

# Notes To The Accounts

## 1. GENERAL

Shenyang Public Utility Holdings Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 2nd July 1999 as a joint stock limited company by promotion method with Shenyang Public Utility Group Company Limited ("SPU") acting as the sole promoter. On 16th December 1999, the Company's H shares were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (collectively the "Group") are the production and sale of purified water and investment in a joint venture, which is engaged in coal-fired power and heat generation in the PRC. During the year, the Group disposed of its entire interest in the long distance passenger bus service business (the "bus business") and commenced operation in property development.

## 2. COMPARATIVE PRO FORMA RESULTS

These accounts cover the prior year results of the Group for the period from 2nd July 1999 (date of incorporation) to 31st December 1999 (the "1999 Period").

For comparison purpose, the pro forma results for the year ended 31st December 1999 (the "pro forma results") have been prepared as if the Group had been in existence throughout that year.

In preparing the pro forma results, the historical operating results of the Group prior to the incorporation of the Company have been adjusted by the following:

- (a) The water production plants and certain ancillary units (the "water plants") acquired from SPU were previously water treatment units, without legal existence, of Shenyang Water General Corporation ("SWGC"), an enterprise owned by SPU and were cost centres for financial reporting purposes. Given their historical status as cost centres, the water plants were never attributed any revenue to reasonably reflect the operating results of their economic activities. The pro forma results have been prepared by making notional adjustments to record notional revenue, and related notional value-added tax and surcharges, computed on a pro forma basis based on the water supply agreement executed by Shenyang Water Company Limited ("Shenyang Water"), a subsidiary of the Company, after its incorporation as if it had become effective since 1st January 1999; and

- (b) Prior to the incorporation of the Company, the Group was not subject to PRC income tax charge as the water plants have no assessable profit and the bus business was not a separate entity for tax purposes. Adjustments have been made to provide for notional income tax at the rate of 33% and a notional refund of 18% by way of subsidies as described in Note 9(a) to the accounts.

### **3. PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the accounts for the year are as follows:

#### **(a) Basis of preparation**

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HK GAAP"). The accounts are prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

#### **(b) Consolidation**

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Any gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**(c) Interest in a joint venture**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The interest in a joint venture, which is a jointly controlled entity, is accounted for using the equity method. The consolidated profit and loss account includes the Group's share of the results of the jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity.

In the Company's balance sheet, the interest in the jointly controlled entity is stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of the jointly controlled entity are accounted for by the Company on the basis of dividends received and receivable.

**(d) Revenue recognition**

- (i) Revenue from the sale of purified water is recognised when delivery is made;
- (ii) Rental income is recognised pro-rata over the lease period;
- (iii) Revenue from the provision of bus terminal services is recognised when such a service is rendered;
- (iv) Interest income is recognised on an accrual basis; and
- (v) Government subsidy and investment income are recognised when the right to receive it is confirmed.

**(e) Fixed assets**

Fixed assets are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase cost and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Independent valuations of land use rights and properties, comprising buildings and wells, are performed regularly. In the intervening periods, the Directors review the carrying value of the land use rights and the properties and adjustment is made where they consider there has been a material change. Increases in valuation are credited to the asset revaluation reserve. Decreases in valuation are first offset against increases on earlier valuation in respect of the same asset and are thereafter debited to the profit and loss account. Any subsequent increases are credited to the profit and loss account up to the amount previously debited. Upon the disposal, the relevant portion of the realised revaluation reserve in respect of the previous valuation is transferred from the asset revaluation reserve to retained earnings.

The carrying amounts of other fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. When such a decline has occurred, their carrying amount is reduced to their recoverable amount. Recoverable amount is the amount which the Group expects to recover from the future use of the asset, including its residual value on disposal. Expected future cash flows have not been discounted in determining the recoverable amount.

The amount of the reduction to recoverable amount is charged to the profit and loss account, unless it reverses a previous revaluation increase, in which case it is charged directly against any related revaluation reserve to the extent that the reduction does not exceed the amount held in the revaluation reserve in respect of the same item or group of identical assets.

