, the Group can recover the paid land development costs, related expenses and a certain proportion of the profits in accordance with relevant regulations. The amount the Group can recover depends on the price of bidding and the final cost confirmed by relevant authorities.

- (c) Included in the completed properties was a project of "Jinmao Tower" located in Shenyang, the PRC with the book value of RMB36,602,000 (2005: 77,113,000). The properties have been started to pre-sales in 2003. Due to the delay in the construction, the properties were unable to hand-over to the customers on schedule. Consequently, some of the customers demanded for refund of deposits paid.

During the year, some customers have occupied the units they purchased. But since the Group hasn't completed the procedures of building ownership certificate for purchasers as of the approving date of the financial statements, the sales amount of RMB14,721,000 (2005: RMB32,152,000) received was not recognized as income but stated as receipts in advance under current liabilities (note 33).

By reference to the realized proceed of the units of Jinmao Tower not pre-sold after the balance sheet date for the year and the realizable current value assessed based on open market value by an independent valuer Dudley Suveyors Limited, the management considered that the book value approximates to their realizable current values.

Notes to the Consolidated Financial Statements

22. PROPERTIES HELD FOR SALE *(Continued)*

- (d) Included in the completed properties was a project of Water Flower located in Shenyang, the PRC with the book value of RMB54,099,000 (2005: RMB53,360,000). The properties have been started to pre-sales in 2003. Up to 31st December 2005, all the units were subscribed.

During the year, some customers have occupied the units they purchased. But since the Group hasn't completed the procedures of building ownership certificate for purchasers as of the approving date of the financial statements, the sales amount of RMB30,579,000 (2005: RMB45,425,000) received was not recognized as income but stated as receipts in advance under current liabilities (note 33).

23. INVENTORIES

	THE GROUP	
	2006	2005
	RMB'000	RMB'000
Consumables and spare parts, at cost	469	361

24. ACCOUNTS RECEIVABLE

The sale was recognized by the Group on accrual basis. The Group allows an average credit period of 30 days to the customers and the management will examine the credit period on a regular basis.

An aged analysis of accounts receivable at the balance sheet date is set out as follows:

	THE GROUP	
	2006	2005
	RMB'000	RMB'000
0 – 30 days	–	551
31 – 60 days	–	228
61 – 365 days	1,171	1,134
1 – 2 years	1,420	10,161
Over 2 years	11,189	1,133
	13,780	13,207
Allowances for bad and doubtful debts	(12,588)	(12,533)
Net amount of accounts receivable	1,192	674

The directors considered the book value of the accounts receivable approximates to their fair value.

25. AMOUNT DUE FROM A FORMER CUSTOMER

	THE GROUP	
	2006 RMB'000	2005 RMB'000
Shenyang Water General Corporation ("SWGC")	96,656	96,656
Less: impairment loss	(96,656)	(96,656)
	—	—

SWGC was a sole customer of water and was a subsidiary of SPU when the Group was engaged in production and sale of urban purified water business before July 2002. The amount due from SWGC was the remaining balance of the purchase of water. According to the agreement entered with SWGC, the amount is required to be settled fully by the end of 2005. However, up to the date of approval of these financial statements, SWGC settled RMB400,000 only. The Directors consider that recovery of the amount is remote, therefore, have provided a bad debt for the balance in full in 2005.

The amount is unsecured and interest free.

The directors considered the book value of the amount due from a former customer approximates to its fair value.

26. AMOUNT DUE FROM PARENT COMPANY

	THE GROUP		THE COMPANY	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
SPU	55,296	268,194	59,264	330,373

Maximum amounts outstanding during the year are RMB268,194,000 and RMB330,373,000 for the Group and the Company respectively.

The amount is unsecured, non-interest bearing and repayable on demand.

The directors considered the book value of the amount due from parent company approximates to its fair value.

Notes to the Consolidated Financial Statements

27. PREPAYMENTS

	THE GROUP	
	2006	2005
	RMB'000	RMB'000
Prepayments for purchase of land (Note)	–	100,000
Other prepayments	2,518	2,561
	2,518	102,561

Note: In December 2003, the Group acquired the land use rights of a parcel of land (the "Land") from the Planning and National Land Resources Bureau of Shenyang (the "Shenyang Land Bureau") by way of auction at a consideration of approximately RMB366,000,000. The Land was acquired originally for development purposes. It is located in Shenyang, the PRC, with a site area of approximately 203,000 square meters. A deposit of RMB100,000,000 was paid by the Group.

According to the auction confirmation signed between Shenyang Land Bureau and the Group, the Group should pay further deposit of RMB200,000,000 by 28th February 2004 and pay the remaining balance when the land use rights of the Land was handed-over to the Group which was scheduled on or before 1st May 2004.

The management confirms that such transfer of land use rights to the Group shall take place upon fulfillment of certain conditions, including demolition of structures currently erected on the Land by the Shenyang Land Bureau and settlement of the outstanding balance of the purchase consideration by the Group.

The Group decided to terminate these property development projects in 2004, and dispose of the land together with the subsidiaries (Note 29) which were established to be engaged in the relevant projects. The transfer procedures of the land and subsidiaries were completed this year.

28. OTHER RECEIVABLES**THE GROUP AND THE COMPANY**

Other receivables are amounts unsecured, interest free and payable on demand.

The management believes that book value of other receivables approximates to their fair value.

29. OTHER CURRENT ASSETS

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Shares of non-listed companies in PRC				
Shenyang Shinning Festival Real Estate Development Company Limited ("Shinning Festival Real Estate")	–	8,618	8,000	8,000
Shenyang Jia Yuan Feng Hua Real Estate Development Company Limited ("Jia Yuan Feng Hua")	–	6,002	–	–
Shenyang Xiang Hua Real Estate Development Company Limited ("Shenyang Xiang Hua")	–	5,100	–	–
	–	19,720	8,000	8,000
Less: payables	–	(14,000)	(7,000)	(7,000)
	–	5,720	1,000	1,000

Notes to the Consolidated Financial Statements

29. OTHER CURRENT ASSETS *(Continued)*

They are PRC subsidiaries established by the Group in 2004 for a specific property development project. Due to commercial reasons, the Group decided to terminate the abovesaid project and transferred all equity interests in Shinning Festival Real Estate and Jia Yuan Feng Hua together with the interest in land deposit of the abovesaid project (Note 27) to unrelated parties at an aggregate consideration of RMB135,214,000 in July 2004 and December 2004 respectively. The said transactions are considered to be completed when the land use rights of the land has been transferred. At the date of signing the agreements, the control and management of Shinning Festival Real Estate and Jia Yuan Feng Hua have been transferred to the purchasers. Accordingly, effective from that date, Shinning Festival Real Estate and Jia Yuan Feng Hua were not included in the consolidation of the Group, and their net asset values at that date were stated as other current assets.

