

Notes to condensed interim accounts

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts (the "interim accounts") are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants (the "HKSA").

The interim accounts should be read in conjunction with the 2001 annual accounts.

The accounting policies and methods of computation used in the preparation of the interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2001. The Group has adopted the following SSAPs issued by the HKSA which are effective for the accounting periods commencing on or after 1st January 2002:

SSAP 1 (revised)	: Presentation of financial statements
SSAP 11 (revised)	: Foreign currency translation
SSAP 15 (revised)	: Cash flow statements
SSAP 25 (revised)	: Interim financial reporting
SSAP 33	: Discontinuing operations
SSAP 34	: Employee benefits

There is no material effect on the accounts as a result of the adoption of these SSAPs, except for the changes in presentation of certain comparative figures.

2 Turnover and segment information

The Group was principally engaged in the production and sales of purified water and the development and sales of properties. During the Period, the Group disposed of its interest in a subsidiary which engaged in the production and sales of purified water (Note 3). An analysis of the Group's revenue and results for the Period by business segments is as follows:

Reporting format - business segments

	Six months ended 30th June 2002 - Unaudited				
	Discontinued operation	Continuing operations			Group RMB'000
	Sales of purified water RMB'000	Sales of properties RMB'000	Other operations RMB'000	Sub-total RMB'000	
Turnover	143,547	68,644	132	86,776	
Other revenues	527	59	6,324	6,383	6,910
Segment results	74,745	18,826	5,985	24,811	99,556
Unallocated costs					(10,325)
Gain on disposal of a subsidiary					37,677
Operating profit					126,908
Finance costs					(295)
Share of profit of a joint venture	-	-	11,934	11,934	11,934
Profit before taxation					138,547
Taxation					(39,645)
Profit after taxation					98,902
Minority interests					(491)
Profit attributable to shareholders					98,411

2. Turnover and segment information (continued)

Reporting format - business segments (continued)

	Six months ended 30th June 2001 - Unaudited				
	Discontinued operation	Continuing operations			Group
		Sales of purified water	Sales of properties	Other operations	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	279,206	—	—	—	279,206
Other revenues	398	—	16,683	16,683	17,081
Segment results	146,979	(3,529)	16,683	13,154	160,133
Unallocated costs					(8,600)
Operating profit					151,533
Finance costs					(6,789)
Share of profit of a joint venture	—	—	11,076	11,076	11,076
Profit before taxation					155,820
Taxation					(50,354)
Profit after taxation					105,466
Minority interests					(584)
Profit attributable to shareholders					104,882

2. Turnover and segment information (continued)

There are no sales or other transactions between the business segments. Unallocated costs represent corporate expenses.

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format. No geographical segment reporting is presented as sales of the Group are all made to customers in the PRC.

3. Discontinued operation

During the Period, the Group disposed of its entire 99.37% of interest in a subsidiary, Shenyang Water to an unrelated party, Zheng Xing (the "Disposal") for a consideration of RMB900,000,000 and, as a result, discontinued the Group's purified water production segment ("Water Business").

The Company and Zheng Xing commenced preliminary negotiations relating to the Disposal in early 2002 and the major terms of the Disposal have been agreed in April 2002. Pursuant to the Disposal Agreement, it was agreed between the Company and Zheng Xing that the economic benefits (including the rights and obligations) relating to the equity interest of Shenyang Water for the period commencing from 1st April 2002 to (and inclusive of) the date of completion of the legal procedures of the Disposal will be borne by Zheng Xing. The effective date of disposal of Shenyang Water was 31st March 2002.

The Disposal and the related terms for the Disposal were approved in the extraordinary general meeting held on 20th August 2002.

