

The board of directors (the "Board") of Shenyang Public Utility Holdings Company Limited (the "Company") is pleased to present the interim report and unaudited condensed accounts of the Company and its subsidiaries (the "Group") for the six months ended 30th June 2001 (the "Period"). The consolidated results and consolidated cash flow statement for the Period and the consolidated balance sheet as at 30th June 2001, which are all unaudited and prepared in condensed accounts together with accompanying notes to the accounts in this report, are set out from page 10 to 20.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, turnover of the Group amounted to approximately RMB279,206,000, representing approximately 1.66% decrease from the corresponding period of 2000 (the "2000 Period"); profit after taxation and minority interests amounted to approximately RMB104,882,000, representing approximately 15.52% decrease from the 2000 Period; and earnings per share were approximately RMB0.10, representing approximately 16.67% decrease from the 2000 Period.

I. BUSINESS REVIEW OF THE GROUP

The Group, a public utility developer and operator based in Shenyang, the People's Republic of China (the "PRC"), is principally engaged in the production and sale of purified water, real estate development and the production and sale of electricity and heat through a joint venture. The subsidiary of the Company, Shenyang Water Company Limited ("Shenyang Water"), is the largest producer of purified water in Shenyang. Its joint venture company, Shenyang Shenhai Hot Electricity Company Limited ("Shenhai Co-generation"), is the largest coal-fired power and heat co-generation enterprise in Shenyang. The Company also invested in Qinghua Ziguang Technology Venture Investment Co., Ltd. ("QTIL") in June 2000 and it is a business venture which is mainly engaged in high-tech investment projects. In the same month, the Company established its subsidiary, Shenyang Development Real Estate Company Limited ("Real Estate Company"), which is engaged in the business of real estate development.

1. Urban Water Supply

During the Period, turnover of Shenyang Water amounted to approximately RMB279,206,000, representing a 4.25% increase from the 2000 Period year; profit before taxation amounted to approximately RMB146,979,000, representing a 2.60% decrease from the 2000 Period.

The increase of turnover was mainly resulted from the increment of water price by approximately 11.80% in accordance with the adjustment of the water pricing mechanism compared with the 2000 Period. The decrease of profit before taxation was due to the postponement of the payment of income tax during the Period and accordingly the corresponding tax subsidy income was not granted. If Shenyang Water had paid the tax and had received the subsidy income according to the current State taxation privilege policy (see note 4(a) to the accounts) during the Period, the profit before taxation would be RMB173,546,000 or increased by approximately 15.00%.

During the Period, total sales volume of Shenyang Water amounted to approximately 232,215,000 cu.m., representing approximately 6.75% decrease from the 2000 Period. Such decrease was mainly attributable to the severe drought occurred in the northeast region of the PRC in the first half of 2001, Shenyang city had adopted a corresponding water-saving measures in response to the shortage of water supply.

2. Real Estate Development

During the Period, Real Estate Company commenced the development of the residential project "Hong Ji Garden" which is expected to be completed by the end of 2001 and is available for pre-sale at present.

3. Electricity and Heat Co-generation

During the Period, turnover and profit before taxation of Shenhai Co-generation amounted to approximately RMB287,113,000 and RMB49,225,000 respectively, representing approximately a 9.93% and 39.95% decrease from the 2000 Period.

During the Period, on-grid sales of Shenhai Co-generation was approximately 997,340 MWh, representing an approximately 5.50% decrease from the 2000 Period; total heat production was approximately 2,923,672 GJ, representing an approximately 6.21% increase from the 2000 Period.

A decrease in the on-grid sales and turnover during the Period was mainly attributable to decrease in market demand for electricity and downward adjustments in price. The increase of the total heat production, was due to an increase in the heat supply coverage being made available to its users including Shenyang Golden Cup Motors Co., Ltd., which is an unrelated party of the Group.

4. Investment in QTIL

As a result of an equity issue and capital fund raising made by QTIL, the equity interest of the Company in QTIL was diluted from its original 11.11% to 8%. During the Period, the Company received dividends of RMB1,022,000 paid by QTIL.

II. GROUP'S WORKING CAPITAL AND FINANCIAL RESOURCES

As at 30th June 2001, the Group had bank loans totalling RMB270,000,000 (31st December 2000: RMB250,000,000), which were pledged by a deposit in bank of HK\$265,000,000 (31st December 2000: HK\$250,000,000). The term for the above-mentioned loans and pledged amount are within one year and the annual interest rate of the loans is 5.02% (31st December 2000: 5.02%). The loans are used as working capital of the Group.

During the Period, the Group did not default in any repayment of principal and interest and has a good credit record.

