

CHAIRMAN'S STATEMENT

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 RMB451,620,000, representing a decrease of approximately 32.33% from that of the Previous Year. Profit after taxation amounted to RMB93,193,000, representing a decrease of approximately 51.41% from that of the Previous Year. Earnings per share amounted to RMB0.09, representing a decrease of approximately 52.63% from that of the Previous Year.

During the Year, the Group had experienced relatively unfavourable external business environment, especially business environment related to purified water, which led to the decrease in the operating results of the Group.

In view of unfavourable external business environment, the Group actively took remedies. Through assets restructuring, the Group smoothly completed strategic adjustment of principal operations so that the development of real estate and investment of education projects became the core businesses, which minimized the adverse impact of unfavourable external business environment on the Group and laid down a foundation for the sound development of the Group in the future. During the Year, the Group strived to accomplish the following:

- In order to strengthen the competitiveness of Real Estate Company, expand scale of its operations, the board of directors of the Company (the "Board") resolved to increase the capital investment in Real Estate Company, so that its registered capital was increased to RMB250,000,000.
- In order to avoid negative impact arising from the unfavourable conditions in the operation of the purified water business of the Group and to safeguard the interests of shareholders as a whole, the Company disposed of its entire 99.37% equity interest in Shenyang Water to Shenyang Zheng Xing Enterprise Group Company Limited ("Zheng Xing").
- In order to invest in the project of Shenyang Development Beida Education Science Park, the Company established Shenyang Education during the Year.



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- During the Year, the Company entered into an agreement with the Administration Committee of the Zone, according to which the Company acquired a parcel of land in area of 790,000 square metres. The initial plan is to use the land in the construction of the project for Shenyang Development Beida Education Science Park and medium and top grade residential properties.



- During the Year, sales of the residential project “Hongji Garden” developed by Real Estate Company were in progress. Recognised sales revenues and profit before taxation amounted to RMB125,820,000 and RMB12,865,000 respectively. At the same time, the construction of phase one of the residential project “Water-Flowers City” developed by Real Estate Company was also roofed at the end of 2002.

- During the Year, the Company held a board meeting which resolved to approve the Company to acquire equity interest in three education companies, i.e. 70% equity interest in Zhuhai Education, 100% equity interest in Shanghai Education and 50% equity interest in Beida Online, in order to accelerate the development of education operations.
- During the Year, in order to centralize the use of funds for the development of real estate and investment of education projects, the Company entered into agreements with Pollon Investment, according to which the Company disposed of its 22.50% equity interest of Shenhai Co-generation and other relevant interest for a consideration of RMB177,314,000. The completion of the disposal of equity interest is still pending for the approval from the relevant government authorities in the PRC.

During the year 2003, the Group will capitalize the opportunities for development arising from the restructuring in operations, make great efforts to develop the real estate and investment of education projects and develop new profit centres. I believe that in the year of 2003, all the staff of the Group will put all efforts in bringing fruitful returns to our shareholders as a whole.

Xu Er Hui
Chairman

Shenyang Public Utility Holdings Company Limited

Shenyang, the PRC
26th April 2003