

REPORT OF THE DIRECTORS

The board of directors of the Company is pleased to present its report together with the audited accounts of the Group for the Year.

1. Principal Activities

The Company is an investment holding company. Originally, the Group was principally engaged in the production and sale of urban purified water, the development and sale of real estate, the investment in a joint venture which is principally engaged in the production and sale of electricity and heat and has equity interests in a business venture which is principally engaged in high-tech investment projects. During the Year, the Company transformed its principal operations to real estate development and education investment.

The analysis of the Group's results by segment for the Year is set out in note 5 to the Financial Statement on page 61 to 63.

2. Subsidiaries and Joint Ventures

Shenyang Water, with registered capital amounting to RMB754,830,000, was incorporated in Mo Chou Hu Street, the Zone, Shenyang, the PRC. During the Year, the Company disposed of all of its 99.37% equity interest in it.

Real Estate Company, with initial registered capital amounting to RMB35,000,000, which was increased to the current amount of RMB250,000,000, was incorporated in Mo Chou Hu Street, the Zone, Shenyang, the PRC. The Company holds 99.86% equity interests in it. During the Year, no debt securities were issued by it.

Shenhai Co-generation, with registered capital amounting to RMB353,880,000, was incorporated in No. 352 Zhulin Road, Dadong District, Shenyang, the PRC.

Shenyang Education, with registered capital amounting to RMB50,000,000, was incorporated in Mo Chou Hu Street, the Zone, Shenyang, the PRC. The Company directly holds [30%] equity interests in it. Real Estate Company holds the remaining 70% equity interest in it. During the Year, no debt securities were issued by it.

3. Other Investments

The Company has equity interests in THCI. Its registered capital is RMB250,000,000. The Company invested RMB20,000,000 and holds 8.00% equity interest in THCI. During the Year, no debt securities were issued by THCI.

4. Holding Company

The holding company of the Company is SPU which was established on 26th November 1998. Shenyang Urban Infrastructure Facility Construction Investment Development Company Limited ("Shenyang Urban Construction"), Shenyang State-owned Assets Management Company Limited ("Shenyang Asset") and Shenyang State-owned Real Estate Assets Management Company Limited hold 73.3%, 22.8% and 3.9% equity interest in SPU respectively. On 25th June 2001, SPU convened an extraordinary general meeting at which it was resolved to split SPU. The registered capital of SPU after splitting was reduced to RMB1,056,530,000. The new shareholders of Shenyang Urban Construction and Shenyang Asset held 84.46% and 15.54% equity interest in SPU respectively. These two companies hold equity interest in SPU on behalf of the government. SPU and its controlling shareholder Shenyang Urban Construction do not have any businesses which are competing with the Group. In July 2002, Shenyang Urban Construction, Shenyang Asset and Beijing Beida Hi-Tech Industry Investment Company Limited ("Beida Hi-Tech") signed a capital injection agreement, pursuant to which Beida Hi-Tech subscribed 50% portion of the entire enlarged registered capital of SPU at a cash consideration of RMB1,250,000,000. After the completion of the capital injection, the registered capital of SPU was enlarged to RMB2,113,060,000. Through the direct controlled companies, Shenyang Municipal Government held 50% equity interest in SPU, of which Shenyang Urban Construction and Shenyang Asset held 42.23% and 7.77% equity interest respectively. Beida High-Tech held the remaining 50% equity interest.

5. Results, Financial Position and Analysis of Results

The Group's results for the Year are set out in the consolidated income statement on page 49.

The Group's financial position for the Year is set out in the consolidated balance sheet on page 50.

The Group's cash flow for the Year is set out in the consolidated cash flow statement on page 53 to 54.

Analysis of the results of the Group for the Year is set out in the Management Discussion and Analysis section on pages 16 to 25.

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6. Interim Dividend

At the board meeting of the Company held on 13th September 2002, it was resolved that no interim dividend was declared for the year 2002.

7. Final Dividend

The Board resolved that no final dividend would be declared for 2002. Such resolution is subject to approval at the 2002 Annual General Meeting of the Company to be held on 16th June 2003.

8. Reserves

Details of the reserves of the Group and the movements therein during the Year are set out in the consolidated statement of changes in equity on page 52.