At the date of the agreements, the net asset values of Shinning Festival Real Estate and Jia Yuan Feng Hua are as follows:

	RMB'000
Cash and bank deposits	4,444
Other receivables	14,178
Minority interests	(4,002)
	14,620

In 2005 the Group acquired 51% equity interests of Shenyang Xiang Hua at a consideration of RMB5,100,000 as the instrument for advances of land transfer (Note 27) in future. Accordingly, Shenyang Xiang Hua was stated as other current assets in the consolidated financial statements.

Subsequently Shinning Festival Real Estate and the contractual party cancelled the contract and terminated related transactions, so the Group cancelled Shinning Festival Real Estate this year. Relevant land transfer was completed this year and the Group would derecognize Shinning Festival Real Estate, Jia Yuan Feng Hua and Shenyang Xiang Hua in the consolidated balance sheet at the same time.

30. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH**THE GROUP AND THE COMPANY**

Pledged bank deposits represent the bank deposits pledged to banks as securities for granting of bank loans and issuance of bills payable.

Deposits are interest-bearing at a fixed interest rate of 0.72%. Pledged bank deposits will be released when related bank borrowing is settled. The management believes that book value of bank deposits approximates to their fair value.

31. ACCOUNTS PAYABLE

An age analysis of accounts, payable at the balance sheet date is set out as follows:

	THE GROUP	
	2006 RMB'000	2005 RMB'000
0–90 days	–	–
91–180 days	–	–
181–365 days	–	43,972
1–2 years	–	10,266
Over 2 years	58,249	4,506
	58,249	58,744

The management believes that book value of accounts payable approximates to their fair value.

32. INVESTMENT COST PAYABLE

THE GROUP AND THE COMPANY

In 2005, the amount represents the outstanding balance of investment cost for the acquisitions of Shenzhen Jingmei and Xili Cemetery; the balance was fully settled this year.

The amount is unpledged, non-interest bearing and payable on demand.

The management believes that book value of investment cost payable approximates to its fair value.

33. RECEIPTS IN ADVANCE

	THE GROUP	
	2006 RMB'000	2005 RMB'000
Sales of properties (Note 22(c) and 22(d))	45,300	77,577
Deposits for leasing of tombs sets and niches	17,515	15,274
Disposal of equity interests in subsidiaries and deposit of land transfer	–	135,214
Others	2,541	3,983
	65,356	232,048

Notes to the Consolidated Financial Statements

34. PROVISION FOR POTENTIAL LIABILITIES

	THE GROUP	
	2006	2005
	RMB'000	RMB'000
Default payments for sales of properties	2,448	2,447
Loss arising from litigation (Note)	16,054	19,443
	18,502	21,890

Note: The amount was payable by Shenzhen Jingmei which was involved in a dispute on construction contract before it was acquired by the Group. In 2002 the Court judged that Shenzhen Jingmei and another party shall make a compensation amounted to RMB16,054,000 jointly. Shenzhen Jingmei and the party had appealed to higher court in respect of the judgement, and the former had made full provision for the dispute. The provision was released in 2007 due to equity interest transfer of Shenzhen Jingmei.

In addition, the management withheld RMB3,389,000 of execution fee and lawyer fee in respect of the claim Shenzhen Development Bank filed to the Court for repayment of the debt (Note 43(a)) in 2005, while the fee was paid in full in 2006.

35. BANK LOANS

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term loans	131,367	124,000	49,975	200,000
Long-term loans	49,977	227,490	–	–
	181,344	351,490	49,975	200,000

The maturity profile of bank loans is as follows:

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Overdue	50,717	35,240	29,000	–
Within one year	130,627	274,000	20,975	200,000
The portion classified as current liabilities	181,344	338,290	49,975	200,000
Within one to two years (the portion classified as non-current liabilities)	–	13,200	–	–
	181,344	351,490	49,975	200,000

Notes to the Consolidated Financial Statements

35. BANK LOANS *(Continued)*

- (a) On 15th November 2004, Dalian Branch of Shenzhen Development Bank made a claim to the Court against the Company for the outstanding loan of RMB200,000,000 and interest accrued as well as other fees ("Shenzhen Development Bank Loans"). Beijing Beida Hi-Tech Industry Investment Company Limited ("Beida Hi-Tech") and Liaoning Hua Jin Hua Gong Group Company Limited ("Huajin Company") were the guarantors of the Shenzhen Development Bank Loans. Huajin Company was a state-owned enterprise.

On 15th November 2004, outstanding balance of Shenzhen Development Bank Loans was RMB199,638,000.

On 28th April 2005, Shenzhen Development Bank Loans and interest accrued in a total of RMB201,380,000 were fully settled (effective interest rate was approximately equivalent to 1.65%), among which, the guarantor Huajin Company paid RMB161,380,000 on behalf of the Group (Note 43(a)).

- (b) On 31st December 2005, the outstanding due bank loan of the Group was RMB29,000,000. The creditor bank Shenyang Sub-Branch of Guangdong Development Bank made a claim to the court to recover due loans.

On 6th March 2006, Shenyang Sub-Branch of Guangdong Development Bank made a claim to the court to recover another outstanding loan due in 2006 amounting to RMB171,000,000. Two loans amount to RMB200,000,000 ("Guangdong Development Bank Loans"). Guangdong Development Bank Loans were pledged by time deposits of the Group amounting to RMB8,700,000, and were secured by Beijing Beida Jade Bird Company Limited ("Beida Jade Bird"), SPUG and Huajin Company and its group company Liaoning Huajin Tongda Chemicals Co. Ltd.

By August 2007, Guangdong Development Bank Loans and interest accrued in a total of RMB210,540,000 were fully settled (effective interest rate was approximately 9.87%), among which, the guarantor Huajin Company paid RMB136,460,000 on behalf of the Group (Note 43(b)).

- (c) All the bank loans are stated in RMB and subject to fixed interest rate. Fixed interest rate ranges from 4.698% to 7.965% per annum.

The management of the Group considers that book value of bank loans approximates to their fair value.

Notes to the Consolidated Financial Statements

35. BANK LOANS *(Continued)*

(d) Details of bank loans as at balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Pledged	–	47,700	–	–
Secured	83,067	276,300	–	200,000
Unpledged and unsecured	98,277	27,490	49,975	–
	181,344	351,490	49,975	200,000

Details of above-mentioned secured loans are as follows:

	THE GROUP		THE COMPANY	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
SPUG	48,540	50,000	–	–
Beida Jade Bird, SPUG, Hua Jin Company and Liaoning Huajin Tongda Chemicals Co. Ltd.	–	191,300	–	200,000
Beida Jade Bird	34,527	35,000	–	–
	83,067	276,300	–	200,000

36. SHARE CAPITAL

	THE COMPANY	
	2006 RMB'000	2005 RMB'000
Registered, issued and fully paid:		
600,000,000 A shares of RMB1.00 each	600,000	600,000
420,400,000 H shares of RMB1.00 each	420,400	420,400
	1,020,400	1,020,400

Except for the currency in which dividends are payable, State-owned shares and H shares issued by the Company rank pari passu in all respects with each other pursuant to the Company Constitution.