Financial indicators and their calculation basis are as follows:

Financial Indicators	Calculation Basis	As at 30th June 2001	As at 31st December 2000
Gearing ratio	Total liabilities/total assets x 100%	20.96%	20.74%
Earnings/net assets ratio	Net profit/net assets x 100%	6.05%	17.09%
Sales profit margin	Net profit/sales x 100%	37.54%	47.00%

III. CAPITAL STRUCTURE OF THE GROUP

1. Capital Structure of the Group

Type	As at 30th June 2001		As at 31st December 2000	
	Percentage Amount (RMB'000)	to Total Capital	Percentage Amount (RMB'000)	to Total Capital
Equity capital	1,740,738	100%	1,692,276	100%
Including:				
Share capital	1,020,400	58.62%	1,020,400	60.30%
Share premium	323,258	18.57%	323,258	19.10%
Asset revaluation reserve	37,032	2.13%	37,032	2.18%
Statutory surplus reserve	93,625	5.38%	64,322	3.80%
Statutory public welfare reserve		46,813	2.69%	32,161
1.90%				
Retained earnings	211,522	12.15%	207,599	12.27%
Minority interests	8,088	0.46%	7,504	0.45%
Total capital		1,740,738	100%	1,692,276
100%				

2. Currencies and Structure of Interest Rates

Currency	As at 30th June 2001		As at 31st December 2000	
	Amount('000)	Interest Rate	Amount('000)	Interest Rate
Hong Kong Dollar	464,962	2.96%	461,034	5.72%
Renminbi	291,318	0.99%	162,735	0.99%

3. Loans with Fixed Interest Rate

As at 30th June 2001, the Group had loans of RMB270,000,000 (31st December 2000: RMB250,000,000) with a fixed interest rate at 5.02% (31st December 2000: 5.02%) per

annum.

IV. TAXATION

Details of taxation of the Group are set out in note 4 to the accounts on pages 14-15.

V. SIGNIFICANT INVESTMENTS HELD

As at 30th June 2001, the Group held an investment in QTIL of RMB20,000,000 at cost (31st December 2000: RMB20,000,000).

VI. CHANGES IN THE COMPOSITION OF THE ENTERPRISE DURING THE INTERIM PERIOD

During the Period, the composition of the Group remained unchanged.

VII. NUMBER OF EMPLOYEES, EMOLUMENTS POLICIES, SHARE OPTION SCHEMES AND TRAINING SCHEMES

As at 30th June 2001, the Group employed a total of 1,989 full-time employees (including directors of the Company) and provided them with emoluments totalling approximately RMB20,985,000 (2000 Period: RMB23,668,000). The Group has entered into employment contracts with all the employees. Employees are offered different emoluments with respect to their different positions. The Group also made contribution to endowment insurance and housing provident funds for all the employees in accordance with relevant laws of the PRC. The Group also provided them with vocational training courses. To date, the Group has not adopted a share option scheme for its employees.

VIII. DETAILS OF THE GROUP'S ASSET PLEDGED

As at 30th June 2001, the Group had its fixed deposit asset of HK\$265,000,000 (31st December 2000: HK\$250,000,000) pledged as security to banks for Renminbi loans.

IX. PROPOSED A SHARE ISSUE

The Company held a Board meeting on 29th June 2001, at which it was resolved to issue new A shares. The fund raised was planned to invest in a 2X200 megahertz watt low temperature nuclear heat project in Shenyang. The Company had duly disclosed the matters relating to the A shares issue in Hong Kong newspapers on 3rd July 2001.

The 1st Extraordinary General Meeting of the Company for 2001 was held on 24th August 2001. As Shenyang Public Utility Group Company Limited, the controlling shareholder of the Company, considered that the investment project to be funded by the proceeds of the A Share Issue should require further study, all the resolutions in relation to the A Share Issue proposed at the meeting were not approved.

X. CURRENCY RISKS

According to the regular announcements of the "Quotations of the Exchange Rates for Converting Renminbi to Foreign Currencies by the Head Office of Designated Banks (1-6 issues)" for 2001 announced by the State Administration of Foreign Exchange, the exchange rates of Renminbi to US dollar and to Hong Kong dollar continued to be stable whereas the exchange rate of the Hong Kong dollar to Renminbi experienced slight fluctuation during the Period. Accordingly, the risk of the Company's deposits in Hong Kong dollars was relatively low.

XI. STRUCTURE OF SHARE CAPITAL

During the Period, there was no change in the structure of share capital of the Company. As at 30th June 2001, the structure of share capital of the Company was as follows:

Type of shares	Number of shares issued	Percentage
Domestic invested shares	600,000,000	58.80%
H shares	420,400,000	41.20%
Total	1,020,400,000	100.00%

XII. PURCHASE, SALE OR REDEMPTION OF SHARES

During the Period, the Company had not redeemed any of its shares. The Group had not purchased or sold any of the Company's shares during the Period.

XIII. DIRECTORS' INTERESTS IN EQUITY SECURITIES OR DEBT SECURITIES

During the Period, neither the Company, the controlling company and its subsidiaries made any arrangement by which any directors, supervisors and chief executive officers of the Company would receive any benefits through purchase of the shares of the Company.

During the Period, the Company was not notified by the directors, supervisors and chief executive officers of the Company that they themselves or their spouses or their respective children under 18 years old held any interest in the shares or debentures of the Company or its associated companies (as defined in Securities (Disclosure of Interests) Ordinance).

During the Period, the directors, supervisors and chief executive officers of the Company and their spouses or children under 18 years old were not granted and did not exercise the right to subscribe for the shares or debentures of the Company.