9. Properties under Development and Properties held for Sale

As at 31st December 2002, the Group held the following properties under development and properties held for sale:

| Name of properties | Address | Area (‘000 sq.m.) | Intended Usage | Current Position | Group’s interest |
|-------------------------------------|--|----------------------|---|---|------------------|
| Properties under development | | | | | |
| Water Source Land | No. 31, Wenhua East Road, Dongling District, Shenyang | 161 | Commercial and residential | Construction not yet commenced, and design is in progress | 99.86% |
| Land located at the Zone | Portion 10th Road, the Zone, Shenyang | 790 | Educational, commercial and residential | Construction not yet commenced, and design is in progress | 99.90% |
| Water-Flowers City | No. 36, Huaihe Street, Huanggu District, Shenyang | 95.56 | Commercial and residential | Construction of phase one was basically completed, and phase two will be completed by the end of 2003 | 99.86% |
| Properties held for sale: | | | | | |
| Hongji Garden | No.71-75, Da Bei Guan Street, Da Dong District, Shenyang | 3.69 | Commercial and residential | Available for sale | 99.86% |

10. Donation

During the Year, the Group did not make any donations to charities .

11. Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group during the Year are set out in note 14 to the Financial Statement on page 71.

12. Share Capital

During the Year, the share capital structure of the Company was as follows:

| Types of shares | Number of shares | Percentage |
|--------------------------|-------------------------|-------------------|
| Domestic invested shares | 600,000,000 | 58.80% |
| H Shares | 420,400,000 | 41.20% |
| Total | <u>1,020,400,000</u> | <u>100.00%</u> |

There was no change in the share capital structure of the Company during the Year.

13. Taxation

Details of taxation of the Group are set out in note 11 to the Financial Statement on page 69 to 70.

- (1) Pursuant to the circular "Cai Shui [2000] No.99 issued by the Ministry of Finance of the PRC on 13th October 2000, the income tax refund subsidy granted by local government authorities could be extended to 31st December 2001. During the Year, the Group was subject to a unified enterprise income tax rate of 33%. Therefore, the results of the Group during the Year were affected.
- (2) No tax reduction and exemption was enjoyed by holders of the listed securities of the Company for their holding of such securities.

14. Staff Quarters

The Group did not have any balance of house revolving funds which was carried forward in its accounts upon its incorporation in 1999, and no staff quarters were constructed, purchased or sold to staff.

Pursuant to the “Housing Reserves Management Ordinance” stipulated by the PRC government and the ShenfangweiHuifa [2000] No. 3 document issued by Shenyang Municipal Government on 28th December 2000, the basis of contribution for the housing reserves was the monthly income of the staff, of which the ratio of contribution by the Company was 8% from 1st January 2001 onwards.

15. Medical Insurance

Pursuant to “the Decision of Establishing the Basic Medical Insurance System for Urban Staff and Workers” promulgated by State Council of the PRC and “Shen Zheng Fa [2001] No.5” document issued by Shenyang Municipal Government on 30th July 2001, the basis of contribution for the basic medical insurance was the monthly income of the staff, of which the ratio of contribution by the Company was 8% from 1st January 2001 onwards.

16. Distributable Reserves

Pursuant to relevant PRC regulations and the Articles of Association of the Company, 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 the HKGAAP. In the PRC statutory accounts and the HKGAAP accounts as at 31st December 2002, accumulated profits after appropriation available to be carried forward for distribution to shareholders in future years amounted to RMB324,655,000 (2001: RMB260,881,000) and RMB361,738,000 (2001: RMB175,467,000) respectively. Accordingly, distributable reserves of the Company as at 31st December 2002 amounted to RMB324,655,000 (2001: RMB175,467,000).

17. Five-Year Financial Highlights

Highlights of the results and assets and liabilities of the Group during the Year and the past years are set out on page 5.

18. Major Customers and Suppliers

During the Year, the Group's sales to its five largest customers accounted for approximately 73.12% of the Group's total sales, of which sales to SWGC, the largest customer, accounted for approximately 72.05% of the Group's total sales for the Year. Purchases from the five largest suppliers accounted for approximately 42.58% of the Group's total purchases for the Year, of which purchases from SWGC, the largest supplier, accounted for approximately 24.98% of the Group's total purchases of the Year.

Except for Shenyang Urban Construction, the controlling shareholder of the Company's Controlling shareholder, SPU, which own 100% equity interest in the Group's largest customer, SWGC, and director Mr. Zhang Guo Xiang who is also the general manager of SWGC, none of the directors, their associates or any shareholder (to which the knowledge of the directors, owns 5% or more of the share capital of the Company) had an interest in the above-mentioned five largest suppliers or customers.

