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 ("SPUG") 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, the development and sale of property and investment in a joint venture, which is engaged in power and heat generation in the PRC.

2. 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 (the "HKSA") (collectively "HK GAAP"). The accounts are prepared under the historical cost convention as modified by the revaluation of certain fixed assets.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards, if any, is set out in the accounting policies below.

2. Principal accounting policies (Continued)

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

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.

2. Principal accounting policies (Continued)

(d) Revenue recognition

(i) Revenue from the sale of purified water is recognised when delivery is made;

(ii) Income from sales of completed properties is recognised upon the execution of a binding sales agreement;

(iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable; and

(iv) Government subsidy, dividend income and investment income are recognised when the right to receive payment is established.

(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.

Amortisation of land use rights is calculated to write off their cost or valuation 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%

2. Principal accounting policies (Continued)

(e) Fixed assets (Continued)

The gain or loss on disposal of a fixed asset is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

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 acquisition and construction as well as the interest charges arising from borrowings used to finance the construction during the construction period.

(g) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

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 impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

2. Principal accounting policies (Continued)

(h) Properties under development for sale and completed properties held for sale

Properties under development for sale and completed properties held for sale are stated at the lower of cost and net realisable value. Cost comprises the cost of land use rights, development expenditure, other attributable costs and financial expenses capitalised. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

(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 costs incurred in bringing the inventories to their present location and condition. Cost is determine on the weighted average basis.

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

(j) Accounts receivable and other receivables

Provision is made against accounts receivable and other receivables to the extent they are considered to be doubtful. Accounts receivable and other receivables in the balance sheet date are stated net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdraft, if any.

(l) 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 leases are charged/credited to the profit and loss account on a straight-line basis over the lease periods.

2. Principal accounting policies (Continued)

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the only reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude investments. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises mainly additions to fixed assets.

As sales of the Group are principally made to customers in the PRC, no geographical segment reporting is presented.

2. Principal accounting policies (Continued)

(r) Dividends

In accordance with the SSAP 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 27, this change has resulted in an increase in opening retained earnings at 1st January 2001 by RMB57,004,000 (1st January 2000: Nil) which is the reversal of the provision for 2000 (2000: provision for 1999) proposed final dividend previously recorded as a liability as at 31st December 2000 (2000: as at 31st December 1999) although not declared until after the balance sheet date.

(s) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

3. Turnover and segment information

Turnover comprises:

	2001	2000
	RMB'000	*RMB'000*
Sales of purified water	**577,362**	595,285
Sales of properties	**90,073**	—
Rental income from leasing of buses and bus routes	**—**	15,620
Income from provision of bus terminal services	**—**	1,735
	667,435	612,640

Segment information

Reporting format - business segments

The Group is organised on a localised basis into two main business segments:

- Sales of purified water
- Sales of properties

Other operations of the Group mainly comprise the corporate administration, investment in a joint venture and investment securities, none of which is of a sufficient size to be reported separately.

There are no sales or other transactions between the business segments.

3. Turnover and segment information (Continued)

Reporting format - business segments (Continued)

	Sales of purified water 2001 *RMB'000*	Sales of properties 2001 *RMB'000*	Other operations 2001 *RMB'000*	Group 2001 *RMB'000*
Turnover	577,362	90,073	—	667,435
Other revenues	95,500	—	27,372	122,872
Segment results	267,167	16,780	27,372	311,319
Unallocated costs				(15,961)
Operating profit				295,358
Finance costs				(10,996)
Share of profit of a joint venture	—	—	18,447	18,447
Profit before taxation				302,809
Taxation				(111,031)
Profit after taxation				191,778
Minority interests				(1,162)
Profit attributable to shareholders				190,616
Segment assets	954,727	384,034	427,256	1,766,017
Interest in a joint venture	—	—	140,638	140,638
Unallocated assets				48,699
Total assets				1,955,354
Segment liabilities	64,073	37,622	—	101,695
Unallocated liabilities				97,837
Total liabilities				199,532
Capital expenditure	21,733	820	1,376	23,929
Depreciation	45,564	144	538	46,246

3. Turnover and segment information (Continued)

Reporting format - business segments (Continued)