3. Discontinued operation (continued)

The sales, results, cash flows and net assets of the Water Business segment attributable to the Group were as follows:

	Three months ended		Six months ended
	31st March		30th June
	2002		2001
	<i>RMB'000</i>		<i>RMB'000</i>
Turnover	143,547		279,206
Other revenues	527		398
Total revenues	144,074		279,604
Power costs	(19,472)		(38,709)
Raw water purchase costs	(13,751)		(25,902)
Depreciation	(11,209)		(22,790)
Staff costs	(12,238)		(21,163)
Repairs and maintenance	(1,840)		(4,414)
Other operating expenses	(10,819)		(19,647)
Operating profit	74,745		146,979
Cash (outflow)/inflow in respect of:			
Operating activities	(76,799)		166,308
Investing activities	(5,095)		(7,070)
Financing activities	-		(84,801)
Net cash (outflow)/inflow	(81,894)		74,437
	31st March		31st December
	2002		2001
	<i>RMB'000</i>		<i>RMB'000</i>
Fixed assets	714,988		725,180
Construction-in-progress	2,920		2,521
Current assets	340,498		227,026
Total assets	1,058,406		954,727
Total liabilities	(190,616)		(137,018)
Minority interests	(5,467)		(4,960)
Net assets	862,323		812,749

3. Discontinued operation (continued)

The gain on disposal was determined as follows:

	<i>RMB'000</i>
Proceeds from sale	900,000
Net assets sold	(862,323)
Gain on disposal	<u>37,677</u>
Taxation thereon	(7,368)
After-taxation gain on disposal	<u><u>30,309</u></u>

The net cash inflow on sale is determined as follows:

Proceeds from sale	900,000
Less: cash and cash equivalents in subsidiary sold	(2,511)
Less: satisfied by other receivables	(700,000)
Net cash inflow on sale	<u><u>197,489</u></u>

4. Other revenues

	Six months ended 30th June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	4,278	11,761
Interest income from a joint venture	1,521	2,364
Investment income from unlisted investments	-	1,889
Dividend income from investment securities	1,088	1,022
Others	23	45
	<u><u>6,910</u></u>	<u><u>17,081</u></u>

5. Staff costs

Staff costs, including directors' and supervisors' emoluments, comprise :

	Six months ended 30th June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowance and bonus	10,669	16,626
Contribution to retirement fund (Note (a))	3,087	2,989
Others	2,546	1,370
	<u>16,302</u>	<u>20,985</u>

Note:

- (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. The rate of contributions in the Period is 25.5% (2001 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, staff should not leave the scheme prior to retirement. During the Period, there is no forfeited contribution used by the employer to reduce the future level of contributions (2001 Period: Nil).

6. Other operating expenses

	Six months ended 30th June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
Other operating expenses include:		
Rentals paid under operating leases – buildings	<u>1,149</u>	<u>1,267</u>

7 Taxation

	Six months ended 30th June	
	2002	2001
	<i>RMB'000</i>	<i>RMB'000</i>
The Group:		
PRC income tax charges	37,433	48,520
The joint venture:		
PRC income tax charges	2,212	1,834
	<u>39,645</u>	<u>50,354</u>

- (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 subsidy which are recognised when the right to receive is established. The refund however had been terminated since 1st January 2002.
- (b) 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% plus local surcharge.
- (c) 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 (2001 Period: Nil).
- (d) As at 30th June 2002 and during the Period, the Group did not have any significant unprovided deferred tax assets or liabilities.

8. Dividends

	Six months ended 30th June	
	2002	2001
	RMB'000	RMB'000
2001 Final dividend, paid, of Nil (2000 Period: RMB0.05586 per share) (Note (a))	-	57,004
2002 Interim dividend, proposed, of Nil (2001 Period: RMB0.07 per share) (Note (b))	-	71,428
	<u>-</u>	<u>128,432</u>

Note:

- (a) At a meeting held on 19th April 2002 the directors did not recommend the payment of a final dividend for the year ended 31 December 2001.
- (b) At a meeting held on 13th September 2002 the directors did not recommend the payment of an interim dividend for the Period.

9 Earnings per share - basic

The calculation of earnings per share for the period is based on the profit attributable to shareholders for the Period of RMB98,411,000 (2001 Period: RMB104,882,000) and the number of 1,020,400,000 shares (2001 Period: 1,020,400,000 shares) in issue during the Period.