During the Period, save as Director Mr. Zhang Guo Xiang who was also the General Manager of Shenyang Water General Corporation ("SWGC"), a fellow subsidiary of the Company, none of the Company, or its fellow subsidiaries or the controlling company entered into any material contract under which the directors and supervisors directly or indirectly had any material interest in any related business of the Group.

XIV. 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 30th June 2001, showed that the following companies have a material interest amounting to 10% or more of the relevant share capital of the Company:

- (1) Shenyang Public Utility Group Company Limited holds all of the 600,000,000 domestic invested shares in issue, representing approximately 58.8% of the total issued share capital of the Company.
- (2) Tai Fook Securities Co., Ltd. holds 88,618,000 H shares, representing approximately 21.08% of the issued H shares of the Company.
- (3) Sino-French Water Development (Liaoning) Co., Ltd. ("Sino-French Liaoning") holds 88,146,000 H shares*, representing approximately 20.97% of the issued H shares of the Company.
- (4) Citibank NA holds 51,753,200 H shares, representing approximately 12.31% of the issued H shares of the Company.
- (5) Guotai Junan Securities (Hong Kong) Ltd. holds 42,172,000 H shares, representing approximately 10.03% of the issued H shares of the Company.

* Sino-French Water Development Co. Ltd., 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 be interested in the H shares.

Save as aforesaid, 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 (Disclosure of Interests) Ordinance during the Period.

XV. INTERIM DIVIDEND

The Board resolved to declare an interim dividend of RMB0.07 per share payable in cash. Pursuant to the Articles of Association of the Company, dividends payable to the holders of domestic invested shares will be paid in Renminbi, while dividends payable to holders of H shares will be paid in Hong Kong dollar. Based on the average closing rate of exchange of HK\$1 to RMB1.0607 as indicated by the People's Bank of China during the week immediately preceding the date (i.e. 24th August 2001) on which such dividends were declared, each H share would be entitled to an interim dividend of HK\$0.066 while each domestic invested share will be eligible for an interim dividend of RMB0.07. Such dividends will be paid on or before Thursday, 18th October 2001 to shareholders whose names appear on the Company's register of members at the close of business on Friday, 28th September 2001.

XVI. BOOK CLOSURE

The register of members of the Company will be closed from Friday, 21st September 2001 to Friday, 28th September 2001, both dates inclusive, during which no registration of transfers of H shares will be effected. Holders of H shares who would like to receive the interim dividends must lodge their transfers together with all relevant share certificates to the Company's share registrar at Hong Kong Registrars Limited, 2/F, Vicwood Plaza, 199 Des Voeux Central, Central, Hong Kong no later than 4 p.m. on Thursday, 20th September 2001.

XVII. SIGNIFICANT LITIGATION

During the Period, the Group did not involve in any significant litigation.

XVIII. COMPLIANCE WITH THE CODE OF BEST PRACTICE UNDER THE LISTING RULES

The Board is pleased to confirm that the Company has complied with the Code of Best Practice under the Listing Rules during the Period.

The Board are not aware of any information indicating that the Group did not comply with the Code of Best Practice as set out in Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") at anytime during the Period.

XIX. CONNECTED TRANSACTIONS

During the Period, the connected transactions of the Group were detailed as follows:

1. Sale of purified water to SWGC by Shenyang Water, with total sales of RMB279,206,000 (2000 Period: RMB267,829,000);
2. Purchase of surface water from SWGC by Shenyang Water of RMB25,902,000 (2000 Period: RMB29,194,000);
3. Lease of office from Shenyang Water Services General Company, a subsidiary of SWGC by Shenyang Water, with total rental of RMB210,000 (2000 Period: RMB:210,000);
4. Lease of land use right to Shenyang Water Services General Company by Shenyang Water, with rental of RMB45,000 (2000 Period: RMB45,000).

The Board considered that (1) the aforesaid connected transactions were conducted on normal commercial terms (by reference to terms of similar transactions conducted by similar entities in the PRC) in the ordinary business of the Company in accordance with the terms of the respective agreements or terms that were no less favorable than those available to third parties and were fair and reasonable so far as the independent shareholders of the Company were concerned; (2) the amounts of the connected transactions relative to the total

turnover of Group did not exceed the cap specified under the connected transaction waiver granted by the Hong Kong Stock Exchange.

XX. AUDIT COMMITTEE

A meeting was convened by the Company's Audit Committee on 20th August 2001 to review the Group's financial reporting processes, internal monitoring mechanism and its unaudited interim financial statements for the Period.

The Audit Committee considered that the accounting principles and methods adopted by the Group, audit, internal monitoring mechanism and financial report complied with the relevant requirements of the accounting regulations.

XXI. COMPANY INFORMATION

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Company Secretary : Wang Se

XXII. PUBLICATION OF FURTHER INFORMATION ON THE WEB-SITE ON THE HONG KONG STOCK EXCHANGE

The Company will publish its interim results on the Hong Kong Stock Exchange's web-site at an appropriate time as required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules.