

Management Discussion and Analysis

1. SUMMARY OF THE RESULTS OF THE GROUP

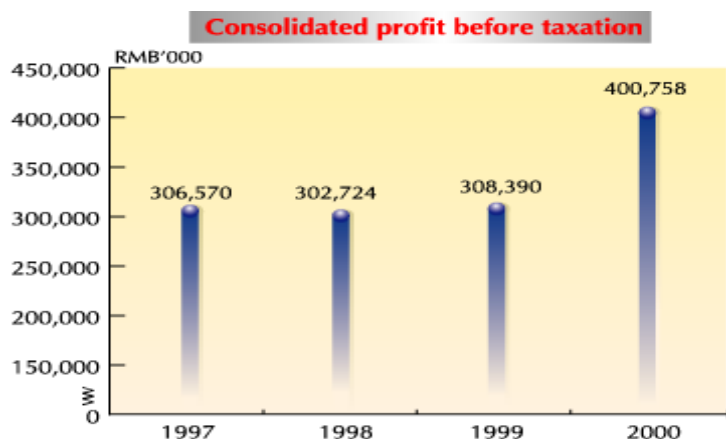
(1) Summary of Profit and Loss Accounts

The Group's Profits

		Pro forma		RMB'000
	2000	1999	1998	1997
Turnover	612,640	432,368	416,079	411,507
Profit after taxation	289,520	224,041	226,499	229,331
Profit attributable to shareholders	287,900	222,047	224,619	227,422
Earnings per share (RMB)	0.28	0.36	0.37	0.38

(2) Analysis of profits by segment

	2000		1999		1998		1997	
Pro forma	Amount	% on profit before taxation	Amount	% on profit before taxation	Amount	% on profit before taxation	Amount	% on profit before taxation
Consolidated profit before taxation	400,758	100	308,390	100	302,724	100	306,570	100
Mainly including:								
Shenyang Water	356,739	89.02	264,717	85.84	250,368	82.70	248,608	81.10
Jingwei Transportation	3,643	0.91	11,749	3.81	10,609	3.50	16,353	5.33
Shenhai Co-generation	21,444	5.35	38,419	12.46	41,747	13.80	41,609	13.57
Real Estate Development	(413)	-	-	-	-	-	-	-



2. ANALYSIS OF URBAN WATER SUPPLY BUSINESS

(1) Summary of operating results

Items	2000	1999 Pro forma	RMB'000
			Change %
Turnover	595,285	403,425	47.56
Profit before taxation	356,739	264,717	34.76

There is significant improvement in the results of Shenyang Water during the Year when compared with the pro forma of 1999. As a result of the acquisitions of No. 8 Water Plant and Shifosi Water Source project (Phase I), there is a great increase in water production and the sales volume of Shenyang Water when compared with the corresponding previous period. The water sales volume of Shenyang Water in 2000 was 495,098,000 cu.m. (1999 pro forma: 375,000,000 cu.m.), representing an increase of approximately 32.03% when compared with that of the 1999 pro forma.

(2) Analysis of production costs of purified water

Items	RMB'000						
	2000			1999 Pro forma			Differences
	Amount	% of revenue	% of costs	Amount	% of revenue	% of costs	
Operating costs	242,774	40.78	100	151,713	37.60	100	91,061
Labour costs	25,056	4.20	10.32	19,662	4.87	12.96	5,394
Raw materials of purified water	5,182	0.87	2.14	2,634	0.65	1.74	2,548
Purchase costs of raw water	56,452	9.48	23.25	-	-	-	56,452
Electricity costs	86,237	14.49	35.52	84,648	20.98	55.79	1,589
Depreciation and amortisation	38,951	6.54	16.05	20,435	5.06	13.47	18,516
Repairs and maintenance	12,101	2.03	4.98	14,206	3.52	9.36	(2,105)
Others	18,795	3.16	7.74	10,128	2.51	6.68	8,667



The production costs of purified water of Shenyang Water increased by approximately 60.02% during the Year when compared with that of the 1999 pro forma due to the acquisitions of No. 8 Water Plant and Shifosi Water Source project (Phase I). This led to a large increase in costs of various items over the previous year as follows:

- A. Increase in the number of staff and increment of wages resulting in higher costs of employees.
- B. Increase in the volume of water production leading to a corresponding increase in the raw materials for purified water.
- C. Payment for raw water fees as a result of the acquisition of No. 8 Water Plant, causing an increase in production costs by RMB56,452,000.
- D. Substantial increases in the depreciation of fixed assets as a result of the acquisitions of No. 8 Water Plant and Shifosi Water Source project (Phase I).