Amortisation of land use rights is calculated to write off their cost on a straight line basis over the land use rights period of 25 to 50 years. Depreciation of other fixed assets is calculated on the straight-line basis to write off the cost or valuation of each asset, less its estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are:

Buildings	2% to 10%
Wells, pipelines, plant and machinery	5% to 10%
Motor vehicles, furniture, fixtures and office equipment	8% to 16%

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. The expenses relating to the improvements of fixed assets are capitalised and amortised over their expected useful lives to the Group.

**(f) Construction-in-progress**

Construction-in-progress represents fixed assets under construction and is stated at cost. This includes the costs of construction as well as the costs of borrowings used to finance the construction during the construction period.

**(g) Investment securities**

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

**(h) Properties under development for sale**

Properties held under development for sale are included in current assets at cost plus attributable profits taken to date, where appropriate, less any foreseeable losses and sale instalments received and receivable. Cost comprises land cost, including fees for obtaining land use rights and expenditure for demolition and resettlement, and development costs, including attributable interest and other relevant direct costs capitalised during the development period.

**(i) Inventories**

Inventories comprise consumable supplies and spare parts held for consumption and usage and are stated at cost less provision for obsolescence. Cost comprises purchase price and other cost incurred in bringing the inventories to their present location and condition. Cost is determined on the weighted average basis.

Consumable supplies and spare parts are charged to profit and loss account upon consumption and usage.

**(j) Operating leases**

Leases where substantially all the risks and rewards of ownership of the assets remain with the lessors are accounted for as operating leases. Payments/receipts made under operating lease are credited/charged to the profit and loss account on a straight-line basis over the lease term.

**(k) Deferred taxation**

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

**(l) Translation of foreign currencies**

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

**(m) Retirement benefits**

The Group participates in a local municipal government retirement benefit scheme whereby it is required to make contribution at a certain percentage of the total salary paid to the Group's employees for the year. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Group. Contribution to the scheme is charged to the profit and loss account as incurred.

**(n) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

#### 4. TURNOVER

	<b>Year ended</b> <b>31st December 2000</b> <b>RMB'000</b>	Period from 2nd July 1999 (date of incorporation) to 31st December 1999 RMB'000
Sales of purified water	595,285	207,772
Rental income from leasing of buses and bus routes	15,620	12,930
Income from provision of bus terminal services	1,735	1,464
	612,640	222,166

No segment information is provided as over 90% of the consolidated turnover and operating results of the Group are derived from sales of purified water in the PRC.

#### 5. OTHER REVENUES

	<b>Year ended</b> <b>31st December 2000</b> <b>RMB'000</b>	Period from 2nd July 1999 (date of incorporation) to 31st December 1999 RMB'000
Government subsidies - income tax refund (Note 9(a))	45,266	20,852
Interest income from joint venture	6,387	3,824
Bank interest income	27,200	2,426
Rental income from leasing of land use rights	315	195
Investment income from unlisted investments	2,969	-
	82,137	27,297

## 6. EMPLOYEE COSTS

	<b>Year ended</b> <b>31st December 2000</b> <i>RMB'000</i>	Period from 2nd July 1999 (date of incorporation) to 31st December 1999 <i>RMB'000</i>
Salaries, allowances and bonuses	44,318	14,367
Contribution to retirement fund (note (a))	7,267	3,245
Others	2,760	822
	54,345	18,434

- (a) The Group participates in a local municipal government retirement benefit scheme whereby it is required to make contributions at a certain percentage of the total salary paid to the Group's employees for the year. The rate of contributions in 2000 is 25.5% (1999 Period: 25.5%) of which 23.5% is for retirement benefits and 2% for unemployment benefits. In return for the contributions made, the local municipal government has undertaken to assume the retirement benefits obligations for the employees of the Group. Under the current regulations, the staff should not leave the scheme prior to retirement. During the year, there is no forfeited contribution used by the employer to reduce the future level of contributions (1999 Period: Nil).