37. RESERVES**THE COMPANY**

	Share premium	Statutory surplus reserve	Statutory public welfare reserve	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2005	323,258	65,800	32,900	320,032	741,990
Loss for the year	–	–	–	(660,016)	(660,016)
At 31st December 2005 and 1st January 2006	323,258	65,800	32,900	(339,984)	81,974
Loss for the year	–	–	–	(32,579)	(32,579)
At 31st December 2006	323,258	65,800	32,900	(372,563)	49,395

(a) Share premium

Share premium comprises surplus between the value of net assets acquired and the nominal value of State shares issued as a result of the incorporation of the Company as a joint stock limited company and the share premium from the issue of H shares.

(b) Statutory surplus reserve

The Group is required to set aside 10% of their profit after taxation prepared in accordance with the PRC accounting regulations to the statutory surplus reserve until the balance reaches 50% of their respective paid-up capital or registered capital, where further appropriation will be at the Directors' recommendation. Such reserve can be used to reduce any losses incurred or to increase the capital. As the Group recorded a loss for the year, no appropriation was made.

(c) Statutory public welfare reserve

The Group is required to transfer 5% to 10% of their profit after taxation prepared in accordance with the PRC accounting regulations to the statutory public welfare reserve. The use of this reserve is restricted to capital expenditure for staff collective welfare facilities which are owned by the Group. The statutory public welfare reserve is not available for distribution to the shareholders (except upon liquidation of the Company). Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare reserve to a discretionary surplus reserve. No such capital expenditure was incurred for both years. As the Group recorded a loss for the year, no appropriation was made.

Notes to the Consolidated Financial Statements

38. DEFERRED TAXATION

The following are the major deferred tax liabilities recognized and the movements thereon during the current and previous years:

	RMB'000
At 1st January 2005	62,871
Written back to income statement for the year	(39,090)
As at 31st December 2005 and 1st January 2006	23,781
Written back to income statement for the year	(613)
As at 31st December 2006	23,168

The Group's deferred tax were related to the differences between the fair value of assets acquired and the corresponding tax bases arising from the acquisition of the subsidiaries.

As at 31st December 2006, the Group has estimated unused tax losses of RMB392,967,000 (2005: RMB367,487,000) available for offsetting future profits. No tax losses have been recognized as deferred tax assets due to the unpredictability of future profit streams. These unused tax losses will be expired by 2011.

39. PLEDGE OF ASSETS

At the balance sheet date, the details of pledged assets are as follows:

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Investment property	–	66,272	–	–
Bank deposits	–	71,598	–	71,053
	–	137,870	–	71,053

40. CAPITAL COMMITMENTS

As at the balance sheet date, the Group and the Company had capital commitments contracted but not provided for in the financial statements as follows:

	THE GROUP		THE COMPANY	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Acquisition of properties and equipments/ construction costs	3,490	2,517	–	–
Acquisition of a parcel of land	–	59,397	–	–
	3,490	61,914	–	–

Notes to the Consolidated Financial Statements

41. OPERATION LEASE COMMITMENTS**As a lessee**

As at the balance sheet date, the Group had entered into certain non-cancellable operation leases in respect of certain rented premises. The future minimum lease payments committed by the Group in respect of the leases fall due as below:

	THE GROUP		THE COMPANY	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Within one year	–	661	–	–
Two to five years	–	2,400	–	–
Over five years	–	750	–	–
	–	3,161	–	–

Operating leases payments represent rentals payable by the Group and the Company for certain office premises. Leases are negotiated and rentals are fixed for terms ranging from one to nine years.

As a lessor

During the year, the rental income received by the Group from leasing schoolhouse and related equipments as follows:

	THE GROUP	
	2006 RMB'000	2005 RMB'000
Schoolhouse and equipments (note)	4,000	4,000

Note: Pursuant to the agreement in respect of leasing schoolhouse and related equipments between the Group and the lessee Zhuhai Beida Subsidiary Experiment School ("Zhuhai School"), Zhuhai School owed to the Group the rent amounting to RMB4,000,000 (2005: RMB4,000,000).

As at the balance sheet date, the Group has entered into agreements with tenants to lease schoolhouse and related equipments. The lease period was from January 2003 to December 2013. Rents have been determined, until December 2008, and the subsequent rents would be otherwise negotiated by the parties.

As at the balance sheet date, the contracted and irrevocable minimum rents (excluding the rents for leasing schoolhouse and equipments) are as follows:

	THE GROUP	
	2006 RMB'000	2005 RMB'000
Within one year	3,000	4,000
Two to five years	3,000	6,000
Over five years	–	–
	6,000	10,000

42. CONTINGENT LIABILITIES

- (a) Pursuant to the sales and purchase agreement for the acquisition of equity interests in Shenzhen Jingmei and Xili Cemetery (collectively refers as "Cemetery Companies" below) dated 31st December 2003, all assets and liabilities not relating to the operations of cemetery business would be transferred out of the Cemetery Companies and undertaken up by the former shareholder of Cemetery Companies (the "Former Shareholder"). During 2004, the Company entered into an agreement with the Former Shareholder that of the Cemetery Companies' other payables of approximately RMB24,771,000 and other receivables of approximately RMB8,785,000 would be offset against the outstanding balances of approximately RMB14,886,000 owed to the Cemetery Companies by the Former Shareholder and that the net balance of RMB1,100,000 owed to the Former Shareholder was waived.

As written confirmations from these creditors to signify their agreements to above arrangement had not yet been obtained, the Group was still primarily liable to these liabilities. In the opinion of the Directors, as the debts has been undertaken up by the Former Shareholder, they believe that there will not have material adverse impact on the Group's operating results and cash flows.