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

10. Capital expenditure

	Fixed assets <i>RMB'000</i>	Construction- in-progress <i>RMB'000</i>
Net book amount at 1st January 2002	731,718	2,521
Additions	1,176	399
Depreciation	(11,635)	—
Disposal of a subsidiary (Note 3)	(714,988)	(2,920)
Net book amount at 30th June 2002	<u>6,271</u>	<u>—</u>

11. Accounts receivable

The aging analysis of accounts receivable is as follows:

	30th June 2002 <i>RMB'000</i>	31st December 2001 <i>RMB'000</i>
Current	7,794	90,655
1-2 months	—	86,191
Over 6 months	—	66,590
Gross accounts receivable	<u>7,794</u>	<u>243,436</u>
Less: provision	—	(97,546)
	<u>7,794</u>	<u>145,890</u>

The accounts receivable as at 31st December 2001 were mainly related to Shenyang Water which was disposed of during the Period.

12 Accounts payable

The aging analysis of the accounts payable is as follows:

	30th June 2002 RMB'000	31st December 2001 RMB'000
Within 1 month	–	16,766
Over 6 months	5,442	—
	<u>5,442</u>	<u>16,766</u>

13 Share capital

	30th June 2002 RMB'000	31st December 2001 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
	<u>1,020,400</u>	<u>1,020,400</u>

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.

14 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	Total reserves RMB'000
At 1st January 2001	323,258	37,032	64,322	32,161	456,773
Transfer from retained earnings	—	—	29,303	14,652	43,955
At 30th June 2001	323,258	37,032	93,625	46,813	500,728
Disposal of revalued fixed assets	—	(203)	—	—	(203)
Transfer from retained earnings	—	—	15,862	7,928	23,790
At 31st December 2001	<u>323,258</u>	<u>36,829</u>	<u>109,487</u>	<u>54,741</u>	<u>524,315</u>
At 1st January 2002	323,258	36,829	109,487	54,741	524,315
Disposal of a subsidiary	—	(36,829)	(51,283)	(25,640)	(113,752)
Transfer from retained earnings	—	—	9,432	4,716	14,148
At 30th June 2002	<u>323,258</u>	<u>—</u>	<u>67,636</u>	<u>33,817</u>	<u>424,711</u>

(a) Share premium

Share premium comprises the 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.

14 Reserves (Continued)

(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 (2001 Period: Nil)

15. Retained earnings

	RMB'000
At 1st January 2001	207,599
Profit for 2001 year	190,616
Transfer from reserves upon disposal of revalued fixed assets	203
Transfer to reserve funds	(67,745)
2000 Final dividend paid	(57,004)
2001 Interim dividend paid	(71,428)
At 31st December 2001	<u>202,241</u>
At 1st January 2002	202,241
Profit for the Period	98,411
Transfer from reserves upon disposal of a subsidiary	113,752
Transfer to reserve funds	(14,148)
At 30th June 2002	<u>400,256</u>

- (a) 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 accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the HKSA.



16 Commitments

- (a) Capital commitments for fixed assets

	30th June 2002 RMB'000	31st December 2001 RMB'000
- Contracted but not provided for	<u>19,527</u>	<u>19,527</u>

- (b) Commitments under operating leases

At 30th June 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	30th June 2002 RMB'000	31st December 2001 RMB'000
Within one year	600	1,020
In the second to fifth year inclusive	2,400	4,080
After the fifth year	2,700	<u>20,010</u>
	<u>5,700</u>	<u>25,110</u>

17. 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 Period:

Name of related party	Nature of transaction		Six months ended 30th June	
			2002 RMB'000	2001 RMB'000
Transactions relating to a discontinued operation (Note 3)				
SWGC	Sale of purified water	(a)	143,547	279,206
SWGC	Purchase of raw water	(b)	13,751	25,902
Sino-French Liaoning	Payment of management service fee	(c)	1,250	2,500
Continuing transactions				
Shenhai Co-generation	Interest income	(d)	1,521	2,364

- (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) 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.
- (d) Interest was charged on the outstanding balance of the amount due from Shenhai Co-generation, a joint venture, at the rate of 7.56% (2001 Period: 7.56%) per annum.

By order of the Board
Zhang Guo Xiang
Chairman

Shenyang, the PRC, 13th September 2002