19. Use of Proceeds of H Shares

Details of use of proceeds of H shares during the Year are set out in Management Discussion and Analysis section on page 25.

20. Directors and Supervisors

Directors and supervisors of the Company during the Year were as follows:

The First Board and Supervisory Committee

Directors: Mr. Zhang Guo Xiang, Mr. Zhang Ying Jian, Mr. Wang Se, Mr. Geng Jian Wei, Mr. Chan Kam Ling, Mr. Lin Wen Bin, Mr. Alain Charles Fabry, Mr. Liu Gang, Mr. Liu Ting Yi (Resignation tendered on 8th May 2002), Mr. Huang Hai (Resignation tendered on 22nd February 2002), Mr. Choy Shu Kwan, Wilson, Mr. Cheng Wei and Mr. Lu Tie Nan (Resignation tendered on 31st January 2002). Mr. Choy Shu Kwan, Wilson, Mr. Cheng Wei and Mr. Lu Tie Nan were independent non-executive directors.

Supervisors: Mr. Wang Guang Zhou, Mr. Cai Hong Yuan, Mr. Li Jing Li, Mr. Ma Hui and Mr. Lin Xin Rong.

The Second Board and Supervisory Committee

Directors: Mr. Xu Er Hui, Mr. Zhang Jian Bo, Mr. Zhang Ying Jian, Mr. Wang Se, Mr. Geng Jian Wei, Mr. Chan Kam Ling, Mr. Chen Shu Xin, Mr. Lin Wen Bin, Mr. Zhang Wan Zhong, Mr. Michel P Detay, Mr. Cheng Wei and Mr. Choy Shu Kwan, Wilson. Mr. Choy Shu Kwan, Wilson and Mr. Cheng Wei are independent non-executive directors.

Supervisors: Mr. Wang Hong Yu, Mr. Cai Hong Yuan, Mr. Lin Dong Hui, Ms. Li Shu Lian, Mr. Zhao Xue Zhi, Ms. Gao Jing Juan and Mr. Yang Zhi An.

21. Directors' and Supervisors' Service Contracts

(1) Service contracts for the First Board and Supervisory Committee

Terms of office of all members of the first Board and the supervisory committee should have expired on 12th August 2002. The Company convened the second extraordinary general meeting of 2002 on 11th October 2002, approving terms of office of all members of the first Board and the first supervisory committee to be extended to 11th October 2002.

Except for the directors with early resignation (Mr. Liu Ting Yi, Mr. Huang Hai and Mr. Lu Tie Nan), the service contracts for the first Board and supervisory committee expired on 11th October 2002.

(2) Service contracts for the Second Board and Supervisory Committee

All service contracts for the second Board and supervisory committee will expire on 10th October 2005.

None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

22. Directors', Supervisors' and Senior Management's Rights to Acquire Shares in the Company

At no time during the Year have the directors, supervisors or senior management purchased or held any shares, securities or equity interests in the Company or associated corporations (as defined under the Securities (Disclosure of Interests) Ordinance, Chapter 396 of The Laws of Hong Kong ("SDI Ordinance")) nor acquired any benefits through the disposal of the shares, securities or equity interests in the Company or associated corporations (as defined under SDI Ordinance).

23. Directors' and Supervisors' Right to Purchase Shares

During the Year, the Company did not make any arrangements for directors, supervisors, chief executive officers or their spouses or their children under 18 years old, to acquire benefits by means of the acquisition of the shares, securities or equity interests of the Company or associated corporations (as defined under the SDI Ordinance).

24. Total remuneration of Directors and Supervisors

Each of the directors of the first Board received an annual salary of RMB20,000. Each of the directors of the second Board will receive an annual salary of RMB30,000. The service contracts for the first and second Board have not mentioned any adjustment to the annual salary of the directors. The executive directors may be entitled to certain cash bonuses according to the profitability of the Company upon the Board's approval (in which case the interested directors will abstain from voting) and are entitled to the welfare benefit provided under the relevant PRC laws and regulations. Each supervisor of the first supervisory committee received an annual salary of RMB10,000. Each supervisor of the second supervisory committee will receive an annual salary of RMB15,000. The supervisors are not entitled to any beneficial interests that are generally available to other employees of the Group.