	Sales of purified water 2000 RMB'000	Sales of properties 2000 RMB'000	Other operations 2000 RMB'000	Group 2000 RMB'000
Turnover	595,285	—	17,355	612,640
Other revenues	45,356	—	36,781	82,137
Segment results	357,319	(403)	40,132	397,048
Unallocated costs				(14,862)
Gain on disposal of a subsidiary				7,898
Operating profit				390,084
Finance costs				(10,770)
Share of profit of a joint venture	—	—	21,444	21,444
Profit before taxation				400,758
Taxation				(111,238)
Profit after taxation				289,520
Minority interests				(1,620)
Profit attributable to shareholders				287,900
Segment assets	1,078,559	208,796	545,197	1,832,552
Interest in a joint venture	—	—	165,462	165,462
Unallocated assets				137,127
Total assets				2,135,141
Segment liabilities	67,860	110	—	67,970
Unallocated liabilities				374,895
Total liabilities				442,865
Capital expenditure	307,924	1,021	2,048	310,993
Depreciation	44,716	37	3,520	48,273

4. Other revenues

	2001	2000
	RMB'000	*RMB'000*
Government subsidies - income tax refund (Note 9(a))	**62,369**	45,266
Interest income on overdue receivables (Note 21)	**33,041**	—
Bank interest income	**20,062**	27,200
Interest income from a joint venture	**4,336**	6,387
Investment income from unlisted investments	**1,952**	2,969
Dividend income from investment securities	**1,022**	—
Others	**90**	315
	122,872	82,137

5. Staff costs

Staff costs, including directors' and supervisors' emoluments further analysed in Note 13, comprise:

	2001	2000
	RMB'000	*RMB'000*
Salaries, allowances and bonuses	**44,419**	44,318
Contribution to retirement fund (Note (a))	**7,369**	7,267
Others	**4,080**	2,760
	55,868	54,345

(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 2001 is 25.5% (2000: 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 (2000: Nil).

6. Provision for doubtful debts

Provision is made against various amounts receivable from a fellow subsidiary and comprises:

	2001	2000
	RMB'000	*RMB'000*
Provision for accounts receivable (Note 18(b))	**97,546**	—
Provision for interest receivable (Note 21)	**33,041**	—
	130,587	—

7. Other operating expenses

	2001	2000
	RMB'000	*RMB'000*
Other operating expenses are stated after charging:		
Rentals paid under operating leases – buildings	**2,620**	3,464
Loss on disposal of fixed assets	**5,870**	3,841
Auditors' remuneration	**1,945**	2,000

8. Finance costs

	2001	2000
	RMB'000	*RMB'000*
Interest on bank loans (all loans are wholly repayable within 5 years)	**12,472**	11,114
Less: amount capitalised in properties under development for sale	**(1,476)**	(344)
	10,996	10,770

The capitalisation rate in respect of funds borrowed and used for the development of properties under development for sale is ranging from 5.022% to 6.138% (2000: 5.260%) per annum.

9. Taxation

	2001	2000
	RMB'000	*RMB'000*
The Group:		
PRC income tax charges	**106,856**	108,274
The joint venture:		
PRC income tax charges	**4,175**	2,964
	111,031	111,238

Notes

(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 income tax refund for the year ended 31st December 2001 of RMB62,369,000 (2000: RMB45,266,000) was received and recorded as other revenues for the year (Note 4).

(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.

(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 (2000: Nil).

(e) As at 31st December 2001 and during the year, the Group did not have any significant unprovided deferred tax asset or liability (2000: Nil).

10. Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of RMB200,526,000 (2000: RMB232,520,000).

11. Dividends

	2001	2000
	RMB'000	*RMB'000*
Interim, paid, of RMB0.07 (2000: RMB0.06) per share	**71,428**	61,224
Final, Nil (2000: RMB0.05586) per share (Note (b))	**—**	57,004
	71,428	118,228

Notes:

(a) The previously recorded final dividends proposed and declared after the balance sheet date but accrued in the accounts for the year ended 31st December 2000 were RMB57,004,000 (1999: Nil). Under the Group's new accounting policy as described in Note 2(r), these have been written back against opening retained earnings as at 1st January 2001 (Note 27) and are now charged in the period in which they were proposed.

