

NOTES TO CONDENSED INTERIM ACCOUNTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2000 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are in accordance with the accounting principles generally accepted in Hong Kong and SSAP ("HKGAAP") and consistent with those used in the annual accounts for the year ended 31st December, 2000 except that the Group has adopted SSAP No.9 (revised), "Events after the balance sheet date", issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1 January 2001, in the preparation of these condensed interim accounts.

The effect of adopting the above new policy is set out below:

In accordance with the SSAP No. 9 (revised), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 10, opening retained earnings at 1st January 2001 have increased by RMB57,004,000 (1st January 2000: Nil) which is the reversal of the provision for 2000 proposed final dividend previously recorded as a liability as at 31st December 2000 although not declared until after the balance sheet date.

This adjustment has resulted in a decrease in current liabilities at 30th June 2001 by RMB71,428,000 (31st December 2000:RMB57,004,000) for provision for proposed dividends that is no longer required.

Changes to headings used in the previously reported 31st December 2000 balance sheet and profit and loss account relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP No. 9 (revised).

2. TURNOVER

	6 months ended 30th June	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Sales of purified water	279,206	267,829
Rental income from leasing of buses and bus routes	-	14,475

Income from provision of bus terminal services	-	1,624
	279,206	283,928

No segmental information is provided as 100% of the consolidated turnover and operating result of the Group are derived from sales of purified water in the PRC.

3. OTHER REVENUES

	6 months ended 30th June	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
Government subsidies - income tax refund (Note 4(a))	-	23,426
Interest income from joint venture	2,364	3,396
Bank interest income	11,761	4,917
Rental income from leasing of land use rights	45	195
Investment income from unlisted investments	2,911	-
	17,081	31,934

4. TAXATION

	6 months ended 30th June	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
The Group:		
PRC income tax charges	48,520	42,947
The joint venture:		
Share of PRC income tax charges	1,834	2,704
	50,354	45,651

- (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 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 refund is recognised as a subsidy income when the right to receive it is confirmed.
- (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, Shenhai Co-generation, being a Sino-foreign joint venture company engaged in power generation, is subject to an income tax rate of 15% and a local surcharge rate of 1.5%.
- (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 Period.
- (e) As at 30th June 2001 and during the Period, the Group did not have any significant unprovided deferred tax asset or liability .

5. DIVIDENDS

	6 months ended 30th June	
	2001	2000
	<i>RMB'000</i>	<i>RMB'000</i>
2000 Final dividend, paid, of RMB0.05586 (1999: Nil) per ordinary share (Note (a))	57,004	-
2001 Interim dividend, proposed, of RMB0.07 (2000 Period: RMB0.06) per ordinary share (Note (b))	71,428	61,224
	128,432	61,224

- (a) The previously recorded final dividend proposed and declared after the balance sheet date but accrued in the accounts for the year ended 31st December 2000 was RMB57,004,000 (1999: Nil). Under the Group's new accounting policy as described in Note 1, this has been written back against opening retained earnings as at 1st January 2001 in Note 10 and was charged in the Period in which it was proposed.
- (b) At a Board meeting held on 24th August 2001, it was resolved to declare an interim dividend of RMB0.07 (2000 Period: RMB0.06) per share. This proposed dividend is not reflected as a dividend payable in these interim condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2001.

6. EARNINGS PER SHARE

The calculation of earnings per share for the Period is based on the Group's profit attributable to shareholders for the Period of RMB104,882,000 (2000 Period: RMB124,152,000) and the number of 1,020,400,000 ordinary shares (2000 Period: 1,020,400,000 ordinary shares) in issue during the Period.

7. TRADE RECEIVABLES

Sale of the Group are on one to five months' credit term. The ageing analysis of trade receivables is as follows:

	30th June 2001 RMB'000	31st December 2000 RMB'000
Within 1 month	47,817	112,519
1-2 months	48,494	51,053
3-6 months	69,231	-
	165,542	163,572

The balance represents mainly water fee due from SWGC which is a fellow subsidiary of the Company. Of the amount, RMB62,358,000 has been settled subsequent to the period end date.

8. TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	30th June 2001 RMB'000	31st December 2000 RMB'000
Within 1 month	-	6,117

9. SHARE CAPITAL

	Company	
	30th June 2001 RMB'000	31st December 2000 RMB'000
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.

10. RESERVES

	Share premium (note (a)) RMB'000	Asset revaluation reserve RMB'000	Statutory surplus reserve (note (b)) RMB'000	Statutory public welfare reserve (note (c)) RMB'000	Retained earnings (note (d)) RMB'000	Total reserves RMB'000
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)	-
2000 interim dividend paid	-	-	-	-	(61,224)	(61,224)
At 31st December 2000	323,258	37,032	64,322	32,161	207,599	664,372
2000 final dividend proposed (Note 5)	-	-	-	-	(57,004)	(57,004)
	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
At 1st January 2001						
As previous reported	323,258	37,032	64,322	32,161	150,595	607,368
Effect of adopting SSAP No. 9 (revised) (Note 1)	-	-	-	-	57,004	57,004
As restated	323,258	37,032	64,322	32,161	207,599	664,372
2000 final dividend paid (Note 5)	-	-	-	-	(57,004)	(57,004)
Profit for the Period	-	-	-	-	104,882	104,882
Transfer to reserve funds	-	-	29,303	14,652	(43,955)	-
At 30th June 2001	323,258	37,032	93,625	46,813	211,522	712,250
2001 interim dividend proposed (Note 5)	-	-	-	-	(71,428)	(71,428)
	323,258	37,032	93,625	46,813	140,094	640,822
Company and subsidiaries	323,258	37,032	93,625	46,813	127,367	628,095
Joint venture	-	-	-	-	12,727	12,727
At 30th June 2001	323,258	37,032	93,625	46,813	140,094	640,822

(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 Period (2000 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 HKGAAP. In the PRC statutory accounts and the HKGAAP accounts as at 30th June 2001, retained earnings after appropriation and dividend proposed available to be carried forward for distribution to shareholders in future years amounted to RMB190,820,000 (31st December 2000: RMB135,119,000) and RMB127,366,000 (31st December 2000:RMB81,166,000) respectively. As such, distributable reserves of the Company as at 30th June 2001, amounted to RMB127,366,000 (31st December 2000: RMB81,166,000).

11. COMMITMENTS

(a) Capital commitments for fixed assets

30th June 2001 RMB'000	31st December 2000 RMB'000
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Contracted but not provided for	98,384	54,602
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(b) Commitments under operating leases

The future aggregate minimum lease payments under non-terminable operating leases are as follows:

	30th June 2001 RMB'000	31st December 2000 RMB'000
Within one year	100	103
In the second to fifth year inclusive	5,084	5,828
After five years	21,000	-
	26,184	5,931

12. 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 Period.

Name of related party	Nature of transaction	Note	6 months ended	
			30th June 2001 RMB'000	30th June 2000 RMB'000
SWGC	Sale of purified water	(a)	279,206	267,829
SWGC	Purchase of raw water	(b)	25,902	29,194
Shenhai Co-generation	Interest income	(c)	2,364	3,396
Sino-French Liaoning	Payment of management service fee	(d)	2,500	2,500

- (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.
- (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% (2000 Period: 8.01%) per annum.
- (d) The management service fee paid to 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.

By order of the Board
Zhang Guo Xiang
Chairman

Shenyang, the PRC, 24th August 2001