During the Year, the total emoluments payable to the directors and supervisors amounted to RMB1,997,000 (2001: RMB2,361,000). Directors did not receive any cash bonuses on the basis of the profits of the Company or other additional benefits.

25. Directors' and Supervisors' Interests in Business Contracts

During the Year or as at the end of the Year, the director Mr. Zhang Guo Xiang is also the general manager of SWGC. The director Mr. Lin Wen Bin is also the chairman of SPU. The directors Mr. Zhang Jian Bo, Mr. Cheng Shu Xin and Mr. Zhang Ying Jian are also the directors of SPU. The directors Mr. Xu Er Hui, Mr. Zhang Jian Bo, Mr. Cheng Shu Xin and Mr. Zhang Wang Zhong are also the vice presidents of Beida Jade Bird, the controlling shareholder of Beida High-Tech. Except for the above, no other contracts of significance in relation to the Company's business to which the Company, any of its subsidiaries and holding company was a party and in which any director or supervisor had a material interest, whether directly or indirectly.

26. Change in Share Capital and Shareholders of Substantial Shareholders

The register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance as at 31st December 2002 disclosed that the following companies have an interest amounting to 10% or more of the relevant issued share capital of the Company:

- (1) SPU holds all of the 600,000,000 domestic shares in issue, representing 58.80% of the total issued share capital of the Company;
- (2) Tai Fook Securities Company Limited as nominee holds 92,210,000 H Shares, representing 21.93% of the issued H shares of the Company, of which Sino-French Water Development (Liaoning) Company Limited (“Sino-French Liaoning”) beneficially owns 88,146,000 H shares, representing 20.97% of the issued H shares of the Company; and
- (3) The Hong Kong and Shanghai Banking Corporation Limited holds 50,162,000 H shares, representing 11.93% of the issued H shares of the Company.

Save as disclosed above, the Company has not been notified of any interest required to be disclosed pursuant to the Securities (Disclosure of Interests) Ordinance during the Year.

27. Material Contracts

- (1) During the Year, no material contracts had been entered into between the Group and SPU, the controlling shareholder of the Company. Apart from the Company, SPU and its subsidiary had also not entered into any material contracts with the Group.
- (2) During the period from 1st January 2002 to 31st July 2002, the Group continued to comply with the terms of the “Technology and Operations Services Agreement” entered into with Sino-French Water Development Company Limited (“Sino-French Water”) on 21st November 1999. Pursuant to the agreement, Sino-French Liaoning, a wholly-owned subsidiary of Sino-French Water, should send a management team to provide all water plants of Shenyang Water with technology and management services and continue to provide advanced technological support and the best management measures. The Group should pay a fixed fee of RMB5,000,000 per annum to Sino-French Liaoning in respect of the services provided by that company. The agreement had no longer been complied with by the Company after the Disposal from 1st August 2002.
- (3) During the Year, the Company and Zheng Xing entered into an agreement for the Disposal on 13th June 2002. Such agreement was approved at the extraordinary general meeting of the Company on 20th August 2002. Pursuant to the agreement, the Company transferred all of its 99.37% equity interest in Shenyang Water to Zheng Xing for a consideration of RMB900,000,000 (Please refer to the announcement of the Company dated 20th August 2002 and Section “Management Discussion and Analysis – Analysis of Urban Water Supply Business” for details).