## 7. OTHER OPERATING EXPENSES

	<b>Year ended</b> <b>31st December 2000</b> <i>RMB'000</i>	Period from 2nd July 1999 (date of incorporation) to 31st December 1999 <i>RMB'000</i>
Other operating expenses are stated after charging:		
Rentals paid under operating leases - buildings	3,464	1,696
Loss on disposal of fixed assets	3,841	1,930
Auditors' remuneration	2,000	2,500



## 8. FINANCE COSTS

	<b>Year ended</b> <b>31st December 2000</b> <i>RMB'000</i>	Period from 2nd July 1999 (date of incorporation) to 31st December 1999 <i>RMB'000</i>
Interest on bank loans (all wholly repayable within 5 years)	11,114	61
Less: amount capitalised in properties under development for sale	(344)	-
	10,770	61

The capitalisation rate in respect of funds borrowed generally and used for the development of properties under development for sale is approximately 5.26% (1999 Period: Nil) per annum.

## 9. TAXATION

	<b>Year ended</b> <b>31st December 2000</b> <i>RMB'000</i>	Period from 2nd July 1999 (date of incorporation) to 31st December 1999 <i>RMB'000</i>
The Group: PRC income tax charges	108,274	38,229
The joint venture: PRC income tax charge	2,964	3,594
	111,238	41,823

- (a) All PRC domestic enterprises are subject to a unified income tax rate of 33% on their taxable profit unless special arrangement is made and approved by the relevant PRC government authorities. Pursuant to the approval document dated 13th February 1999 issued by the Liaoning Provincial Government, the Group is subject to an effective income tax rate of 15% as the Finance Bureau of Shenyang Economic and Technological Development Zone will refund the 18% by way of government subsidies. The income tax refund for the year ended 31st December 2000 of RMB45,266,000 (1999 Period: RMB20,852,000) was received in January 2001 and recorded as other revenue for the year (Note 5).

- (b) Pursuant to the circular "Guofa [2000] No.2" issued by the State Council on 11th January 2000, effective from 1st January 2000, any tax refund or subsidies granted by local government authorities should be terminated. However, pursuant to the circular "Caishui [2000] No.99" subsequently issued by the Ministry of Finance of the PRC on 13th October 2000, the income tax refund subsidy arrangements granted by local government authorities could be extended to 31st December 2001.
- (c) In accordance with various approval documents issued by the State Administration of Taxation of the PRC, Shenyang Shenhai Hot Electricity Company Limited ("Shenhai Co-generation"), being a sino-foreign joint venture company engaged in power generation, is subject to an income tax rate of 15% plus local surcharge and was exempt from income tax starting from 1994 for two years, followed by a 50% reduction in income tax rate and an exemption of local surcharge for the next three years. In accordance with an approval document issued by the Shenyang State Tax Bureau in 2000, Shenhai Co-generation was also exempt from the 3% local income tax surcharge up to 31st December 2000, followed by a 50% reduction for the next three years.
- (d) No provision for Hong Kong profits tax has been made in the accounts as the Group has no income assessable to Hong Kong profits tax for the year (1999 Period: Nil).
- (e) As at 31st December 2000 and during the year, the Group did not have any significant unprovided deferred tax asset or liability (1999 Period: Nil).

## **10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB232,520,000 (1999 Period: RMB54,293,000).

## 11. DIVIDENDS

	<b>Year ended</b> <b>31st December 2000</b> <i>RMB'000</i>	Period from 2nd July 1999 (date of incorporation) to 31st December 1999 <i>RMB'000</i>
Interim, paid, of RMB0.06 (1999 Period: Nil) per ordinary share	61,224	-
Final, proposed, of RMB0.05586 (1999 Period: Nil) per ordinary share	57,004	-
Final, paid, of Nil (1999 Period: RMB0.0605) per ordinary share	-	36,300
	118,228	36,300

## 12. EARNINGS PER SHARE

The calculation of earnings per share for the year is based on the profit after taxation and minority interests for the year of RMB287,900,000 (1999 Period: RMB107,092,000) and the number of 1,020,400,000 ordinary shares (1999 Period: weighted average of 636,756,000 ordinary shares) in issue during the year.