3. ANALYSIS OF HEAT AND ELECTRICITY CO-GENERATION BUSINESS

Summary of operating results

Items	2000	1999	RMB'000
			Change %
Turnover	536,731	594,820	(9.77)
Operating profit before taxation	95,305	170,749	(44.18)
The Group's share of profit before taxation (22.50%)	21,444	38,419	(44.18)
Profit after taxation	82,134	144,457	(43.14)
The Group's share of profit after taxation (22.50%)	18,480	32,503	(43.14)



- (1) The net volume of electricity generated and the net amount of heat supplied by Shenhai Co-generation, increased by approximately 1.08% and 6.56% respectively during the Year when compared with 1999. The increase was attributable to the fact that there was no suspension of operation as a result of the strengthening of production management, to ensure the safe operation of the electricity generation units.
- (2) The main factors for the decline in operating results are as follows:
 - A. The price of all electricity supplied by Shenhai Co-generation was calculated at a negotiated price in 1999. However, the price of its electricity has been reduced by RMB3 cents/kWh since 15th July 2000. Besides, there was about 11.58% of electricity which was charged at a low price. As a result, the income was lower than that of the previous year, although both the net volume of electricity generated and the net amount of heat supplied during the Year exceeded the figures of the previous year.
 - B. Income from value-added tax refund of RMB36,540,000 was included in the results of Shenhai Co-generation in 1999, but there was no such refund during the Year. Accordingly, the profit for the Year was lower than that of the previous year.

4. ANALYSIS OF THE RESULTS OF REAL ESTATE COMPANY

- * In order to introduce a new foundation for increasing the income for the Group and in view of the gradual improvement in the property development market of Shenyang, Real Estate Company was set up with an investment of RMB34,650,000 from the Company in June 2000.

- * During the Year, Real Estate Company invested approximately RMB200,000,000 to acquire land properties. At present, Real Estate Company is actively engaged in developing its first residential project. As the project has not been completed, no sales income was received during the Year.



5. INVESTMENT IN ADVANCED TECHNOLOGY

QTIL was formally established in May 2000 and is a business venture principally engaged in high technology investment projects. As at 31st December 2000, the registered capital of QTIL was RMB180,000,000. It is owned by nine shareholders with total assets amounting to RMB230,000,000, of which current assets amount to RMB190,000,000, long-term investments amount to RMB35,600,000. During the Year, profit after taxation of QTIL amounted to RMB11,900,000 and distributable profits amounted to RMB9,202,000 during the Year. In June 2000, the Company invested an amount of RMB20,000,000 in QTIL, representing 11.11% of the registered capital of QTIL.

6. ANALYSIS OF ASSETS AND THE FINANCIAL POSITION OF THE GROUP

(1) Financial statistics of the Group

Items	Basis of calculation	As at 31st	Pro forma
		December 2000	As at 31st December 1999
Gearing ratio	Total liabilities/total assets x 100%	23.40%	9.80%
Current ratio	Current assets/current liabilities	2.40	5.20
Quick ratio	(Current assets - inventories - properties under development for sale)/current liabilities	2.00	5.20
Earnings/net assets ratio	Net profit/net assets x 100%	17.60%	15.40%
Sales profit margin	Net profit/sales x 100%	47.00%	51.80%
Debt equity ratio	Total liabilities/shareholders' equity x 100%	30.70%	11.00%

(2) Analysis of total assets of the Group

During the Year, there was a significant increase in the total assets of the Group when compared to that of 1999. The total assets of the Group increased by approximately RMB511,000,000 to approximately RMB2,135,000,000 in 2000 from approximately RMB1,624,000,000 in 1999, representing an increase of approximately 31.50%.