- (4) On 6th June, 2002, the Company and the Administration Committee of the Zone entered into the Intent Letter of Land Grant. On 13th June, 2002, a board meeting was convened to approve the Company acquiring a parcel of Land located in the Zone and authorising the management to sign the formal land grant agreement, the Group and the Administration Committee of the Zone signed Land Grant Agreements and State-owned land Use Rights Contract on 4th November 2002. According to the contracts, the Group should acquire the land use right for a plot of land with an area of 790,000 square meters located in the Zone for a consideration of RMB150 per square meter. As at 31st December 2002, the Company had paid RMB100,000,000 for land grant premium.
- (5) During the Year, the Company and the relevant transferors entered into three agreements for the transfer of relevant equity interest in Zhuhai Education, Shanghai Education and Beida Online respectively on 28th November 2002. The extraordinary general meeting which was subsequently convened by the Company on 10th February 2003 approved the resolution to acquire 70% equity interests in Zhuhai Education and to jointly acquire 100% equity interests in Shanghai Education with Real Estate Company for the considerations of RMB166,600,000 and RMB194,400,000 respectively. Such considerations were paid in full. Works relating to the change of equity holdings are currently in progress. With respect to the acquisition of the relevant equity interest in Beida Online, the Board has subsequently resolved to terminate the acquisition of 50% equity interest in Beida Online, subject to ratification by shareholders at the next annual general meeting of the Company. Please refer to the Section "Report of the Directors – Significant Events (5)" for details.
- (6) During the Year, the Company and Beida Education Investment entered into the Real Estate Master Lease Agreement in respect of the education properties of Zhuhai Education and Shanghai Education respectively on 28th November 2002. The Company applied for a waiver from Stock Exchange in respect of the cap of rental amounts arising from education properties of Zhuhai Education. Stock Exchange granted the waiver on 18th February 2003. The waived caps are RMB2,500,000 for 2003, RMB10,000,000 for 2004 and RMB18,400,000 for 2005. The effectiveness of the Real Estate Master Lease Agreement for the Zhuhai Education Property and Shanghai Education Property is conditional upon the agreements for the transfer of relevant equity interest in Zhuhai Education and Shanghai Education respectively becoming effective.
- (7) During the Year, the Company and Pollen Investment entered into an agreement on 28th December 2002 for the transfer of equity interest in Shenhai Co-generation. A board meeting convened on 30th December 2002 approved the equity interest disposal agreement. Pursuant to the agreement, the Company transferred all of its 22.50% equity interest in Shenhai Co-generation to Pollen Investment for the 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.

28. Connected Transactions

During the Year, the connected transactions of the Group were as follows:

- (1) sale of purified water to SWGC by Shenyang Water, with total sales of RMB325,400,000 (2001: RMB577,362,000);
- (2) purchase of raw surface water from SWGC by Shenyang Water, with a total purchase amount of RMB38,109,000 (2001: RMB50,283,000);
- (3) lease of office from Shenyang Water Services General Company (“SWSGC”) by Shenyang Water, with total rental of RMB245,000 (2001: RMB420,000);
- (4) lease of land to SWSGC by Shenyang Water, with total rental of RMB45,000 (2001: RMB90,000);
- (5) For the connected transactions of the acquisition by the Company of 70% equity interest in Zhuhai Education, 100% equity interest in Shanghai Education, 50% equity interest in Beida Online, and the application for a waiver from the Stock Exchange in respect of the cap of the rental amounts arising from leasing education properties of Zhuhai Education to connected party, please refer to the Section “Report of the Directors – Material Contracts (6)” and the Section “Report of the Directors – Significant Events (5)” respectively.

Waivers from the approval of independent shareholders have been granted by the Stock Exchange in respect of the connected transactions mentioned in (1) and (2) above.

Independent non-executive directors of the Company have reviewed the above connected transactions as mentioned in (1) to (4) and expressed their opinions. Details of their opinion are set out on page 42 under the section “Work of the Audit Committee”. Details of the connected transactions as mentioned in (5) were disclosed by the Company according to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). Such connected transactions were approved by shareholders.

29. Purchase, Sale or Redemption of Shares

During the Year, the Group did not purchase, sell or redeem any of the Company’s shares.

30. Share Options

During the Year, the Group did not issue or grant any of convertible securities, futures options, warrants and other similar rights.

31. Significant Events

(1) The Disposal and Change in Use of Proceeds

During the Year, there were significant changes in the external environment of purified water business of the Group and Shenyang Water was facing the adverse condition. Accordingly, in order to get away completely from the unfavourable conditions in operating the purified water business by the Group and to safeguard the interests of shareholders as a whole, the Board resolved on 12th June 2002 to dispose of its entire 99.37% equity interest in Shenyang Water to Zheng Xing for a consideration of RMB900,000,000.

On 5th July 2002, the Company dispatched a circular to the Company's shareholders in respect of the above Disposal. Details of the terms of the disposal agreement, reasons for the disposal and the proposed use of the proceeds from the disposal were set out in the circular.