The calculation of pro forma earnings per share for the year ended 31st December 1999 is based on the pro forma profit after taxation and minority interests for the year of RMB222,047,000 and the weighted average number of ordinary shares of 618,428,000 in issue during that year, on the assumption that the group reorganisation, which the Group underwent on the date of incorporation, had been completed on 1st January 1999 and that the 600,000,000 shares issued pursuant to the said reorganisation had been in issue since 1st January 1999.

### 13. EMOLUMENTS OF DIRECTORS AND SUPERVISORS

- (a) The aggregate amounts of emoluments payable to directors and supervisors of the Company during the year are as follows:

	<b>Year ended</b> <b>31st December 2000</b> <b>RMB'000</b>	Period from 2nd July 1999 (date of incorporation) to 31st December 1999 RMB'000
Fees	417	-
Salaries and other benefits	725	92
Contributions to retirement fund	135	20
	1,277	112

Directors' fees disclosed above include RMB80,000 (1999 Period: Nil) paid to three independent non-executive directors.

(b) **Number of directors and supervisors**

	<b>Year ended</b> <b>31st December 2000</b>	Period from 2nd July 1999 (date of incorporation) to 31st December 1999
Received emoluments	21	7
Did not receive emoluments	2	14
	23	21

The emoluments of each of the directors and supervisors who received emoluments were below RMB1,065,000 (HK\$1,000,000) for the year and the 1999 Period.

- (c) The five individuals whose emoluments were the highest in the Group were also directors and their emoluments are reflected in the analysis presented above.

## 14. FIXED ASSETS

	Group					
	Land use rights Total RMB'000 RMB'000	Buildings and wells RMB'000	Plant and machinery RMB'000	Pipelines RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000
Cost or valuation						
At 1st January 2000	317,109 630,130	148,028	90,665	47,979	25,264	1,085
Additions	56,089 287,014	83,717	75,941	59,274	8,087	3,906
Transferred from construction-in-progress	- 13,514	12,352	746	44	-	372
Disposal of a subsidiary	(41,708) (65,810)	(8,045)	(595)	-	(15,267)	(195)
Disposals	- (7,843)	(4,587)	(1,940)	(779)	(255)	(282)
At 31st December 2000	331,490 857,005	231,465	164,817	106,518	17,829	4,886
Cost or valuation analysis						
At cost	56,089 438,779	88,640	164,817	106,518	17,829	4,886
At valuation	275,401 418,226	142,825	-	-	-	-
	331,490 857,005	231,465	164,817	106,518	17,829	4,886
Accumulated depreciation						
At 1st January 2000	1,652 68,957	57,887	3,969	2,927	2,454	68

Charge for the year	8,388 48,273	13,480	13,303	8,407	4,185	510
Disposal of a subsidiary	(868) (7,861)	(2,705)	(57)	-	(4,211)	(20)
Disposals	- (3,616)	(3,218)	(232)	(45)	(72)	(49)
At 31st December 2000	9,172 105,753	65,444	16,983	11,289	2,356	509
Net book value						
At 31st December 2000	322,318 751,252	166,021	147,834	95,229	15,473	4,377
At 31st December 1999	315,457 561,173	90,141	86,696	45,052	22,810	1,017
Net book value if stated at cost						
At 31st December 2000	307,795 716,046	145,338	147,834	95,229	15,473	4,377
At 31st December 1999	296,457 517,560	65,528	86,696	45,052	22,810	1,017
Additional depreciation due to revaluation						
For the year	311 1,739	1,428	-	-	-	-
For the 1999 Period	99 474	375	-	-	-	-

- **Company**

	<b>Furniture, fixtures and Motor vehicles</b>	<b>office equipment</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>

Cost			
At 1st January 2000	2,051	388	2,439
Additions	1,778	270	2,048
At 31st December 2000	3,829	658	4,487
Accumulated depreciation			
At 1st January 2000	40	25	65
Charge for the year	290	91	381
At 31st December 2000	330	116	446
Net book value			
At 31st December 2000	3,499	542	4,041
At 31st December 1999	2,011	363	2,374