(b) At a meeting held on 19th April 2002 the directors did not recommend the payment of a final dividend for the year ended 31st December 2001 .

12. Earnings per share — basic

The calculation of earnings per share for the year is based on the profit attributable to shareholders for the year of RMB190,616,000 (2000: RMB287,900,000) and the number of 1,020,400,000 shares (2000:1,020,400,000 shares) in issue during the year.

No fully diluted earnings per share are presented as the Company has no dilutive potential shares.

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:

	2001	2000
	RMB'000	*RMB'000*
Fees	**274**	417
Salaries and other benefits	**1,793**	725
Contributions to retirement fund	**294**	135
	2,361	1,277

Directors' fees disclosed above include RMB57,000 (2000: RMB80,000) paid to 5 (2000:3) independent non-executive directors.

(b) Number of directors and supervisors

	2001	2000
Received emoluments	**21**	21
Did not receive emoluments	**2**	2
	23	23

The emoluments of each of the directors and supervisors who received emoluments were both below RMB1,060,000 (HK$1,000,000) for each of the two years ended 31st December 2001.

(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 *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*	Total *RMB'000*
Cost or valuation							
At 1st January 2001	331,490	231,465	164,817	106,518	17,829	4,886	857,005
Additions	—	267	5,034	172	4,201	1,178	10,852
Transferred from construction-in-progress	—	14,086	7,141	180	—	323	21,730
Disposals	—	(828)	(5,469)	(206)	(845)	(481)	(7,829)
At 31st December 2001	331,490	244,990	171,523	106,664	21,185	5,906	881,758
Cost or valuation analysis							
At cost	56,089	102,992	171,523	106,664	21,185	5,906	464,359
At valuation	275,401	141,998	—	—	—	—	417,399
	331,490	244,990	171,523	106,664	21,185	5,906	881,758
Accumulated depreciation							
At 1st January 2001	9,172	65,444	16,983	11,289	2,356	509	105,753
Charge for the year	7,817	13,601	13,380	8,600	2,232	616	46,246
Disposals	—	(677)	(925)	(14)	(261)	(82)	(1,959)
At 31st December 2001	16,989	78,368	29,438	19,875	4,327	1,043	150,040
Net book value							
At 31st December 2001	**314,501**	**166,622**	**142,085**	**86,789**	**16,858**	**4,863**	**731,718**
At 31st December 2000	322,318	166,021	147,834	95,229	15,473	4,377	751,252
Net book value if stated at cost							
At 31st December 2001	**300,289**	**147,558**	**142,085**	**86,789**	**16,858**	**4,863**	**698,442**
At 31st December 2000	307,795	145,338	147,834	95,229	15,473	4,377	716,046
Additional depreciation due to revaluation							
For the year 2001	**311**	**1,416**	**—**	**—**	**—**	**—**	**1,727**
For the year 2000	311	1,428	—	—	—	—	1,739

14. Fixed assets (Continued)

— Company

	Motor vehicles *RMB'000*	Furniture, fixtures and office equipment *RMB'000*	Total *RMB'000*
Cost			
At 1st January 2001	3,829	658	4,487
Additions	707	669	1,376
At 31st December 2001	4,536	1,327	5,863
Accumulated depreciation			
At 1st January 2001	330	116	446
Charge for the year	424	114	538
At 31st December 2001	754	230	984
Net book value			
At 31st December 2001	**3,782**	**1,097**	**4,879**
At 31st December 2000	3,499	542	4,041

(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 a joint venture

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted investment, at cost	**—**	—	**79,952**	79,952
Share of net assets	**96,161**	98,699	**—**	—
Due from joint venture (Note (b))	**44,477**	66,763	**44,477**	66,763
	140,638	165,462	**124,429**	146,715

(a) As at 31st December 2001, the Company held a 22.5% (2000: 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.

(b) The amount due from joint venture is unsecured, bears interest at a rate of 7.56% (2000: 8.01%) per annum and is not repayable within one year from the balance sheet date.