On 20th August 2002, the Company convened the first extraordinary general meeting for the year 2002. Special resolution for the above disposal was passed. In addition, an ordinary resolution was passed to revise the application of unutilized balance of approximately RMB 200,000,000, being the balance of RMB489,000,000 which was originally intended to be used for the water plants of Shenyang Water financed out of the net proceeds of approximately RMB684,000,000 raised by the issue of 420,400,000 H shares to public investors at the issue price of HK\$1.70 each in December 1999. The Company intends to apply the remaining balance as follows: (a) approximately RMB120,000,000 will be applied to acquire a plot of land in the Zone; and (b) the balance of approximately RMB80,000,000 will be used as working capital of the Group.

Up to September 2002, the Company has received RMB900,000,000 from Zheng Xing as its payment for the acquisition of 99.37% equity interest in Shenyang Water, representing 100% of the total consideration for the acquisition of the equity interest.

Please also refer to the announcement of the Company dated 20th August 2002 and Section "Management Discussion and Analysis - Analysis of Urban Water Supply Business" for details.

(2) Capital Injection of SPU

The Company was notified by SPU that, on 25th July 2002, Shenyang Urban Construction, Shenyang Asset and Beida High-Tech entered into a capital injection agreement, pursuant to which Beida Hi-Tech agreed to subscribe 50% portion of the entire enlarged registered capital of SPU at a cash consideration of RMB1,250,000,000. As advised by SPU, the sole asset held by SPU at the signing date of the capital injection agreement was 600,000,000 domestic shares of the Company, representing approximately 58.80% of the issued share capital of the Company. Prior to the signing of the capital injection agreement, Shenyang Urban Construction and Shenyang Asset held 84.46% and 15.54% equity interest in SPU respectively. After the completion of the capital injection, the registered capital of SPU was enlarged to RMB2,113,060,000. Shenyang Urban Construction and Shenyang Asset jointly held 50% of the total enlarged registered capital of SPU and Beida High-Tech held the remaining 50% registered capital. Details of the capital injection into SPU had been disclosed in the announcement published in the newspapers in Hong Kong on 29th July 2002.

The Company was notified by SPU that the aforesaid capital injection and procedures for changes in registered capital were completed in December 2002.

(3) Election of Members of the Second Board of Directors and Supervisory Committee of the Company

On 20th August 2002, the Company convened a board meeting to consider and approve: (a) the extension of the terms of the directors of the first Board and the supervisors of the first supervisory committee until the end of the second extraordinary general meeting of the Company for the year 2002 and the submission to the second extraordinary general meeting of the Company for the year 2002 for ratification and approval; (b) the submission of the 14 candidates for directors and the 7 candidates for supervisors for the second Board and the second supervisory committee respectively to the second extraordinary general meeting of the Company for the year 2002 for approval; and (c) the convening of the second extraordinary general meeting of the Company for the year 2002 on 11th October 2002 for the purpose of considering the above two resolutions as ordinary resolutions.

Details of the resolutions passed at the board meeting and the notice of the second extraordinary general meeting of the Company for the year 2002 were published on the newspapers in Hong Kong on 22nd August 2002.

On 11th October 2002, the Company convened the second extraordinary general meeting for the year 2002 to consider and approve the following resolutions: (a) the extension of the terms of the directors of the first Board and the supervisors of the first supervisory committee until the end of the second extraordinary general meeting of the Company for the year 2002 was agreed; (b) the appointment of the members of the second Board and the second supervisory committee, with a term of three years effective from 11th October 2002 was agreed.

On the same date, the Company convened the first meeting of the second Board whereby (a) Mr. Xu Er Hui, Mr. Zhang Jian Bo, Mr Zhang Ying Jian, Mr. Wang Se, Mr. Geng Jian Wei, Mr. Chen Shu Xin and Mr. Chan Kam Ling were appointed as executive directors; (b) Mr. Lin Wen Bin, Dr. Michel P. Detay and Mr. Zhang Wan Zhong were appointed as non-executive directors; (c) Mr. Cheng Wei and Mr. Choy Shu Kwan, Wilson were appointed as independent non-executive directors; (d) Mr. Xu Er Hui was appointed as the chairman; Mr. Zhang Jian Bo was appointed as the president of the Company; Mr. Wang Se was appointed as the secretary to the Board; and (e) Mr. Zhang Ying Jian, Mr. An Mu Zong, and Mr. Zhang Pei were appointed as the vice president of the Company and Mr. Geng Jian Wei was appointed as the chief financial officer of the Company.