- (a) All of the Group's buildings are located in the PRC. The land on which the Group's buildings are erected has been granted lease periods ranging from 25 to 50 years.
- (b) In preparing for the listing of the Company's H shares on the Stock Exchange, all of the Group's land use rights and properties as at 30th September 1999 with an aggregate net book value of RMB364,416,000 were revalued by Sallmanns (Far East) Ltd., an international independent valuer, on the open market and depreciated replacement cost bases at RMB408,503,000. The surplus on revaluation which has been incorporated into the Group's accounts is not available for distribution to shareholders until the disposal or retirement of the asset concerned. The revaluation does not contribute a timing difference and deferred tax has therefore not been quantified.

## 15. INTEREST IN JOINT VENTURE

	Group		Company	
	2000	1999	2000	1999
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted investment, at cost	-	-	79,952	79,952
Share of net assets	98,699	80,219	-	-
Due from joint venture (note (b))	66,763	89,147	66,763	89,147
	165,462	169,366	146,715	169,099

- (a) As at 31st December 2000, the Company held a 22.5% (1999: 22.5%) equity interest in Shenhai Co-generation which is a joint venture company established in the PRC and engaged in the production and sale of electricity and heat. The joint venture is for a period of 20 years commencing from 1993. At the end of the joint venture period, residual assets of the joint venture will be distributed to the joint venture partners in proportion to their respective shares of interest. The following is a summary of certain financial information of the joint venture:

	Year ended	Period from
	31st December 2000	2nd July 1999 (date of incorporation of the Company) to 31st December 1999
	<i>RMB'000</i>	<i>RMB'000</i>
Results		
Turnover	536,731	285,984
Operating profit before taxation	95,305	105,323
Taxation	(13,171)	(15,974)
Operating profit after taxation	82,134	89,349
Share of profit after taxation attributable to the Group	18,480	20,104



	<b>31st December 2000</b>	31st December 1999
	<i>RMB'000</i>	<i>RMB'000</i>
Assets and liabilities		
Fixed assets	644,491	723,284
Other long-term assets	42,734	61,776
Current assets	276,456	297,994
Current liabilities	(170,224)	(272,248)
Long-term loans	(354,795)	(454,278)
Net assets	438,662	356,528
Share of net assets attributable to the Group by way of:		
Capital contributed	79,623	79,623
Share of reserves	19,076	596
	98,699	80,219

- (b) The amount due from joint venture is unsecured, bears interest at the rate of 8.01% (1999: 8.01%) per annum and is not repayable within one year from the balance sheet date.

## **16. SUBSIDIARIES**

	<b>Company</b>	
	<b>2000</b>	1999
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	732,022	465,886

As at 31st December 2000, the Company has direct interests in the following subsidiaries which were incorporated and are operating in the PRC and are limited companies:

<b>Name</b>	<b>Principal activities</b>	<b>Paid up capital</b>	<b>Percentage of interest in ownership</b>
Shenyang Water Company Limited	Production and sale of purified water	RMB754,830,000	99.37%
Shenyang Development Real Estate Company Limited	Development and sales of properties	RMB35,000,000	99.00%

During the year, the Company disposed of its entire 99% interest in a subsidiary - Shenyang Jingwei Passenger Transportation Company Limited to an unrelated party for a consideration of RMB69,013,000. The consideration was determined based on the value of net assets of the subsidiary as at 30th April 2000 as valued by a PRC independent valuer of RMB67,993,000 plus a premium of RMB1,020,000. The impact of the disposal which has resulted a discontinuance of the bus business operation is not significant to the Group's turnover and operating profit for the year and the 1999 Period.

## **17. INVESTMENT SECURITIES**

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted shares, at cost	20,000	-	20,000	-

## **18. ACCOUNTS RECEIVABLE**

Sales of the Group are on one to five months' credit terms. The aging analysis of accounts receivable is as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current	112,519	36,290	-	-
1-2 months	51,053	-	-	-
	163,572	36,290	-	-

The balance represented mainly water fee due from SWGC which is a fellow subsidiary of the Company. Of the amount, RMB97,300,000 has been settled subsequent to the year end date. The remaining balance of RMB66,272,000 is, in accordance with the relevant water supply agreement, due by 31st May 2001.