- (b) During the year, the Group provided a guarantee amounting to RMB9,000,000 to bank for 珠海科教 to assist it to obtain bank loans. The management believed that fair value of this bank guarantee is negligible, therefore it hasn't been stated as financial liability at its fair value in the consolidated balance sheet.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS

(a) The RMB200,000,000 loan dispute between the Company and Shenzhen Development Bank

On 6th December 2004, the Company received a writ of summons from the Higher People's Court of Liaoning Province in relation to the RMB200,000,000 loan advanced by Dalian Branch of Shenzhen Development Bank to the Company. Liaoning Hua Jin Hua Gong Group Company Limited ("Hua Jin Hua Gong") was the guarantor of the RMB200,000,000 loan. In the course of the legal action, Beijing Beida Jade Bird Company Limited ("Beida Jade Bird"), being the associates of the Company's substantial shareholder, Beijing Diye Real Estate Development Company Limited ("Beijing Diye") and Shenyang Pollon Finance Building Management Company Limited ("Shenyang Pollon") provided another guarantee to Hua Jin Hua Gong. The Company has repaid RMB25,000,000 before the Civil Mediation Agreement issued by the Higher People's Court of Liaoning Province becoming effective.

After the Civil Mediation Agreement becoming effective on 16th February 2005, the Company has repaid an additional RMB20,000,000 to Shenzhen Development Bank. On 22nd February 2005, Hua Jin Hua Gong paid RMB8,000,000 to Shenzhen Development Bank for the Company. On 26th April 2005, the Higher People's Court of Liaoning Province sequestrated RMB153,380,000 from the account of Hua Jin Hua Gong in settlement of the loan.

As a result, the loan and interest due to Dalian Branch of Shenzhen Development Bank had been fully settled pursuant to the Civil Mediation Agreement.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS*(Continued)***(b) The subsequent claim from Hua Jin Hua Gong who acted as guarantor and paid the sum of RMB161,380,000 to Shenzhen Development Bank for the Company**

Hua Jin Hua Gong then commenced legal action against the Company, Beida Jade Bird, Beijing Diye and Shenyang Pollon for a total sum of RMB161,380,000 it had paid for the Company as guarantor and the interest accrued.

On 12th December 2005, the Higher People's Court of Liaoning Province issued the Civil Judgement (2005) Liao Min San Chu Zi No.26 民事判決書(2005)遼民三初字第26號, pursuant to which SPU was liable to repay the sum of RMB161,380,000 together with interest and other fees arising from the legal action in the total sum of RMB1,624,000 to Hua Jin Hua Gong within 10 days from the effective date of the Judgement. Beijing Diye and Beida Jade Bird undertook to repay the above-mentioned amounts for SPU ; Shenyang Pollon also undertook to repay the above-mentioned amounts for SPU, but they reserved the right to recover the loss from SPU after the assumption of liability as guarantors by Beijing Diye and Beida Jade Bird and compensation responsibility by Shenyang Pollon , respectively.

On 16th July 2007, the Higher People's Court of Liaoning Province issued the Civil Execution Order (2006) Liao Zhi Er Zi No.53 民事裁定書(2006)遼執二字第53號, pursuant to which RMB55,000 from SPU, RMB195,000 from Beijing Diye and the sale proceeds of Beida Jade Bird and Shenyang Pollon's property from appraisal and auction were enforcedly sequestrated by the Court to settle Hua Jin Hua Gong's claim (after deduction of the preferred creditors). The amount received by Hua Jin Hua Gong covered the claim of RMB161,380,000, the interest in the sum of RMB22,000,000 and other fees arising from the legal action in the sum of RMB3,389,000.

As a result, the judgment debt payable to Hua Jin Hua Gong has been fully settled.

Pursuant to the Letter of Confirmation issued by Beijing Diye Real Estate Development Company Limited, the assistance of RMB195,000 due to Beijing Diye has been offset by its debt owed to the Company, whereby Beijing Diye has agreed not to claim against the Company for the above assistance.

Pursuant to a settlement agreement signed between the Company and Shenyang Pollon Finance Building Management Company Limited, the assistance of approximately RMB33,000,000 due to Shenyang Pollon, being the proceeds of assets from the said auction, will be offset by its debt owed to the Company, whereby Shenyang Pollon Finance Building Management Company Limited has agreed not to claim against the Company for the above assistance in judicial or other ways.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS*(Continued)***(c) Further legal action from Beida Jade Bird against the Company, Shenyang Public Utility Group Company Limited ("SPUG") and Shenzhen Jingmei Industrial Development Limited ("Shenzhen Jingmei")**

In the course of the legal action initiated by Hua Jin Hua Gong for the sum of RMB161,380,000, SPUG and Shenzhen Jingmei provided another guarantee of not more than RMB91,910,000 to Beida Jade Bird. As mentioned above, the sale proceeds of Beida Jade Bird's assets from an auction were applied to settle Hua Jin Hua Gong's claim. On 14th May 2007, Beida Jade Bird commenced legal action against SPUG and Shenzhen Jingmei for its payment to Hua Jin Hua Gong. On 13th June 2007, Beijing Intermediate People's Court issued the Civil Judgement (2007) Yi Zhong Min Chu Zi No.1843 民事判決書(2007)一中民初字第1843號 and handed down judgment, under which SPUG and Shenzhen Jingmei were liable to pay off the claim of Beida Jade Bird together with the relevant interest. Up to 31st August 2008, SPU has repaid approximately RMB101,340,000 to Beida Jade Bird. The unpaid balance of the claim of Beijing Jade Bird and the interest amount to approximately RMB82,000,000.

According to the letter of undertaking issued by Beida Jade Bird on 17th September 2008, Beida Jade Bird undertook that it would not require Shenyang Public Utility to make repayment in cash within 24 months from 17th September 2008.

According to the letter of undertaking issued by Shenyang Public Utility Group Company Limited on 18th September 2008, Shenyang Public Utility Group Company Limited undertook that it would not require SPU to make repayment in cash within 24 months from 18th September 2008 if Shenyang Public Utility Group Company Limited repaid corresponding debts on behalf of SPU.

(d) The two loan disputes between the Company and Shenyang Branch of Guangdong Development Bank ("Guangdong Development Bank") and subsequent lawsuits with Hua Jin Hua Gong**(i) The dispute on the loan of RMB29,000,000 between the Company and Guangdong Development Bank**

On 26th December 2005, Guangdong Development Bank commenced a legal action in respect of the dispute on the loan of RMB29,000,000 against the Company (as the borrower) and Hua Jin Hua Gong, SPU, Beida Jade Bird and Liaoning Huajin Tongda Chemicals Co., Ltd. ("Huajin Tongda") (as the guarantors).

On 18th February 2006, Shenyang Intermediate People's Court issued the Civil Judgement (2006) Shen Zhong Min (3) He Chu Zi No.34 (《判決書》(2006)瀋中民三合初字第34號), pursuant to which, (1) the Company was liable to repay the principal of RMB29,000,000 within 10 days from the date of judgement; (2) the Company was liable to pay the interest of the loan amounting to RMB180,000; (3) Guangdong Development Bank lawfully enjoyed priority in compensation in respect of the two time deposits of the Company amounting to RMB10,302,700 which were the pledge of the pledge guarantee set by the Company for the allowance of RMB29,000,000; (4) SPUG, Hua Jin Hua Gong, Huajin Tongda and Beida Jade Bird were entitled to recover the amount from the Company after they jointly undertook joint responsibility and joint repayment responsibility for the repayment obligation mentioned in (1) and (2); and (5) the Company also undertook to pay the legal fee of RMB155,000 and a property custody fee of RMB146,000.