(4) Acquisition of Land

The Company held the board meeting on 12th June 2002, approving the resolution for the Company to acquire the land use right of a parcel of land located in the Zone and authorising the management of the Company to sign the formal agreement for the acquisition of the land use right. On 4th November 2002, the Group and the Administration Committee of the Zone entered into Land Grant Agreement and State-owned Land Use Rights Contract, pursuant to which, the Group obtained the land use right of a parcel of land with an area of 790,000 square meters located in the Zone for a consideration of RMB150 per square meter. The Company will use 200,000 square meters of the land for the construction of Shenyang Development Beida Education Science Park project. The remaining 590,000 square meters of the land will be used for the development of residential properties.

As at 31st December 2002, the Group had paid RMB100,000,000 for land grant premium.

(5) Acquisition of Equity interests in Zhuhai Education and Shanghai Education

The Company convened a board meeting on 15th November 2002 whereby the following resolutions were passed: (a) the acquisition by the Company of 70% equity interests in Zhuhai Education at a consideration of RMB166,600,000; (b) the acquisition by the Company jointly with Real Estate Company of 100% equity interest in Shanghai Education for a consideration of RMB194,400,000; (c) the acquisition by the Company of 50% equity interest of Beida Online at a consideration of RMB94,400,000; (d) the lease of a property in Shanghai Education by the Company to Beida Education Investment for rental income; (e) the lease of a property in Zhuhai Education by the Company to Beida Education Investment for rental income; (f) the submission of the waiver application by the Company to the Stock Exchange in respect of the connected transactions for the lease of properties; and (g) the convening of the first extraordinary general meeting of the Company for the year 2003 on 10th February 2003 for the purpose of considering the above mentioned resolutions.

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The Company despatched a circular to shareholders of the Company on 23rd December 2002 in respect of the above acquisitions. Details of the terms of the acquisition agreements, relevant information, acquisition considerations and waiver application letter for the connected transactions in respect of the acquisition were set out in the circular.

In relation to the Beida Online transaction, the Company received a letter from Mr Qi Li Feng, holding 2% equity interest in Beida Online, on 30th January 2003. Mr. Qi stated in the letter that he had not authorized any person to sign the Beida Online agreement on his behalf. In view of the circumstances, the Company convened a board meeting on 10th February 2003 and resolved that the resolution for the acquisition of 50% equity interest in Beida Online should not be submitted to the forthcoming extraordinary general meeting until the validity of the execution of the Beida Online agreement was properly clarified.

At the extraordinary general meeting held on 10th February 2003, the following resolutions were approved: (a) the acquisition of 35% equity interest in Zhuhai Education from each of Beida Education Investment and Beijing Beida Public School Education Investment Company Limited ("Beida Publish School") respectively by the Company (in aggregate equivalent to 70% equity interest) at a total cash consideration of approximately RMB166,600,000; (b) the acquisition by the Company and its subsidiary, the Real Estate Company, of 80% and 20% equity interest (in aggregate equivalent to 100% equity interest) in Shanghai Education from Beida Education Investment and Beida Public School respectively at a cash consideration of approximately RMB155,500,000 and approximately RMB38,900,000 respectively; and (c) the Zhuhai master lease agreement in respect of the lease of the properties of phase one of the Zhuhai Education Science Park owned by Zhuhai Education and the waiver application.

Details of the resolutions of the extraordinary general meeting were published by the Company on the newspaper in Hong Kong on 11th February 2003.

The Company held an extraordinary board meeting (by means of communication) on 7th March 2003 and resolved to terminate the proposed acquisition of 50% equity interest in Beida Online, which was published by the Company on the newspaper in Hong Kong on 13th March 2003. The prepayment of RMB94,400,000 for acquiring Beida Online was refunded to the Company at the same time. The above resolution to terminate the proposed acquisition of 50% equity interest in Beida Online will be submitted to the next annual general meeting for ratification.

As at 31st December 2002, for the purpose of acquiring equity interests in Zhuhai Education and Shanghai Education, the Company paid RMB166,600,000 and RMB194,400,000 respectively to the escrow account.

Currently, phase one of Zhuhai Education Science Park has been completed and checked and accepted; phase one of Shanghai Education Science Park is under planning. Works relating to the change of equity holding in Zhuhai Education and Shanghai Education are currently in progress.