## **19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES**

Included in the prepayments, deposits and receivables of the Group was a receivable for subsidy of RMB45,266,000 (1999: RMB20,852,000) in respect of income tax refund (Note 9(a)). The amount has been subsequently received.

## **20. PROPERTIES UNDER DEVELOPMENT FOR SALE**

The amount represented mainly the cost for acquisition of land use rights. The Group will obtain the land use rights certificates upon full payment of land fee. As at 31st December 2000, the Group has not commenced the construction of the properties.

## **21. AMOUNT DUE FROM JOINT VENTURE**

The amount due from joint venture is unsecured, interest free and repayable on demand.

## **22. PLEDGED BANK DEPOSITS**

The amounts were pledged for bank loans amounting to RMB250,000,000 (1999: Nil) (Note 23).

## **23. BANK LOANS**

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Payable within one year				
Secured by bank deposits (Note 22)	250,000	-	230,000	-
Unsecured	-	20,000	-	-
	250,000	20,000	230,000	-

These bank loans bear interest at rates ranging from 5.022% to 5.265% (1999: 6.138%) per annum.

## 24. AMOUNTS DUE FROM SUBSIDIARIES AND DUE TO HOLDING COMPANY AND SUBSIDIARIES

The amounts are unsecured, interest free and repayable on demand.

## 25. ACCOUNTS PAYABLE

The aging analysis of the accounts payable is as follows:

	<b>Group</b>	
	<b>2000</b>	1999
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
Current	6,117	2,861
30-60 days	-	1,908
Over 60 days	-	1,192
	6,117	5,961

## 26. SHARE CAPITAL

	<b>Company</b>	
	<b>2000</b>	1999
	<i><b>RMB'000</b></i>	<i>RMB'000</i>
Registered, issued and fully paid		
600,000,000 State 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

Pursuant to the articles of association of the Company, except for the currency in which dividends are payable, the State shares and H shares issued by the Company rank pari passu with each other in all respects.

## 27. RESERVES

### - Group:

	Share premium (note (a)) <i>RMB'000</i>	Asset revaluation reserve <i>RMB'000</i>	Statutory surplus reserve (note (b)) <i>RMB'000</i>	Statutory public welfare reserve (note (c)) <i>RMB'000</i>	Retained earnings (note (d)) <i>RMB'000</i>	Total reserves <i>RMB'000</i>
On incorporation	59,402	-	-	-	-	59,402
Issue of H shares	263,856	-	-	-	-	263,856
Asset revaluation	-	43,646	-	-	-	43,646
Profit for 1999 Period	-	-	-	-	107,092	107,092
Transfer to reserve funds	-	-	20,253	10,127	(30,380)	-
Dividend (Note 11)	-	-	-	-	(36,300)	(36,300)
At 31st December 1999	323,258	43,646	20,253	10,127	40,412	437,696
Company and subsidiaries	323,258	43,646	20,253	10,127	39,816	437,100
Joint venture	-	-	-	-	596	596
At 31st December 1999	323,258	43,646	20,253	10,127	40,412	437,696
At 1st January 2000	323,258	43,646	20,253	10,127	40,412	437,696
Profit for the year	-	-	-	-	287,900	287,900
Disposal of a subsidiary	-	(5,301)	(326)	(163)	5,790	-
Disposal of revalued fixed assets	-	(1,313)	-	-	1,313	-
Transfer to reserve funds	-	-	44,395	22,197	(66,592)	-
Dividends (Note 11)	-	-	-	-	(118,228)	(118,228)
At 31st December 2000	323,258	37,032	64,322	32,161	150,595	607,368
Company and subsidiaries	323,258	37,032	64,322	32,161	131,519	588,292
Joint venture	-	-	-	-	19,076	19,076
At 31st December 2000	323,258	37,032	64,322	32,161	150,595	607,368

