

Chairman's Statement



Dear shareholders,

As Chairman, I would like to express my gratitude for your efforts and loyalty to the Group. I am pleased to report the results of the Group for the Year, and hereby sincerely thank you for your support to the Group.

During the Year, the turnover of the Group amounted to RMB612,640,000 and the profit after taxation and minority interests amounted to RMB287,900,000, representing an increase of approximately 41.69% and 29.66% respectively over the previous year; earnings per share were RMB0.28.

During the Year, the external business environment of the Group was further improved. The economic growth rate of the PRC reached 8.00%. The economy of Shenyang continued to maintain a steady growth and remarkable results were attained particularly in the areas of infrastructure and property development in the city, resulting in an increase in the demand for public utilities in Shenyang. The Group further strengthened its principal operations through a series of capital related activities including acquisition, investment and disposal of low-return assets and expanded its scope of business when appropriate and profitability of the Group increased accordingly.

This year has witnessed many achievements, including the Group's completed acquisition of Shenyang Sino-French Water Supply Co., Ltd. (i.e. Shenyang No. 8 Water Plant) for an aggregate consideration of approximately RMB230 million, which was entirely financed by proceeds from the issue of the H shares. Following the completion of the acquisition, the daily capacity of the Group for the supply of water increased by approximately 420,000 cu.m., representing an increase of approximately 38.11%. At the same time, in accordance with the "Technology and Operations Services Agreement" (entered into with the strategic investors when the Company was listed), a team of executives designated by the strategic investors actively participated in the management of Shenyang Water since 1st January 2000.

Among the successes was the Group's completed acquisition of the Shifosi Water Source (Phase I) and the related expansion continuation project in Shenyang for a consideration of RMB56,787,000. The consideration of such an acquisition was also financed by the proceeds from the issue of the H shares. Upon the completion of the acquisition and the related expansion continuation project, the daily production capacity of purified water of the Group increased by approximately 70,000 cu.m.

In June 2000, the Group began to invest in Qinghua Ziguang Technology Venture Investment Co., Ltd. ("QTIL") by holding an 11.11% equity interest in the company. In addition to a stable income generated from the public utilities industry, it is hoped that the Group will also gain fruitful returns from the development of advanced technology projects.

In order to explore new ways to increase the Group's profits and to make use of the opportunity that the property market of Shenyang is gradually improving, the Company invested an amount of RMB34,650,000 to establish "Real Estate Company" on 21st June 2000. At present, Real Estate Company is firmly engaged in developing its first residential project. It is expected that the project will be completed and will be ready for sale in December, 2001.

Owing to factors including the increase in speed and flights of trains, oversupply and keen competition in the long distance bus services market in Shenyang and the significant increase in the charge for passenger transportation funds, the business environment for the Group's long distance bus services has been deteriorating continuously. On 20th December 2000, the Company disposed of its entire equity interest in Shenyang Jingwei Passenger Transportation Company Limited ("Jingwei Transportation") to Shenyang Zheng Xing Enterprise (Group) Company Limited (瀋陽政興企業集團有限責任公司), an unrelated party, for a consideration of RMB69,013,000. The profit on disposal of this investment amounted to RMB7,898,000. The cash arising from the disposal of the investment and the balance of the proceeds from the issuing of the H shares will be used as additional working

capital for the Group instead of the original intention to purchase new vehicles. Such amounts will be used to invest into other more profitable public utilities in the city.

In order to secure safety in water supply and ensure a steady growth in the results of Shenyang Water, the Group invested approximately RMB9,041,000 in technological renovation so that the quality in the source of water as well as the level of safety and automation for the electricity transformation system, were enhanced during the Year. In addition, the Group conducted comprehensive research during the Year in respect of share repurchases, reduction in holding of State-owned shares, convertible bonds and issuing new A shares etc. The Company will carry out these proposals if appropriate and when they are permitted under the relevant government policy.

It is expected that the PRC will continue to implement an active fiscal policy in 2001. Economic investments and consumption will be stimulated through expanding the scale of infrastructure. The Group, a utility enterprise, is given a more favourable environment for development. After the PRC's entry into the World Trade Organisation ("WTO"), foreign capital will be invested into different sectors of the community to trigger the reallocation of social resources. All these measures will not only provide more development opportunities for the Group, but will also bring forth stringent challenges. In 2001, the Group will continue to adjust and expand its public utility business and will continue to conduct research and evaluations with respect to the new A shares. In addition, the Group will strive to reduce costs, make better use of capital and will increase its profitability through reinforcing its internal management. The Group will also provide various modes of training, to enhance the quality of its staff and maintain a variety of talent so as to provide confidence and certainty for the future development of the Group in the new century.

On behalf of the Board of Directors, I would like to express my gratitude to our staff for their dedication and diligence, and to the shareholders for their vast support and assistance. I believe that the Group will continue to achieve excellent results, forcefully contribute to the public utilities sector in Shenyang, and bring about satisfactory returns to our shareholders in the new century.

Zhang Guo Xiang

Chairman

Shenyang Public Utility Holdings Company Limited

23rd March 2001, Shenyang, PRC