(6) Disposal of 22.50% Equity Interests in Shenhai Co-generation

The Company convened the board meeting on 30th December 2002 whereby disposal agreement of the equity interest in Shenhai Co-generation entered by the Company and Pollon Investment was approved and the Company was authorised to dispose of 22.50% equity interest and relevant interests in Shenhai Co-generation to Pollen Investment 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.

32. Bank Borrowings

As at 31st December 2002, the total amount of the Group's bank borrowings was RMB120,000,000 (2001: RMB80,000,000, of which an amount of RMB60,000,000 was pledged by a bank deposit of HK\$60,000,000). The above borrowings was guaranteed by SPU bearing interest at 5.31% per annum and should be repayable within on year.

During the year, the Group had no delay in repayment of bank borrowings.

33. Trust deposits

There were no deposits managed by trustees for the Year.

34. Retirement Scheme

Details of the retirement scheme and the amount of contributions to the retirement scheme are set out in note 35 to the Financial Statement on page 85.

35. Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Articles of Association and the laws of the PRC which would require the Company to offer new shares to existing shareholders on a pro rata basis.

36. Loans to Senior Management

During the Year, the Group did not give any loan or other kinds of financial assistance to the senior management of the Group.

37. Work of the Audit Committee

Pursuant to the Code of Best Practice as set out in Appendix 14 to the Listing Rules, the Company established an Audit Committee at the fifth meeting of the first Board. The main function of the Committee, which is a special committee under the Board, is to review and supervise the financial reporting procedures and methods of the Group. The Audit Committee comprises two independent non-executive directors of the Company, namely Messrs. Choy Shu Kwan, Wilson and Cheng Wei.

At the meeting held on 23rd April 2003, the Audit Committee reviewed the accounts of the Company and expressed its opinion in respect of the connected transactions of the Company as follows:

- (1) The information disclosed in the accounts of the Company is complete, accurate and fair and the accounting policies adopted are correct, without any material problems being discovered.
- (2) The connected transactions of the Company have been carried out:
 - A. in the ordinary and usual course of business of the Company;
 - B. on normal commercial terms (by reference to transactions of a similar nature and as made by similar entities in the PRC) or (where there is no available comparison) on terms no less favourable than those available to third parties;
 - C. in accordance with the terms of the respective agreements governing such transactions;
 - D. are fair and reasonable so far as the shareholders of the Company are concerned; and
 - E. the value of the connected transactions as a percentage of the Group's turnover does not exceed the respective cap in respect of the waiver for the connected transactions granted by the Stock Exchange, that is, the sales of purified water accounted for 72.05% but less than 100% of the Group's turnover and the purchase of raw water from SWGC accounted for 8.44% but less than 15% of the Group's turnover.

38. Code of Best Practice

The directors of the Company are pleased to confirm that the Company has complied with the Code of Best Practice as set out in the Listing Rules during the Year.

39. Material Litigation

During the Year, the Group was not involved in any material litigation or arbitration.

40. Auditors

The accounts of the Group for the Year prepared in accordance with the HKGAAP and the accounting standards issued by the Hong Kong Society of Accountants have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants.

Since our previous domestic auditors Yuehua Certified Public Accountants Company Limited (Liaoning Branch) and international auditors PricewaterhouseCoopers, Certified Public Accountants, tendered their resignation respectively on 26th February 2003 and 24th February 2003, the Company held an extraordinary board meeting on 7th March 2003 and decided to appoint Deloitte Touche Tohmatsu, Certified Public Accountants and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. as the international and the PRC auditors of the Group respectively. A resolution was submitted at the extraordinary general meeting convened on 26th April 2003 to appoint Deloitte Touche Tohmatsu, Certified Public Accountants and Deloitte Touche Tohmatsu Certified Public Accounts Ltd. as the international and the PRC auditors of the Group with a term up to the end of the forthcoming annual general meeting of the Company. The Company will propose a resolution at the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu, Certified Public Accountants and Deloitte Touche Tohmatsu Certified Public Accountants Ltd. as the international and the PRC auditors of the Group.

Details of the resolution of the Board in respect of change of auditors was published by the Company on the newspaper in Hong Kong on 11th March 2003.

41. Publication of Information on the Web-site of the Stock Exchange

Financial and other relevant information of the Company in accordance with the paragraphs from 45(1) to 45(3) of Appendix 16 to the Listing Rules will be available for publication on the web-site of the Stock Exchange in due course.

By order of the Board
Xu Er Hui
Chairman

26th April 2003, Shenyang , the PRC