- **Company:**

	<b>Share premium (note (a)) RMB'000</b>	<b>Statutory surplus reserve (note (b)) RMB'000</b>	<b>Statutory public welfare reserve (note (c)) RMB'000</b>	<b>Retained earnings (note (d)) RMB'000</b>	<b>Total reserves RMB'000</b>
On incorporation	59,402	-	-	-	59,402
Issue of H shares	263,856	-	-	-	263,856
Profit for 1999 Period	-	-	-	54,293	54,293
Transfer to reserve funds	-	10,505	5,253	(15,758)	-
Dividend (Note 11)	-	-	-	(36,300)	(36,300)
As 31st December 1999	323,258	10,505	5,253	2,235	341,251
At 1st January 2000	323,258	10,505	5,253	2,235	341,251
Profit for the year	-	-	-	232,520	232,520
Transfer to reserve funds	-	23,574	11,787	(35,361)	-
Dividends (Note 11)	-	-	-	(118,228)	(118,228)
At 31st December 2000	323,258	34,079	17,040	81,166	455,543

**(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 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 share capital.

**(c) Statutory public welfare reserve**

The Group is required to transfer 5% to 10% of their profit after taxation prepared in accordance with 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 during the year (1999 Period: Nil).

**(d) Distributable reserves**

Pursuant to relevant PRC regulations, profit available for distribution to shareholders shall be the lower of the accumulated distributable profits determined in accordance with PRC accounting standards and regulations as stated in the PRC statutory accounts and the accumulated distributable profits adjusted in accordance with HK GAAP. In the PRC statutory accounts and the HKGAAP accounts as at 31st December 2000, retained earnings after appropriation available to be carried forward for distribution to shareholders in future years amounted to RMB135,119,000 (1999: RMB52,992,000) and RMB81,166,000 (1999: RMB2,235,000) respectively. As such, distributable reserves of the Company as at 31st December 2000, amounted to RMB81,166,000 (1999: RMB2,235,000).

**28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

**(a) Reconciliation of operating profit to net cash inflow from operating activities:**

	<b>Period from 2nd July 1999 Year ended (date of incorporation) to 31st December 2000</b>	<b>31st December 1999</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Profit from operations	390,084	126,272
Gain on disposal of a subsidiary	(7,898)	-
Interest income from bank deposits	(27,200)	(2,426)
Interest income from joint venture	(6,387)	(3,824)
Investment income	(2,969)	-
Depreciation and amortisation charges	48,273	16,681
Loss on disposal of fixed assets	3,841	1,930

Increase in inventories	(226)	(108)
Increase in properties under development for sale	(201,723)	-
Increase in accounts receivable, prepayments, deposits and other receivables	(204,228)	(142,129)
Decrease in amount due from joint venture	18,776	7,372
(Decrease)/increase in amount due to holding company	(10,141)	21,460
Increase in accounts payable, other payables and accrued charges	10,687	16,495
Net cash inflow from operating activities	10,889	41,723

**(b) Analysis of changes in financing during the year**

	Share capital and share premium		Minority interests		Short-term bank loans		Pledged bank deposits	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
At 1st January /								
date of incorporation	1,343,658	659,402	6,141	4,789	20,000	-	-	-
Issue of H shares	-	760,634	-	-	-	-	-	-
H shares issuing expenses	-	(76,378)	-	-	-	-	-	-
Disposal of a subsidiary	-	-	(607)	-	-	-	-	-
Minority interests in share of profit	-	-	1,620	994	-	-	-	-
Minority interests in share of asset revaluation reserve	-	-	-	358	-	-	-	-
Contribution of capital from a minority shareholder of a subsidiary	-	-	350	-	-	-	-	-
Loans maturing within three months raised	-	-	-	-	20,000	-	-	-
Loans maturing over three months raised	-	-	-	-	230,000	20,000	-	-
Loans repaid	-	-	-	-	(20,000)	-	-	-
Bank deposits pledged	-	-	-	-	-	-	265,150	-
At 31st December	1,343,658	1,343,658	7,504	6,141	250,000	20,000	265,150	-



**(c) Major non-cash transactions**

Pursuant to various debt assignments agreement entered into by Shenyang Water and SWGC, part of the consideration for the purchase of certain fixed assets and raw water, and payable for electricity power fee and other expenses totalling RMB170,209,000 (1999 Period: RMB25,000,000) were satisfied by off setting against the accounts receivable from SWGC.