On 6th April 2006, Guangdong Development Bank sequestered RMB70,000,000 and RMB80,000,000 from the accounts of the Company and Hua Jin Hua Gong respectively. Among above-mentioned amount, RMB10,300,000 was used to repay the principal of the loan of RMB20,000,000, and the balance was used to repay another loan of RMB171,000,000. Thus the outstanding amount of the loan of RMB29,000,000 was RMB18,700,000.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS*(Continued)***(d) The two loan disputes between the Company and Shenyang Branch of Guangdong Development Bank (“Guangdong Development Bank”) and subsequent lawsuits with Hua Jin Hua Gong** *(Continued)***(i) The dispute on the loan of RMB29,000,000 between the Company and Guangdong Development Bank** *(Continued)*

In August 2007, Shenyang Intermediate People’s Court sequestered RMB56,462,000 from the account of Hua Jin Hua Gong to settle the outstanding principal and interest of the loan of RMB29,000,000.

As a result, the principal and interest of the loan of RMB29,000,000 has been fully recovered by Guangdong Development Bank.

(ii) The loan dispute of RMB171,000,000 between the Company and Guangdong Development Bank

In January 2006, Guangdong Development Bank commenced another legal action for the dispute on the loan of RMB171,000,000 in the Higher People’s Court of Liaoning Province against the Company (as borrower) and Hua Jin Hua Gong, SPU, Beida Jade Bird and Liaoning Huajin Tongda Chemicals Co. Ltd. (“**Huajin Tongda**”) (as guarantors).

During the litigation, Guangdong Development Bank applied to the Higher People’s Court of Liaoning Province to withdraw the claim. The Higher People’s Court of Liaoning Province issued the (2006) Liao Min San Chu Zi No.31, *Civil Execution Order* (2006)遼民三初字第31號《民事裁定書》 to approve the withdrawal of the claim from Guangdong Development Bank.

According to the (2006) Shen Zhong Min Er Fong Chu Zi No 190 Civil Judgement (瀋中民二房初字第190號《民事裁定書》) issued by the Intermediate People’s Court in Shenyang, during the litigation Guangdong Development Bank sequestered pledged fixed deposit and interest income totaling RMB63,389,000 owned by the Company on 6th April 2006 for repayment of bank loan and accrued interest, that is principal amount RMB60,192,000 and interest amount RMB3,197,000. Also, Guangdong Development Bank sequestered the amount of saving account owned by Hua Jin Hua Gong totaling RMB80,000,000 for repayment of bank loan principal and accrued interest RMB60,729,000 and RMB88,000 respectively. On 12th April 2006, Guangdong Development Bank sequestered the remaining position of the above mentioned saving account balance RMB19,183,000 for repayment of loan principal. As a result, the unpaid principal portion owned by the Company was RMB30,806,000.

On 12th May 2006, Guangdong Development Bank commenced legal action against the Company, Hua Jin Hua Gong, SPU, Beida Jade Bird and Huajin Tongda for the outstanding amount of RMB30,896,000 in Shenyang Intermediate People’s Court.

On 31st January 2007, Shenyang Intermediate People’s Court issued the Civil Judgement (2006) Shen Zhong Min (3) He Chu Zi No.234 (2006)瀋中民三合初字第234號《民事判決書》, pursuant to which (1) the Company was liable to repay the outstanding amount of RMB30,896,000 and the interest of RMB2,221,000 to Guangdong Development Bank within 10 days from the date of judgment; (2) Beida Jade Bird and SPU were jointly liable to pay off the amount payable; (3) Huajin Tongda and Hua Jin Hua Gong jointly guaranteed the repayment of the outstanding amount mentioned in (1) but only limited to RMB50,000,000 and RMB51,300,000 respectively; and (4) the Company, Hua Jin Hua Gong, SPU, Beida Jade Bird and Huajin Tongda undertook to pay the legal expense of RMB164,000 and the custody fee of RMB161,000.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS*(Continued)***(d) The two loan disputes between the Company and Shenyang Branch of Guangdong Development Bank (“Guangdong Development Bank”) and subsequent lawsuits with Hua Jin Hua Gong** *(Continued)***(ii) The loan dispute of RMB171,000,000 between the Company and Guangdong Development Bank** *(Continued)*

In August 2007, Shenyang Intermediate People’s Court sequestered RMB56,462,000 from the account of Hua Jin Hua Gong to settle the outstanding amount of RMB30,896,000 and all the principal and interest of the loan.

As a result, Guangdong Development Bank has recovered all the principal and interest of the loan of RMB171,000,000.

(e) The claim for RMB80,000,000 from Hua Jin Hua Gong after the loan disputes between the Company and Guangdong Development Bank

RMB80,000,000 was sequestered from the account of Hua Jin Hua Gong in settlement of the RMB171,000,000 loan for the Company. On 12th April 2006, Hua Jin Hua Gong made a claim against the Company, SPU and Beida Jade Bird to recover the sum of RMB80,000,000.

Higher People’s Court of Liaoning Province issued the Civil Mediation Agreement (2006) Liao Min San Chu Zi No.43 民事調解書(2006)遼民三初字第43號 in respect of the settlement.

In June 2006, Hua Jin Hua Gong entered into a compromise agreement with the Company, SPU and Beida Jade Bird, pursuant to which (1) the Company was liable to pay off RMB80,000,000 and the interest incurred before 25th November 2006; (2) in the event that the Company was unable to pay off the sum, each of SPU and Beida Jade Bird would pay one-third of the outstanding balance and the Company shall repay the remaining one-third; and the Company was liable to pay the legal expense of RMB410,000 and the custody fee of RMB401,000.

Owing to the fact that the Company, SPU and Beida Jade Bird did not implement the repayment voluntarily, the Railway Transport Intermediate Court of Shenyang (瀋陽鐵路運輸法院) held an judicial sale on 29th December 2007, through which the 95% equity interest in Shenzhen Jingmei held by the Company was disposed of. Subsequently the total sum of the principal, interest, legal expense and execution fee amounting to RMB83,540,000 was repaid to Hua Jin to fully settle the amount of RMB80,000,000 and the interest owed to Hua Jin .

