

Report of The Directors



The board of directors ("the Board") of the Company is pleased to present its report together with the audited accounts of the Group for the Year 2000.

1. PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Group is principally engaged in the production and sale of urban purified water and investment in a joint venture which is principally engaged in the production and sale of electricity and heat. The Group disposed of its entire interests in long distance bus services during the Year and commenced business in the real estate sector.

2. SUBSIDIARIES AND JOINT VENTURES

The subsidiaries of the Company, Shenyang Water and Real Estate Company, were incorporated in the PRC with the Company holding 99.37% and 99% equity interests respectively.

The Company holds 22.50% equity interests in Shenhai Co-generation which was incorporated in the PRC.

3. RESULTS AND FINANCIAL POSITION

The Group's results for the Year are set out in the consolidated profit and loss account on page 41.

The Group's financial position as at 31st December 2000 is set out in the consolidated balance sheet on page 42.

The Group's cash flow for the Year are set out in the consolidated cash flow statement on page 44.

4. ANALYSIS OF RESULTS

Analysis of the results of the Group for the Year is set out in the Management Discussion and Analysis section, on pages 19 to 26.

5. INTERIM DIVIDEND

At the Board of Directors meeting of the Company held on 25th August 2000, it was resolved to declare the distribution of an interim dividend of RMB0.06 per share in cash, totalling RMB61,224,000 for 2000. The dividend was distributed on 25th October 2000 to those shareholders whose names appeared as registered members of the Company at the close of business on 29th September 2000.

6. FINAL DIVIDEND

The Board has resolved to declare a final dividend of RMB0.05586 per share in cash, totalling RMB57,004,000. According to the Articles of Association of the Company, payment of dividends to the domestic shareholders will be made in Renminbi, while payment to shareholders of the H shares will be made in Hong Kong dollars at the average closing rate of exchange of Renminbi to Hong Kong dollars during the week immediately preceding the date (i.e. 23rd March 2001). Payment of dividends was declared (i.e. HK\$1.00 to RMB1.0613) as indicated by the People's Bank of China. Final dividends of HK\$0.05263 and RMB0.05586 per H Share and domestic shares will be distributed respectively. Payment of such dividends will be made on Monday, 18th June 2001 to those shareholders whose names appear as registered members of the Company on Wednesday, 11th April 2001.

7. BOOK CLOSURE

The Register of Members of the Company will be closed from Wednesday, 11th April 2001 to Friday, 11th May 2001 (both days inclusive) during which no transfer of H shares will be effected. Holders of H shares who would like to receive final dividends should dispatch their transfer documents together with the relevant share certificates to the share registrar of the Company at: Hong Kong Registrars Limited ("HKRL"), 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, before 4:00pm, Tuesday, 10th April 2001 for registration.

8. RESERVES

Details of the reserves of the Group and the movements therein during the Year are set out in note 27 on page 63.

9. DONATION

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

10. FIXED ASSETS

Details of the movements in the fixed assets of the Group during the Year are set out in note 14 on page 56.

11. SHARE CAPITAL

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

Types of shares	Number of shares	Percentage
Domestic invested 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.

12. DISTRIBUTABLE RESERVES

Details of distributable reserves of the Group during the Year are set out in note 27(d) on page 65.

13. FIVE-YEAR FINANCIAL HIGHLIGHTS

Highlights of results of the Group during the Year and the past years are set out in "Financial Highlights" on pages 5 and 6.

14. TAX PREFERENTIAL TREATMENT

Pursuant to a document and an approval issued by Liaoning Provincial Government on 13th February 1999 and the Finance Bureau of Shenyang Economic and Technological Development Zone on 13th August 1999 respectively, the Group has been granted preferential treatment for refund of enterprise income tax effective from 2nd July 1999. The effective income tax rate of the Group is 15%. Accordingly, the Group is entitled to a refund of tax at the rate of 18% after calculating the Group's income tax at the standard rate of 33%.

On 11th January 2000, the State Council of the PRC issued a notice (Guofa [2000] No. 2) stipulating the suspension of "arrangement for payment of tax and refund afterwards" policy, adopted by the respective local governments from 1st January 2000 onwards. On 13th October of the same year, the Ministry of Finance of the PRC issued a document (Caishui [2000] No. 99) stipulating that the treatment for refund of income tax at the rate of 18% (effective tax rate is 15%) granted to listed companies after payment of the income tax at the standard rate of 33%, was extended to 31st December 2001. Accordingly, the Group can still enjoy refunds of tax during the Year. The income tax refund for the Year was approximately RMB45,266,000.