**(d) Sale of a subsidiary**

	<b>2000</b> <i>RMB'000</i>
Net assets disposed of:	
Fixed assets	57,949
Bank balances and cash	6,748
Other current assets	15,538
Current liabilities	(18,513)
Minority interests	(607)
	61,115
Gain on disposal	7,898
	69,013
Satisfied by:	
Other receivables (Note 16)	69,013

## 29. COMMITMENTS

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<i><b>RMB'000</b></i>	<i>RMB'000</i>	<i><b>RMB'000</b></i>	<i>RMB'000</i>
(a) Capital commitments for fixed assets				
Contracted but not provided for	54,602	257,085	-	-
Authorised but not contracted for	-	106,720	-	-
	54,602	363,805	-	-
<b>(b) Commitments under operating leases</b>				

At 31st December 2000, the Group had commitments to make payments in the next twelve months under operating leases in respect of buildings which expire as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2000</b>	1999	<b>2000</b>	1999
	<i><b>RMB'000</b></i>	<i>RMB'000</i>	<i><b>RMB'000</b></i>	<i>RMB'000</i>
Within one year	103	-	-	-
In the second to fifth year inclusive	1,908	-	1,488	-
After the fifth year	-	3,358	-	1,488
	2,011	3,358	1,488	1,488

## 30. RELATED PARTY TRANSACTIONS

The Group had the following significant recurring transactions, which were carried out in the normal course of the Group's business, with certain related companies during the year.

Name of related party	Nature of transaction	Note	Year ended	Period from
			31st December 2000	2nd July 1999
			<i>RMB'000</i>	(date of incorporation) to 31st December 1999 <i>RMB'000</i>
SWGC	Sale of purified water	(a)	595,285	207,772
SWGC	Purchase of raw water	(b)	56,452	-
Shenhai Co-generation	Interest income	(c)	6,387	3,824
Sino-French Liaoning	Payment of management service fee	(d)	5,000	-

- (a) The price of water sold to SWGC, a fellow subsidiary, was determined in accordance with an agreed formula stipulated in the water supply agreement. Of the amount, RMB163,572,000 (1999: RMB35,153,000) remained outstanding as at 31st December 2000.
- (b) The price of raw water purchased from SWGC was determined in accordance with the raw water purchase agreement entered into by Shenyang Water and SWGC.
- (c) Interest was charged on the outstanding balance of the amount due from Shenhai Co-generation, a joint venture, at the rate of 8.01% (1999: 8.01%) per annum.
- (d) The management service fee paid to Sino-French Water Development (Liaoning) Co., Ltd. ("Sino-French Liaoning"), a shareholder of the Company, was determined in accordance with the service agreement entered into by Shenyang Water and Sino-French Liaoning.

In addition to the above, the following non-recurring related party transactions were entered into by the Group during the year:

- (a) Shenyang Water acquired the water production assets from Shenyang Sino-French Water Supply Co., Ltd, a company in which SWGC and Sino-French Liaoning have equity interest, for a consideration of RMB231,951,000. The consideration was determined by reference to a valuation of the assets prepared by an independent valuer in the PRC.

- (b) Shenyang Water acquired a water collection system comprising the land use rights, water extraction and conveyance facilities, power supply systems and other auxiliary facilities in Shifosi, Shenyang from SWGC for a consideration of RMB46,787,000. The consideration was determined by reference to a valuation of the assets prepared by an independent valuer in the PRC.

### **31. ULTIMATE HOLDING COMPANY**

In the opinion of the Directors, the ultimate holding company of the Company is SPU, a company established in the PRC.

### **32. APPROVAL OF ACCOUNTS**

These accounts were considered and approved by the board of Directors on 23rd March 2001.