On 10th March 2008, the Railway Transport Intermediate Court of Shenyang (瀋陽鐵路運輸法院) issued the Civil Execution Order (2007) Shen Tie Zhi Zi No.3-1 民事裁定書(2007)瀋鐵執指字第3-1號 and confirmed the completion of execution and the conclusion of the lawsuit.

RMB56,462,000 was sequestered from the account of Hua Jin respectively in settlement of the RMB29,000,000 loan and the RMB171,000,000 loan payable by the Company. In September 2007, Hua Jin commenced a legal action against the Company, SPU and Beida Jade Bird to recover the sum of RMB56,462,000.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS*(Continued)***(e) The claim for RMB80,000,000 from Hua Jin Hua Gong after the loan disputes between the Company and Guangdong Development Bank** *(Continued)*

On 17th October 2007, Hua Jin reached a settlement with the Company, SPU, Beida Jade Bird, Shenyang Pollon and Beijing Mingyude Business and Trade Company Limited ("Beijing Mingyude") in respect of the dispute about guarantee recourse. The Higher People's Court of Liaoning Province issued the Civil Mediation Agreement (2007) Liao Min San Chu Zi No.36 民事調解書(2007)遼民三初字第36號 relating to this settlement, pursuant to which (1) the sum of RMB56,462,000 as an assistant amount for fulfilling its guarantee responsibility and the remaining interest incurred from the date of making assistant payment to the date of actual repayment calculated at then prevailing loan interest rate for circulating fund issued by the People's Bank of China are payable by the Company to Hua Jin; (2) Hua Jin agrees the Company to repay the aggregate debt of RMB56,460,000. The Company was liable to repay RMB32,160,000 before 30th November 2007 and to repay RMB24,300,000 before 25th December 2007; (3) Beida Jade Bird and SPUG continue to jointly guaranteed the debt of RMB56,460,000 payable by the Company to Hua Jin, and in the event that Hua Jin was unable to recover the sum, each of the Beida Jade Bird and SPU would pay one-third of the outstanding amount; (4) Mingyude guaranteed the debt of RMB32,160,000 payable by the Company, and pledged the time deposit certificate of RMB32,000,000 as a guarantee; Shenyang Pollon guaranteed the debt of 24,300,000 payable by the Company; (5) If the Company did not implemented the repayment on time and Mingyude and Shenyang Pollon did not fulfilled the guarantee responsibility on the agreed term, the Company shall be liable to repay the plaintiff Hua Jin based on the aggregate debt of RMB56,462,000; (6) after above-mentioned guarantors fulfilled the guarantee responsibility, they are entitled to recover the debt from the Company at the amount they made repayment on behalf of the Company; (7) each of Hua Jin and the Company was liable to pay for the legal fee of RMB162,000 and a custody fee of RMB5,000.

In November 2007, Mingyude repaid RMB32,160,000 to Hua Jin Hua Gong for the Company.

In August 2008, the Company repaid RMB32,160,000 and the interest to Mingyude.

(f) The claim for RMB56,462,000 by Hua Jin after the loan disputes between the Company and Guangdong Development Bank

On 20th June 2008, Shenyang Pollon signed the Agreement of Settlement of Debts by Properties with Hua Jin Hua Gong, the Company, Beida Jade Bird and SPUG, pursuant to which RMB24,300,000 worth of 69 residential units of Cosmo International Mansion owned by Shenyang Pollon were sequestrated to settle Hua Jin Hua Gong's claim. The transfer of ownership of Cosmo International Mansion to Hua Jin Hua Gong is still ongoing.

According to the Agreement signed by the Company and Shenyang Pollon, Shenyang Pollon and the Company agreed unanimously to settle the debts by eliminating debts by properties in respect of the situation that Shenyang Pollon repaid the debt of 24,300,000 to Hua Jin Hua Gong for the Company by settlement of debts by properties, and Shenyang Pollon guaranteed not to recover the above amounts through law or other ways compulsorily.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS*(Continued)*

(g) According to the information provided by the Company, there are 2 cases of material lawsuits involved with a subsidiary of the Company, Shenyang Development Real Estate Development Company Limited (“Shenyang Development”) occurred within PRC mainland from the suspension date to the date of issuing the legal opinion, which include:

(i) The dispute in relation to a construction contract amongst Shenyang Development, No.6 Construction Work Company of No.4 Works Bureau of China Construction (“China Construction”) and the guarantor Shanghai Hanhua Property Management Company Limited (“Shanghai Hanhua”)

After the mediation of Shenyang Intermediate People’s Court, all parties involved had voluntarily reached a mediation agreement pursuant to which, Shenyang Intermediate People’s Court issued the Civil Mediation of (2006) Liao Zhong Min (2) Fang Chu Zi No.129 and the Civil Execution Order of (2006) Shen Zhong Min (2) Fang Chu Zi No.129 to confirm the main contents of the mediation agreement are as follows: (1) both parties have agreed that Shenyang Development shall pay the construction cost and interest totaling RMB5,831,000 by two instalments; (2) the legal fee and custody fee shall be borne by Shenyang Development and China Construction equally; and if the guarantor shall not implement the repayment on time, Shenyang Development shall pay all the litigation fees; (3) a sum of RMB2,000,000 shall be paid to China Construction before 14th February 2007; and a sum of RMB3,831,000 and litigation fee shall be paid to China Construction before 10th April 2007. If the guarantor failed to make the repayment on time, Shenyang Development shall pay half of the interest forgone by China Construction; (4) the guarantor Shanghai Hanhua guaranteed the payment of the above amount by Shenyang Development to China Construction. If Shenyang Development fails to make payment as per the term provided in Clause 2 of the agreement, the guarantor shall make the payment accordingly. If the guarantor fails to perform its responsibility after the due date, China Construction may apply for compulsory execution of the guarantee pursuant to a Civil Mediation Agreement delivered by the Court in accordance with the law; (5) the three parties of the agreement have agreed that, if the guarantor shall obtain all the title of debts requested by China Construction towards Shenyang Development in the litigation, and the right of custody over the assets of Shenyang Development involved in the litigation; (6) after performance of its responsibility, the guarantor shall have the right of recourse against Shenyang Development in accordance with Article 31 of the Law of Guarantee of the People’s Republic of China and shall have the right to apply for compulsory execution of the Civil Mediation issued by the Court in accordance with the applicable law.