16. Subsidiaries

	Company	
	2001	2000
	RMB'000	*RMB'000*
Unlisted investments, at cost	**732,022**	732,022

As at 31st December 2001, the Company has interests in the following subsidiaries which are limited company incorporated and operating in the PRC.

Name	Principal activities	Paid up capital	Percentage of interest in ownership: Held directly	Percentage of interest in ownership: Held indirectly
Shenyang Water Company Limited ("Shenyang Water")	Production and sale of purified water	RMB754,830,000	99.37%	—
Shenyang Development Real Estate Company Limited ("Real Estate Company")	Development and sale of properties	RMB35,000,000	99.00%	—
Shenyang Hongji Property Management Company Limited	Property management	RMB500,000	—	60.00%

17. Investment securities

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted investment, at cost	**20,000**	20,000	**20,000**	20,000

Amount represents a 8% (2000: 11.11%) equity interest in Qinghua Ziguang Technology Venture Investment Company Limited, a company established in the PRC and engaged in investment in technology projects.

18. Accounts receivable

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

	Group	
	2001	2000
	RMB'000	*RMB'000*
Current	**90,655**	112,519
1-2 months	**86,191**	51,053
Over 6 months	**66,590**	—
Gross accounts receivable (Note (a))	**243,436**	163,572
Less: provision (Note (b))	**(97,546)**	—
	145,890	163,572

Notes:

(a) Included in the balance was an amount of RMB233,683,000 (2000:RMB163,572,000) due from Shenyang Water General Corporation ("SWGC"), a fellow subsidiary of the Company and the sole customer of Shenyang Water. Shenyang Water is a principal subsidiary of the Group engaged in the production and sale of purified water activities which accounted for approximately 86.50% (2000: 97.17%) of the Group's turnover for the year.

The amount due from SWGC at 31st December 2001 mainly comprised of RMB136,137,000 in respect of net water fees charged by Shenyang Water to SWGC for the period from October to December 2001 and an amount of RMB97,546,000 charged to SWGC by Shenyang Water in respect of the shortfall in water purchase quantity for both of the years 2000 and 2001. Such charge was calculated based on the minimum water purchase quantity as stipulated in the water supply agreement entered into between SWGC and Shenyang Water on 6th August 1999 (the "Water Supply Agreement").

Subsequent to the balance sheet date, the Group has received an amount of RMB100,000,000 from SWGC and SWGC has agreed to settle another RMB36,137,000 by the end of May 2002 and the payment of such amount is guaranteed by SPUG. However, the remaining balance of RMB97,546,000 due from SWGC is still outstanding for reasons as detailed in Note (b) below.

18. Accounts receivable (Continued)

(b) As mentioned in Note (a) above, SWGC was not able to meet the minimum water purchase quantity for both 2000 and 2001 and pursuant to the Water Supply Agreement, Shenyang Water has charged SWGC totalling RMB97,546,000 in respect of the shortfall in water purchase quantity for both years.

SWGC disputed such amount on the ground that the shortfall in water purchase quantities during the years were resulted from several factors beyond the control of SWGC, which included the unexpected serious drought in the north-eastern part of China causing short supply in water resource, and the adoption of water-saving measures demanded by the Shenyang Municipal Government which further led to a decrease in demand of purified water in Shenyang.

Despite various negotiations between Shenyang Water and SWGC, the Group has not been able to recover such amount from SWGC. The Directors have taken necessary procedures and are considering alternative ways to demand for repayment from SWGC, including taking necessary legal actions against SWGC.

In view of the above and after taking into consideration the financial difficulties encountered by SWGC as a result of the unsatisfactory collection of water fees by SWGC from its end-user customers, the Directors are in the opinion that full provision should be made against this disputed amount in the current year.

19. Properties under development for sale

The amount represented cost of land use rights acquired for the development of properties.

20. Amount due from a joint venture

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

21. Amounts due from a fellow subsidiary and subsidiaries /amount due to holding company

These amounts are unsecured, interest free and repayable on demand. The amount due from a fellow subsidiary included a receivable due from SWGC for interest charged on overdue receivables for which full provision has been made.