Items	As at	As at	<i>RMB'000</i>
	31st December 2000	31st December 1999	Changes in amount
Total assets	2,135,141	1,624,135	511,006
Fixed assets	751,252	561,173	190,079
Deposits for purchase of fixed assets	-	55,000	(55,000)
Construction-in-progress	11,174	-	11,174
Interest in a joint venture	165,462	169,366	(3,904)
Investment securities	20,000	-	20,000
Current assets	1,187,253	838,596	348,657

Of which:

The total fixed assets increased by approximately 31.46% when compared with that of 1999, mainly as a result of the acquisitions of No. 8 Water Plant and Shifosi Water Source project (Phase I) by the Group and the investment in the renovation of the production facilities of Shenyang Water.

The ratio between investment securities and total assets increased by approximately 100% when compared with that of 1999, and was mainly attributed to the acquisition of QTIL.

(3) Pledge of foreign currency deposits of the Group

As at 31st December 2000, the Company had bank loans amounting to RMB250,000,000 (1999: RMB20,000,000) which has been secured by a bank deposit of HK\$250,000,000 (1999: Nil). The above secured loans were repayable within one year and the loans were used as the working capital of the Group.

During the Year, the Company did not have any overdue bank borrowings.

(4) Plan for significant investment and acquisition of capital assets of the Group in the future

At present, the proposal for the issue of new A shares is under review, and there is no detailed implementation plan which is disclosable at this stage.

(5) Currency risks

According to the "Quotations of the Exchange Rates for Converting Renminbi to Foreign Currencies by the Head Office of Designated Banks" promulgated by the State Administration of Foreign Exchange for a fixed period of time, the exchange rates of Renminbi to the US dollar and to the Hong Kong dollar were stable on the whole, and the exchange rate of the Hong Kong dollar to Renminbi experienced slight fluctuations during the Year. Accordingly, the risks of the Company's deposits in Hong Kong dollars and the pledge of foreign currencies for Renminbi loans were relatively low.

(6) Contingent liabilities

During the Year, the Group had no contingent liabilities.



(7) ANALYSIS OF EQUITY AND RESERVES

Items	As at	As at	<i>RMB'000</i>
	31st December 2000	31st December 1999	Changes in amount
Share capital	1,020,400	1,020,400	-
Share premium	323,258	323,258	-
Surplus from asset revaluation	37,032	43,646	(6,614)
Statutory surplus reserve	64,322	20,253	44,069
Statutory public welfare reserve	32,161	10,127	22,034
Retained profits	150,595	40,412	110,183

7. USE OF PROCEEDS ARISING FROM THE ISSUE OF H SHARES

The issue of 420,400,000 H shares in the Company in December 1999 raised net proceeds of RMB684,256,000. No proceeds were raised by means of issuing new shares thereafter. The proceeds were applied in accordance with the intended usage as disclosed in the Prospectus. Up until 31st December 2000, the Company had used a total amount of approximately RMB493,230,000 out of the proceeds, of which:

- (1) RMB231,951,000 had been applied to invest in the acquisition of No. 8 Water Plant;
- (2) RMB56,787,000 had been applied for the acquisition and construction of the Shifosi Water Source expansion project;
- (3) RMB9,041,000 had been applied to renovate the system of production facilities of Shenyang Water;
- (4) RMB1,000,000 had been applied to purchase new vehicles for Jingwei Transportation; and
- (5) The balance was used as working capital.

8. NUMBER OF EMPLOYEES AND THEIR EDUCATION LEVELS

As at 31st December 2000, the Group had 1,841 staff, of which 33 worked in the Company's headquarter, 1,794 worked in Shenyang Water and 14 worked in Real Estate Company.

418 staff of the Group had received university or higher education, and 159 technicians were of intermediate rank or above.

During the Year, the aggregate salary paid to the staff amounted to RMB44,318,000 (1999 Period: RMB14,367,000). The Group has not established any share option scheme for any of its senior management or staff.

The Group has provided a series of staff training programmes aimed at creating learning opportunities for all staff to enhance their capability.

9. RELATION WITH INVESTORS

The Company is setting up its web-site to enable investors to understand the business operations of the Company through interactive means and to communicate effectively with the Company in respect to the relevant issues. It is believed that competent communication with investors can enhance the transparency of the business operations and the management standard of the Company as well as strengthen the confidence of investors in the Company.