No tax reduction and exemption was enjoyed by holders of the listed securities of the Company for their holding of such securities.

15. FINANCIAL IMPACT ON THE COMPANY FOR STAFF QUARTERS REFORM IN THE PRC

The Ministry of Finance of the PRC issued a notice (Caiqi [2000] No. 295) ("the Notice") on 6th September 2000 in relation to the financial issues with respect to the reform in the staff quarters policy. Upon examination of the relevant articles of the Notice, the Group was of the view that as they do not have any balance of house revolving funds which was carried forward in its accounts during its incorporation in 1999, and seeing as no accommodation was constructed, purchased or sold to staff members, there was no material impact for the Notice on the results and financial position of the Group during the Year.

With response to the "Housing Reserves Management Ordinance" stipulated by the PRC government, the Shenyang municipal government issued the Shenfangweihuifa [2000] No. 3 document on 28th December 2000, in respect of the amendment to the basis and ratio of contribution for corporate housing reserves. From 1st January 2001, the basis of contribution for the housing reserves was changed from an average monthly salary income in 1999 to that in 2000 and the contribution ratio of contributions by the Company was therewith increased from 6% to 8%.

16. MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the Group's sales to its five largest customers accounted for approximately 97.5% of the Group's total sales, of which sales to SWGC, the largest customer, accounted for 97.20% of the Group's total sales of the Year. Purchases from the five largest suppliers for the Year accounted for 88.00% of the Group's total purchases, of which purchases from the Shenyang Electricity Bureau, the largest supplier, accounted for 53% of the Group's total purchases of the Year.

The Company's controlling shareholder, SPU, which owns 100% of the equity interest in the Group's largest customer, SWGC, and director Mr. Zhang Guo Xiang who is also the General Manager of SWGC, none of the directors, their associates or any shareholder to which the knowledge of the directors (owns 5% or more of the share capital of the Company) had an interest in the above-mentioned five largest suppliers or customers.

17. DIRECTORS AND SUPERVISORS

Directors and supervisors during the Year were as follows:

Directors: Mr. Zhang Guo Xiang, Mr. Ma Ying, Mr. Chan Kam Ling, Mr. Zhang Ying Jian, Mr. Wang Se, Ms. Li Xiao Yang (tendered her resignation in February 2001), Mr. Lin Wen Bin, Mr. Jacques L?tondot, Mr. Liu Gang, Mr. Liu Ting Yi, Mr. Huang Hai, Mr. Xu Ji Liang (tendered his resignation in August 2000), Mr. Chen Jia Sheng, Mr. Lu Tie Nan, Mr. Xin Rui Ting (resigned in May 2000) and Mr. Xia Ren Fan (resigned in May 2000).

Messrs Xu Ji Liang, Chen Jia Sheng and Lu Tie Nan were independent non-executive directors. Their term of office is three years and will conclude in 2002.

Supervisors: Mr. Wang Guang Zhou, Mr. Geng Jian Wei (tendered his resignation in March 2001), Mr. Li Jing Li, Mr. Zhang Yun Peng, Mr. Hu Pei Hua, Mr. Lin Xin Rong and Mr. Ma Hui.

18. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the directors and supervisors has entered into a service contract with the Company. The service contracts of 9 directors and 5 supervisors are for a term of three years, from 13th August 1999 to 12th August 2002; 1 director and 2 supervisors serve for a term from 25th September 1999 to 12th August 2002; 2 directors serve for a term from 24th November 1999 to 12th August 2002; and 2 directors serve for a term from 19th June 2000 to 12th August 2002.

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.

19. BIOGRAPHY OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

A biography of directors, supervisors and senior management of the Company is set out from page 12 to 18.

20. DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES

During the Year, the Company did not make any arrangement for directors, supervisors, chief executive officers or their spouses or their children under 18 years old, to acquire benefits by means of the acquisition of the Company's shares.

21. DIRECTORS' AND SUPERVISORS' INTERESTS IN BUSINESS CONTRACTS

The director, Mr. Zhang Guo Xiang, who is also the General Manager of SWGC, no contracts of significance in relation to the Company's business to which the Company, any of its subsidiaries and holding company was a party and in which any director or supervisor had a material interest, whether directly or indirectly, subsisted at any time during the Year or at the end of the Year.