Pursuant to the Water Supply Agreement, Shenyang Water is entitled to charge SWGC interest on overdue receivables arising from sale of purified water. The Directors have estimated that the said interest would be in the region of approximately RMB33,041,000 which has been recognised as income for the year.

21. Amounts due from a fellow subsidiary and subsidiaries /amount due to holding company (Continued)

SWGC has also indicated to the Group that the related interest charge should be waived on the ground that the delay in settlement was due to factors beyond the control of SWGC.

Although the Group reserves the right to claim such interest, the Directors are of the opinion that full provision should be made in the current year given the financial difficulties encountered by SWGC as mentioned in Note 18 (b) above.

22. Pledged bank deposits

The amounts were pledged to banks for bank loans totalling RMB60,000,000 (2000: RMB250,000,000) granted to the Group (Note 23).

23. Bank loans

	Group		**Company**	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Payable within one year				
Secured by bank deposits (Note 22)	**60,000**	250,000	**60,000**	230,000
Unsecured	**20,000**	—	**—**	—
	80,000	250,000	**60,000**	230,000

These bank loans bear interest at rates ranging from 5.022% to 6.138% (2000: 5.022% to 5.265%) per annum.

24. Accounts payable

The aging analysis of the accounts payable is as follows:

	Group	
	2001	2000
	RMB'000	*RMB'000*
Current	**16,766**	6,117

25. Share capital

	Company 2001 RMB'000	Company 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.

26. Reserves

— Group:

	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	Total reserves RMB'000
At 1st January 2000	323,258	43,646	20,253	10,127	397,284
Disposal of a subsidiary	—	(5,301)	(326)	(163)	(5,790)
Disposal of revalued fixed assets	—	(1,313)	—	—	(1,313)
Transfer from retained earnings	—	—	44,395	22,197	66,592
At 31st December 2000	323,258	37,032	64,322	32,161	456,773
At 1st January 2001	323,258	37,032	64,322	32,161	456,773
Disposal of revalued fixed assets	—	(203)	—	—	(203)
Transfer from retained earnings	—	—	45,165	22,580	67,745
At 31st December 2001	323,258	36,829	109,487	54,741	524,315

26. Reserves (Continued)

— **Company:**

	Share premium (Note(a)) RMB'000	Statutory surplus reserve (Note (b)) RMB'000	Statutory public welfare reserve (Note (c)) RMB'000	Total reserves RMB'000
At 1st January 2000	323,258	10,505	5,253	339,016
Transfer from retained earnings	—	23,574	11,787	35,361
As 31st December 2000	323,258	34,079	17,040	374,377
At 1st January 2001	323,258	34,079	17,040	374,377
Transfer from retained earnings	—	23,198	11,599	34,797
At 31st December 2001	323,258	57,277	28,639	409,174

Notes:

(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 (2000: Nil).

27. Retained earnings

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At 1st January	**150,595**	40,412	**81,166**	2,235
Effect of adopting SSAP 9 (Revised) (Note 2(r))	**57,004**	—	**57,004**	—
At 1st January, as restated	**207,599**	40,412	**138,170**	2,235
Profit for the year	**190,616**	287,900	**200,526**	232,520
Disposal of a subsidiary	**—**	5,790	**—**	—
Disposal of revalued fixed assets (Note 26)	**203**	1,313	—	—
Transfer to reserve funds	**(67,745)**	(66,592)	**(34,797)**	(35,361)
2000/1999 Final dividend (Note 11)	**(57,004)**	—	**(57,004)**	—
2001/2000 Interim dividend paid (Note 11)	**(71,428)**	(61,224)	**(71,428)**	(61,224)
At 31st December	**202,241**	207,599	**175,467**	138,170
Representing:–				
At 31st December	**202,241**	207,599	**175,467**	138,170
2001/2000 Final dividend proposed	**—**	(57,004)	**—**	(57,004)
At 31st December	**202,241**	150,595	**175,467**	81,166

(a) As described in Note 2(r), the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date.

(b) 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.