The guarantor Shanghai Hanhua shall perform its responsibility by making all payments on behalf of Shenyang Development.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS*(Continued)*

- (g) According to the information provided by the Company, there are 2 cases of material lawsuits involved with a subsidiary of the Company, Shenyang Development Real Estate Development Company Limited ("Shenyang Development") occurred within PRC mainland from the suspension date to the date of issuing the legal opinion, which include:** *(Continued)*

- (ii) The dispute of a construction contract amongst Shenyang Development and Shenyang Tianbei Construction Installation work Company ("Shenyang Tianbei"), Shanghai Hanhua (the Guarantor), Beijing Mingyude Business and Trade Company Limited ("Beijing Mingyude")**

The litigation was handled and mediated by the Intermediate People's Court of Shenyang and all parties involved had reached a reconciliation agreement voluntarily, pursuant to which, the Court issued a Civil Mediation Agreement 《民事調解書》(2006) Liao Zhong Min Er Fang Chu Zi No.190 as follows, inter alias: (1) both parties agreed that the Company shall pay to Shenyang Tianbei the construction fee and interest totaling RMB17,000,000 by two instalments. The legal fee, custody fee and audit fee totaling RMB281,000 shall be borne by Shenyang Development and Shenyang Tianbei equally in the amount of RMB140,000. Shenyang Development shall pay such amount to Shenyang Tianbei on or before 20th July 2007. Shenyang Tianbei and Shenyang Development have no other dispute over the petition by Shenyang Tianbei; (2) Shenyang Development shall pay RMB4,130,000 and RMB12,870,000 to Shenyang Tianbei on or before 28th June 2007 and 6th July 2007 respectively; (3) Shanghai Hanhua, the Guarantor, has agreed to assume the responsibility of Shenyang Development to pay RMB4,130,000 to Shenyang Tianbei pursuant to Article 2 of the agreement, and Beijing Mingyude, the Guarantor, has agreed to assume the responsibility of Shenyang Development to pay RMB12,870,000 to Shenyang Tianbei pursuant to Article 2 of the agreement. If Shenyang Development fails to make payment on or before the due dates as stated in Article 2 of the agreement, the Guarantors shall assume the payment responsibility from the due dates as stated in Article 2 of the agreement for two years; (4) Shenyang Tianbei has agreed to return all project files and relevant information for completion examination of the projects involved in the litigation, as well as to deliver vacant possession all 6 residential units and one shop in "Shui Xie Hua Du" (水榭花都) currently occupied by it to Shenyang Development within 3 days upon receipt of RMB4,130,000 as provided in Article 2 of the agreement; (5) Shenyang Tianbei has agreed to issue receipt and tax vouchers to Shenyang Development within 15 days upon receipt of RMB12,870,000 as required in Article 2 of the agreement. Shenyang Tianbei shall also assign a designated person to assist Shenyang Development to complete the registration and examination of the projects with the related authorities (the registrars). Shenyang Tianbei has agreed to submit its consent to the Court for the release of the confiscated and frozen assets of Shenyang Development and assist Shenyang Development to finish the relief of the assets; (6) if Shenyang Tianbei fails to perform its responsibilities as provided in Article 4 and 5 of the agreement in time, Shenyang Development may apply to the competent Court for compulsory performance of the responsibilities of Shenyang Tianbei as provided in Article 4 and 5 in the agreement; (7) the four parties to the agreement have agreed that, after the execution of the agreement, if the Guarantors have paid all of the debts as stated in Article 2 of the agreement on behalf of Shenyang Development, the Guarantors shall have the right of recourse against Shenyang Development in an amount equal to the debts repaid to Shenyang Tianbei and obtain the custodian rights of Shenyang Tianbei over the assets of Shenyang Development; and (8) after performance of their responsibilities, the Guarantors shall have the right of recourse against Shenyang Development in accordance with Article 31 of the Law of Guarantee of the People's Republic of China and shall have the right to apply for compulsory execution of the Civil Mediation issued by the Court in respect to the litigation in accordance with the applicable law.

The Guarantors, Shanghai Hanhua and Beijing Mingyude, had performed their responsibilities as provided in the above civil mediation agreement by making payments of RMB4,130,000 and RMB12,870,000 respectively on behalf of Shenyang Development.

According to a Confirmation Letter 《確認函》 issued by Shanghai Hanhua, the RMB4,130,000 paid by Shanghai Hanhua for Shenyang Development has been settled. Shanghai Hanhua will not invoke a claim against Shenyang Development to pay the claim in cash.

According to the Engagement letter of Settlement Business by China Merchants Bank (招商銀行結算業務委託書) (NO0013645688) and the entrustment payment notice provided by the Company, the Company had paid RMB46,799,000 to Beijing Mingyude in July 2008 by way of entrustment payment, RMB13,567,000 of which was for the RMB12,870,000 that Beijing Mingyude had paid for the Company as a guarantor and the interest accrued.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS*(Continued)*

- (g) According to the information provided by the Company, there are 2 cases of material lawsuits involved with a subsidiary of the Company, Shenyang Development Real Estate Development Company Limited (“Shenyang Development”) occurred within PRC mainland from the suspension date to the date of issuing the legal opinion, which include:** *(Continued)*

- (iii) The petition for execution of right of recourse by Shanghai Hanhua, the execution applicant, against Shenyang Development, the enforcee**

As Shanghai Hanhua has performed its guarantee responsibility by repaying to Shenyang Development pursuant to Civil Mediation Agreement (2006) Liao Zhong Min (2) Fang Chu Zi No.129, Shanghai Hanhua applied to the Intermediate People’s Court of Shenyang for compulsory execution of Civil Mediation Agreement (2006) Liao Zhong Min (2) Fang Chu Zi No.129. Both parties had reached a settlement agreement to settle all the debts by transferring the entire equity interest in Shenyang Development Beida Education Science Park Company Limited held by Shenyang Development, the enforce, at a value of RMB5,866,000. In this respect, the parties had executed a Share Settlement Agreement.

On 19th November 2007, Shanghai Hanhua, the execution applicant, applied to the Intermediate People’s Court of Shenyang for the closure of the litigation. The Intermediate People’s Court of Shenyang issued a Civil Order (Execution) (2007) Shen Fa Zhi Ji No.577 on 15th January 2008, which approved the Share Settlement Agreement between the parties allowed the transfer of equity interest. The execution of the Civil Mediation Agreement of Intermediate People’s Court of Shenyang (2006) Liao Zhong Min (2) Fang Chu Zi No.129 was completed.