22. REMUNERATION OF DIRECTORS AND SUPERVISORS

Apart and except for Messrs Chan Kam Ling and Jacques Letondot, each director will receive an annual salary of RMB20,000. The service contracts do not state any adjustment to the annual salary of the directors. The executive directors may be entitled to certain cash bonuses according to the profitability of the Company upon the Board's approval (in which case the interested directors will abstain from voting) and are entitled to the welfare benefit provided under the relevant PRC laws and regulations. Non-executive directors are only entitled to the welfare benefit provided under the relevant PRC laws and regulations. Each supervisor will receive an annual salary of RMB10,000. The supervisors are not entitled to any beneficial interests that are not generally available to other employees.

23. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S RIGHTS TO ACQUIRE SHARES IN THE COMPANY

At no time during the Year have the directors, supervisors or senior management purchased or held any shares in the Company nor acquired any benefits through the disposal of the Company's shares.

24. SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Article 16(1) of the Securities (Disclosure of Interests) Ordinance as at 31st December 2000 disclosed that the following companies have an interest amounting to 10% or more of the relevant issued share capital of the Company:

- (1) SPU holds all of the 600,000,000 domestic shares in issue, representing 58.80% of the total issued share capital of the Company.
- (2) Sino-French Liaoning holds 99,000,000 H shares*, representing 23.54% of the issued H shares of the Company.
- (3) HSBC holds 75,680,200 H shares, representing 18.00% of the issued H shares of the Company.
- (4) Citibank NA holds 43,700,000 H shares, representing 10.39% of the issued H shares of the Company.

* Sino-French Water Development Co. Ltd. ("Sino-French Water"), Sino-French Holdings (Hong Kong) Ltd., Beauty Ocean Ltd., Lotsgain Ltd., New World Infrastructure Limited, Mombasa Ltd., Sea Walker Ltd., New World Development Co., Ltd. and Chow Tai Fook Enterprise Co., Ltd. are deemed to have interests in the H shares.

As disclosed above, the Company has not been notified of any interest in the issued share capital of the Company which was required to be disclosed pursuant to the Securities Ordinance (Disclosure of Interests) during the Year.

25. MANAGEMENT CONTRACT

During the Year, the Group continued to comply with the terms of the "Technology and Operations Services Agreement" entered into with Sino-French Water on 21st November 1999. Pursuant to the agreement, Sino-French Liaoning, a wholly-owned subsidiary of Sino-French Water, shall send a management team which includes the General Manager of Shenyang Water to provide all water plants of Shenyang Water with technology and management services and continue to provide advanced technological support and the best management measures. The Group shall pay a fixed fee of RMB5,000,000 per annum to Sino-French Liaoning in respect of the services provided by that company. The agreement is valid for 10 years.

26. CONNECTED TRANSACTIONS

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

- (1) sale of purified water to SWGC by Shenyang Water, with total sales of RMB595,285,000 (1999 Period: RMB207,772,000);
- (2) purchase of surface water from SWGC by Shenyang Water, with a total purchase amount of RMB56,452,000 (1999 Period: Nil);
- (3) lease of office from Shenyang Water Services General Company ("Water Services General Company"), a subsidiary of SWGC, by Shenyang Water, with total rental of RMB420,000 (1999 Period: RMB210,000);
- (4) lease of land to Water Services General Company by Shenyang Water, with total rental of RMB90,000 (1999 Period: RMB45,000);
- (5) lease of the buildings and structures on the terminal from Shenyang Passenger Transportation Group ("Passenger Transportation Group"), a fellow company of the Company, by Jingwei Transportation, with total rental of RMB1,087,500 (1999 Period: RMB725,000); and
- (6) lease of land to Passenger Transportation Group by Jingwei Transportation, with total rental of RMB225,000 (1999 Period: RMB150,000).

Water fee receivable from SWGC amounting to RMB97,300,000 as at 31st December 2000 has been recovered after the balance sheet date. In accordance with the terms of the relevant water supply agreement, the balance of the accounts receivable amounting to RMB66,272,000 should be recovered before 31st May 2001.

The Stock Exchange has granted a waiver for the requirements of approval by shareholders for the connected transactions set out in (1) and (2) above.

Independent non-executive directors of the Company have reviewed the above-mentioned connected transactions and expressed their opinions. Details of their opinion are set out on page 34 under the section "Work of the Audit Committee".

27. PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

During the Year, there was no purchase, sale or redemption of the Company's shares.

