

Dear shareholders,

As the Chairman, I would like to express my gratitude towards your trust to the Group. I am pleased to present the operating results of the Group for the Year, and hereby sincerely thank you for your generous support to the Group.

During the Year, the turnover of the Group amounted to RMB667,435,000, representing an increase of approximately 8.94% from that of the Previous Year. Profit after taxation amounted to RMB191,778,000, representing a decrease of approximately 33.76% from that of the Previous Year. Earnings per share were RMB0.19, representing a decrease of approximately 32.14% from that of the Previous Year.

During the Year, the Group had experienced relatively unfavourable external business environment, which led to the decrease in the operating results of the Group. During the Year, the Group faced main difficulties as follows:

- A serious drought happened in the northeastern China including Shenyang since early 2001. The average volume of rain per annum decreased by 35%, and water resource was in short supply. In order to ensure the sufficient supply of water for the production of industrial and commercial enterprises and the daily consumption of residents in Shenyang, Shenyang Municipal Government demanded for the adoption of water-saving measures by all the enterprises and residents in the whole city. In addition, a progressive water fee scale was adopted for the consumption of water by residents. These led to a decrease in demand of purified water in Shenyang. Accordingly, the sales volume of purified water of Shenyang Water decreased by 7.92% from that of the Previous Year;
- Given that overall development of the economy in Shenyang was not as good as expected, the work in collecting water fee by Shenyang Water General Corporation ("SWGC") was very unsatisfactory and the outstanding accounts receivable due for settlement were not fully collected. As a result, SWGC experienced very difficult financial position and could not make full payment of water fee on a timely basis to Shenyang Water that caused to incur an interest on overdue payment. Accordingly, in accordance with the prudence principle, Shenyang Water had made a provision for doubtful debts of RMB130,587,000 for certain receivables in 2001. This led to the decrease in the Group's operating results for the Year.
- As the State continued to consolidate power enterprises and adjust grid operations in 2001, on-grid electricity volume of Shenhai Co-generation decreased by 4.19% when compared with that of the Previous Year, and part of the electricity is charged at a low price. As a result, the Group's share of profit of the joint venture decreased accordingly.

In the face of the adverse business environment, the Group strived to adopt measures to overcome the difficulties, and farthest to minimize negative influence caused by disadvantageous external environment on the Group's operating results. During the Year, the Group mainly carried out the following work:

- The Group adopted various measures to chase up the recovery of outstanding water fee from SWGC so as to reduce the amount of accounts receivable and protect the interest of the Company's shareholders farthest.
- The construction of the first residential project "Hongji Garden" developed by Real Estate Company of the Group was formally completed during the Year. Sale of the properties has been actively carried out with 39% of the existing house area sold as at 31st December 2001. Revenues and profit before taxation amounted to approximately RMB90,073,000 and RMB16,974,000 respectively.
- In view of the difficult position as a result of reliance on one customer in the purified water business during the Year, the Group had thoroughly reviewed the strategies for its future development and sought to change its over-reliance on the business results of purified water. The Group would like to enhance its ability to stand up against risks through assets reorganisation and adjustment of business structure.

In 2002, the Group will seize the opportunity of enter to World Trade Organisation of China for its development, and cope with various kinds of challenges ahead. The Group will put more effort in assets reorganisation to build up new base of profit growth for the Company this year. In the meantime, with the continuous upheav of property market in the mainland, there will be a steady growth in the development of Real Estate Company. The Group will consider to enlarge its scale of investment in real estate. I believe that in the new year, all the staff of the Group will put all efforts in bringing fruitful returns to our shareholders.

Zhang Guo Xiang

Chairman

**Shenyang Public Utility
Holdings Company Limited**

19th April 2002