- (h) The following equity interests of the Group were disposed of in 2008 and 2007, respectively. Particulars of its assets and liabilities, as at 31st December 2006 are as follows:**

- (i) Education project business - Shenyang Education and Science Park (瀋陽教育科學園) (being disposed of in 2008)**

	RMB'000
Assets	
Properties and equipments	126,026
Prepaid lease payments for land use rights	91,880
Available-for-Sale financial assets	12,486
Inventory	100
Prepaid fees	1,129
Other receivables	576
Receivable intra-Group current account	9,939
Bank balances and cash	21
	242,157
Liabilities	
Accounts payable	715
Other payables and accrued charges	59,385
Payable intra-Group current account	247,806
Bank borrowings	45,000
	352,906

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS*(Continued)*

(h) The following equity interests of the Group were disposed of in 2008 and 2007, respectively. Particulars of its assets and liabilities, as at 31st December 2006 are as follows: *(Continued)*

(ii) Cemetery development business – Shenzhen Jingmei and Xili Cemetery (being disposed of in 2007)

	RMB'000
Assets	
Properties and equipments	11,494
Investment properties	53,445
Accounts receivable	27
Other receivables	2,857
Receivable intra-Group current account	1,064
Bank balances and cash	3,547
	72,434
Liabilities	
Accounts payable	4,087
Other payables and accrued charges	10,101
Receipts in advance	17,515
Profit tax payable	936
Deferred income	62,096
Estimated liabilities	16,054
Payable intra-Group current account	12,956
Bank borrowings	19,368
	143,113

Notes to the Consolidated Financial Statements

44. CONNECTED TRANSACTIONS

Connected parties include the Group's subsidiaries, holding companies and its subsidiaries, other state-owned enterprise and its subsidiaries that directly or indirectly controlled by the PRC Government, other companies that our company may control or impose substantial influence on its financial and operational decisions, and entities and companies that are controlled and affected by the key management and family members of our company, our Group or its holding companies.

The identified connected parties of the Group are as follows:

Name of company	Relationships with the Company
SPU	The parent company of the Company
Beida Hi-Tech	A shareholder of SPU
Weifang Beida Jade Bird Huaguang Technology Company Limited ("Jade Bird Huaguang")	The holding company of Beida Hi-Tech
Beida Jade Bird	A shareholder of Jade Bird Huaguang
Beijing Tianqiao Beida Jade Bird Technology Company Limited ("Beijing Tianqiao")	A shareholder of Jade Bird Huaguang
Beijing Beida Education Investment Company Limited ("Beida Education Investment")	A subsidiary of Beida Jade Bird
Zhuhai School	A branch of Beida Education Investment
珠海科教	A subsidiary of Beida Education Investment
北京特利投資管理有限公司 ("北京特利")	A subsidiary of Beida Jade Bird
深圳市桑夏計算機與人工智能開發有限公司("深圳桑夏")	A subsidiary of Beida Jade Bird
Shenhai Co-generation	A former jointly controlled entity of the Company
Huajin Company	Other state-owned enterprise
Beijing Peking University Resource Group Co., Ltd. ("Peking University Resource")	Other state-owned enterprise

Notes to the Consolidated Financial Statements

44. CONNECTED TRANSACTIONS (Continued)

Apart from the guarantees provided by certain connected parties for bank borrowings of the Group as stated in Note 34 and the guarantees provided by the Group for connected parties as disclosed in Note 42(b), principal connected party transactions in the ordinary course of business between the Group and connected parties are as follows:

- (a) During the year, the Group received rental income of RMB4,000,000 (2005: RMB4,000,000) from Zhuhai School for leasing of campus with related equipment. The lease period was from January 2003 to December 2013. Rents have been determined until December 2008, and the subsequent rents would be otherwise negotiated by the parties.
- (b) As at balance sheet date, the balances of connected parties are as follows:

Name of connected party	2006 RMB'000	2005 RMB'000
Amount due from the parent company SPU	55,296	268,194
Other receivables		
Shenhai Co-generation	–	60,000
北京特利	24,030	6,450
深圳桑夏	2,125	2,125
Beida Jade Bird	–	1,498
Accounts payable and accrued charges		
Beida Jade Bird	66,088	7,061
北京特利	109,130	18,760
Huajin Company	161,380	161,380
Beida Tianqiao	5,400	5,400
Zhuhai School	23,577	16,546

- (c) Compensation for the key management

	2006 RMB'000	2005 RMB'000
Short term benefits	–	1,225
End-of-service benefits for employees	–	–
	–	1,225

Remuneration of directors and the key management is determined by the Administrative Resources and the Remuneration Committee based on personal performance and market trend.

Notes to the Consolidated Financial Statements

45. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries, as at 31st December 2006 are as follows:

Name of subsidiary	Class of shares held	Paid-up registered capital RMB'000	Percentage of effective equity interest held by the Company		Principal activities
			Directly	Indirectly	
Shenyang Development Real Estate Company Limited	Ordinary share	250,000	99.86%	–	Development and sale of properties
Pollon Finance	Ordinary share	50,000	92.5%	7.5%	Development and sale of properties
Beijing Diye	Ordinary share	30,000	–	100%	Development and sale of properties
Shenyang Development Property Management Company Limited	Ordinary share	500	1%	99%	Provision of property management services
Shenyang Education Science Park	Ordinary share	50,000	30%	70%	Development and sale of properties, investment and management of education projects
Shanghai Beida Jade Bird Education Investment Company Limited	Ordinary share	100,000	80%	20%	Investment and management of education projects
Zhuhai Beida Education Science Park Company Limited	Ordinary share	20,000	70%	–	Investment and management of education projects
Jade Bird School	Paid-in capital	–	–	100%	Operation of school
Foreign Language School	Paid-in capital	30	–	100%	Operation of school
Shenyang Beida Jade Bird Business Information System Company Limited	Ordinary share	10,000	–	90%	Development of business information system and provision of consultation services
Shenzhen Jingmei	Ordinary share	10,000	95%	–	Investment and management of cemetery business
Xili Cemetery	Ordinary share	5,000	–	70%	Development of cemetery
Shenzhen Grand Scene Investment Development Company Limited	Ordinary share	50,000	50%	50%	Not yet commence business

- (a) The above list only includes the information about principal subsidiaries which are considered by the directors of the Company to be able to affect results or assets of the Group. In the opinion of the directors, to present the information about all the subsidiaries would be too redundant.
- (b) Except that Jade Bird School and Foreign Language School are non-incorporated subsidiaries in PRC, all of other subsidiaries of the Group are companies with limited liabilities incorporated in PRC. All the subsidiaries are operated in PRC.
- (c) None of the subsidiaries owned any debt securities that were intermittently effective as at balance sheet date or any time during the year.

Company Information

Legal address	No.1-4, 20A, Central Street Shenyang Economic and Technological Development Zone the PRC
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H share registrar and transfer office	Hong Kong Registrars Limited Rooms 1901-5 19th Floor, Hopewell Centre 183 Queen's Road East Hong Kong
PRC legal adviser	Kaiwen Law Firm 19th Floor Winland International Conference Center No. 7 Financial street Xicheng District Beijing (Postal code: 110140)
International auditor	Lo & Kwong C.P.A. Co. Ltd. <i>Certified Public Accountants</i> Suite 1304, 13/F, Shanghai Industrial Investment Building 60 Hennessy Road Wanchai, Hong Kong