28. SIGNIFICANT EVENTS

(1) Change of Directors

The resignation of Messrs. Xin Rui Ting and Xia Ren Fan, who held the positions of executive director and non-executive director of the Company respectively, was approved in the seventh session of the 1st Board of Directors (extraordinary) meeting. As recommended by SPU, the controlling shareholder of the Company, Messrs. Zhang Guo Xiang and Liu Ting Yi were elected as executive director and non-executive director of the Company respectively at the 1999 Annual General Meeting of the Company held on 19th June 2000. The relevant matters were announced in newspapers in Hong Kong on 7th June 2000 and 20th June 2000 respectively.

(2) Change of Chairman

The resignation as the Chairman of the Company tendered by Mr. Lin Wen Bin (for personal reasons), was approved in the eighth session of the 1st Board of Directors meeting. Mr. Zhang Guo Xiang was elected as the new Chairman of the Company at the meeting. The relevant matter was announced in newspapers in Hong Kong on 20th June 2000.

(3) Sale of Equity Interest in Jingwei Transportation

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 significant increase in the charge for passenger transportation fund, the business environment for the Group's long distance bus services was deteriorating continuously. In order to safeguard the interests of the shareholders, the Company approved in the tenth session of the 1st Board of Directors meeting, the disposal of all equity interest in Jingwei Transportation to Shenyang Zheng Xing Enterprise (Group) Company Limited for a consideration of RMB69,013,000. The proceeds from the disposal of the business and the balance of the proceeds from the H shares issue will be used as additional working capital of the Group instead of the original intention to purchase new vehicles. It is planned that such amounts will be used to invest in other more profitable public utilities in the city. The relevant matters were announced in the newspapers in Hong Kong on 21st December 2000.

29. BANK BORROWINGS

As at 31st December 2000, the repayment term of the Group's bank borrowings of RMB250,000,000 is either repayable on demand or repayable within one year. The bank borrowings were used as the working capital of the Group. During the Year, the Group had no delay in repaying of bank borrowings.

30. TRUST DEPOSITS

During the Year, the Group had placed a trust deposit in the sum of RMB40,000,000 with China Everbright Bank (Huanggu Branch, Shenyang) for a short time. The Company earned an income of RMB2,969,000 from the deposit. The deposit was totally recovered by 31st December 2000.

31. RETIREMENT SCHEME

Details of the retirement scheme and the amount of contributions to the retirement scheme are set out in note 6 on page 52.

32. 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 on a pro-rata basis to existing shareholders.

33. WORK OF THE AUDIT COMMITTEE

Pursuant to the Code of Best Practice as set out in Appendix 14 of the Listing Rules, the Company formed an Audit Committee at the fifth session of the Board of Directors meeting. The main function of the Committee, which is a special committee under the Board of Directors, is to review and supervise the financial reporting procedures of the Group. The Audit Committee comprises three independent non-executive directors of the Company, namely Messrs. Xu Ji Liang, Chen Jia Sheng and Lu Tie Nan.

At the meeting held on 19th March 2001, the Audit Committee reviewed the accounts of the Company and expressed its opinion in respect of the connected transactions of the Company as follows:

- (1) The information disclosed in the accounts of the Company is complete, accurate and fair and the accounting policies adopted are correct, without any material problems being discovered.
- (2) The connected transactions of the Company have been carried out:
 - A in the ordinary and usual course of business of the Company;
 - B on normal commercial terms (by reference to transactions of a similar nature and as made by similar entities in the PRC) or (where there is no available comparison) on terms no less favourable than those available to third parties;
 - C in accordance with the terms of the respective agreements governing such transactions, except those overdue receivables;
 - D are fair and reasonable so far as the shareholders of the Company are concerned; and
 - E the value of the connected transactions as a percentage of the Group's turnover does not exceed the respective maximum amount in respect of the waiver for the connected transactions granted by the Stock Exchange, that is, the sales of purified water accounted for 97.17% but less than 100% of the Group's turnover and the purchase of raw water from SWGC accounted for 9.21% but less than 15% of the Group's turnover.

34. CODE OF BEST PRACTICE

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

35. MATERIAL LITIGATION

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

36. AUDITORS

The accounts of the Group prepared in accordance with the accounting principles generally accepted in Hong Kong have been audited by PricewaterhouseCoopers, Certified Public Accountants. A resolution will be submitted in the 2000 Annual General Meeting to re-appoint PricewaterhouseCoopers, Certified Public Accountants, as international auditors of the Company.

37. PUBLICATION OF FURTHER INFORMATION ON THE WEB-SITE OF THE STOCK EXCHANGE

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

By Order of the Board

Zhang Guo Xiang

Chairman

23rd March 2001, Shenyang, the PRC