28. Notes to the consolidated cash flow statement

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

	2001	2000
	RMB'000	*RMB'000*
Profit from operations	**295,358**	390,084
Gain on disposal of a subsidiary	**—**	(7,898)
Interest income from bank deposits	**(20,062)**	(27,200)
Interest income from a joint venture	**(4,336)**	(6,387)
Investment income	**(1,952)**	(2,969)
Dividend income from investment securities	**(1,022)**	—
Depreciation	**46,246**	48,273
Provision for doubtful debts	**130,587**	—
Loss on disposal of fixed assets	**5,870**	3,841
Increase in inventories	**—**	(226)
Increase in properties under development for sale and completed properties held for sale	**(65,880)**	(201,723)
Increase in accounts receivable, prepayments, deposits and other receivables	**(59,144)**	(204,228)
Decrease in amount due from a joint venture	**7,547**	18,776
Increase in amount due from a fellow subsidiary	**(2,815)**	—
Decrease in amount due to holding company	**(5,956)**	(10,141)
Increase in accounts payable, other payables and accrued charges	**27,991**	10,687
Net cash inflow from operating activities	**352,432**	10,889

28. Notes to the consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the year

	Short-term bank loans		Pledged bank deposits		Minority interests	
	2001	2000	**2001**	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 1st January	**250,000**	20,000	**265,150**	—	**7,504**	6,141
Loans maturing within three months raised	**—**	20,000	**—**	—	**—**	—
Loans maturing over three months raised	**80,000**	230,000	**—**	—	**—**	—
Loans maturing within three months paid	**(20,000)**	—	**—**	—	**—**	—
Loans maturing over three months paid	**(230,000)**	(20,000)	**—**	—	**—**	—
Bank deposits pledged	**—**	—	**63,636**	265,150	**—**	—
Pledged bank deposits released	**—**	—	**(265,150)**	—	**—**	—
Disposal of a subsidiary	**—**	—	**—**	—	**—**	(607)
Minority interests in share of profit	**—**	—	**—**	—	**1,162**	1,620
Contribution of capital from a minority shareholder of a subsidiary	**—**	—	**—**	—	**200**	350
At 31st December	**80,000**	250,000	**63,636**	265,150	**8,866**	7,504

(c) Major non-cash transactions

(i) Pursuant to various debt assignment agreements entered into by Shenyang Water and SWGC, part of the consideration for the purchase of raw water and payable for electricity power fee and other expenses totalling RMB 142,464,000 (2000: RMB170,209,000) were satisfied by off setting against the accounts receivable from SWGC.

(ii) Pursuant to a debt assignment agreement entered into by the Company, Real Estate and a third party company, a portion of the consideration for the purchase of a land use right totalling RMB10,000,000 were satisfied by off setting against other receivable due from the third party company.

29. Commitments

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
(a) Capital commitments for fixed assets				
Contracted but not provided for	**19,527**	54,602	**—**	—

(b) Commitments under operating leases

At 31st December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group		Company	
	2001	2000	**2001**	2000
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Within one year	**1,020**	2,011	**600**	1,488
In the second to fifth year inclusive	**4,080**	6,144	**2,400**	4,464
After the fifth year	**20,010**	16,590	**3,000**	—
	25,110	24,745	**6,000**	5,952

30. Related party transactions

The Group had the following significant 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**		**2001** ***RMB'000***	2000 *RMB'000*
SWGC	Sale of purified water	(a)	**577,362**	595,285
SWGC	Purchase of raw water	(b)	**50,283**	56,452
SWGC	Interest income on overdue receivables	(c)	**33,041**	—
Shenhai Co-generation	Interest income	(d)	**4,336**	6,387
Sino-French Liaoning	Payment of management service fee	(e)	**5,000**	5,000

30. Related party transactions (Continued)

(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. Provision has been made for certain receivables due from SWGC (Note 18(b)).

(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) According to the Water Supply Agreement, the Group is entitled to charge interest at a rate of 0.1% per day on overdue receivable balance. Full provision has been made for the interest receivable amount due from SWGC (Note 21).

(d) Interest was charged on the outstanding balance of the amount due from Shenhai Co-generation, at the rate of 7.56% (2000: 8.01%) per annum.

(e) The management service fee paid to Sino-French Water Development (Liaoning) Company Limited. ("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.

31. Ultimate holding company

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

32. Approval of accounts

These accounts were approved by the Board of Directors on 19th April 2002.