

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

1. GENERAL

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 瀋陽公用集團有限公司 Shenyang Public Utility Group Company Limited ("SPU") 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 and its ultimate holding company is SPU. The Company and its subsidiaries (collectively referred to as the "Group") principally engaged in the development and sale of properties and investment and management of education projects. During the year, the Company disposed of its entire 99.37% of equity interest in a subsidiary, 瀋陽水業有限公司 Shenyang Water Company Limited ("Shenyang Water"), to an unrelated party, 瀋陽政興企業集團有限責任公司 Shenyang Zheng Xing Enterprise Group Company Limited ("Zheng Xing"), for a consideration of RMB900,000,000. As a result, the Group's production and sale of urban purified water business segment was discontinued thereafter.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants.

SSAP 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements
SSAP 33	Discontinuing operations
SSAP 34	Employee benefits

Adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the consolidated cash flow statement and the inclusion of a consolidated statement of changes in equity, but has had no material effect on the results of the current year or prior years. Accordingly, no prior period adjustment is required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain property, plant and equipment and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The results of subsidiaries disposed of during the year are included in the consolidated income statement up to the effective date of disposal.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Jointly controlled entity

Joint venture arrangement which involves the establishment of a separate entity in which each venturer has an interest is referred to as a jointly controlled entity.

The Group's interests in a jointly controlled entity are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity, less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entity is included in the consolidated income statement.

The Company's investment in the jointly controlled entity is stated at cost less any identified impairment loss. The results of jointly controlled entity are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

Sales of properties are recognised on execution of legally binding, unconditional and irrevocable sales contracts.

Income from provision of property management services is recognised when the services are rendered.

Income from the sale of purified water was recognised when delivery was made.

Dividend income from investments is recognised when the shareholder's rights to receive dividend payment have been established.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Land, buildings and wells are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land, buildings and wells is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the asset revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Construction in progress represents assets under construction and is stated at cost and are transferred to a specific category of property, plant and equipment when they are completed. 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.

Other property, plant and equipment are stated at cost less depreciation and any identified impairment loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

Amortisation is calculated to write off the cost or valuation of land use rights in the PRC on a straight line basis over the remaining unexpired terms of the land use rights.

Depreciation is provided to write off the cost of other items of property, plant and equipment over their estimated useful lives, and after taking account their estimated residual value, using the straight line method, at the following rates per annum:

Buildings	2 - 10%
Wells, pipelines, plant and machinery	5 - 10%
Motor vehicles, furniture, fixtures and office equipment	8 - 16%
Leasehold improvements	20%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Properties under development

Properties under development are stated at cost less any identified impairment loss. Cost comprises the land cost with development expenditure, which includes construction costs, capitalised interest and direct costs attributable to the development of the properties.

Properties under development which are sold in advance of completion or are due for completion within one year from the balance sheet date and with the intention for sale when completed are included in the balance sheet as current assets. All other properties under development are included in the balance sheet as non-current assets.

Properties held for sale

Properties held for sale are classified under current assets and stated at the lower of cost and net realisable value. Cost, which comprises land cost, direct purchase cost or expenditure incurred for the construction and, where applicable, other incidental expenses that have been incurred in bringing the properties to their present location and condition, is calculated using the weighted average method. Net realisable value represents the actual or estimated selling price in the ordinary course of business less all related selling and marketing costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in securities

Investments in securities are recognised on a trade date basis and initially measured at cost.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost less any identified impairment loss.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Inventories

Inventories comprise consumable supplies and spare parts held for consumption and usage and are stated at cost less provision for obsolescence. Cost is determined on the weighted average basis.

Consumable supplies and spare parts are charged to income statement upon consumption and usage.

Borrowings costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

The Group maintains its books and records in Renminbi ("RMB"). Foreign currency transactions are re-translated into RMB at the applicable rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the applicable rates of exchange ruling on the balance sheet date. All exchange differences are dealt with in the income statement.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Timing difference arises from the recognition for tax purposes of certain items of income and expenses in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rental expenses under operating leases are charged to the income statement on a straight line basis over the relevant lease terms.

Retirement benefits costs

Payments to state-managed retirement benefit schemes in the PRC are charged as an expense in the income statement as they fall due.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

4. TURNOVER

Turnover represents the net amounts received and receivable for sales of properties and urban purified water by the Group to outside customers, less returns and allowances and income arising from the property management services in the PRC for the year, and is analysed as follows:

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Continuing operations		
Sales of properties	125,820	90,073
Provision of property management services	400	—
	<u>126,220</u>	<u>90,073</u>
Discontinuing operations		
Sales of urban purified water	325,400	577,362
	<u>451,620</u>	<u>667,435</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group is principally engaged in the business of development and sale of properties.

In the previous years, the Group was also involved in the production and sales of urban purified water in the PRC. Such operation was discontinued from 31st July, 2002 upon the disposal of the subsidiary, Shenyang Water, engaged in this operation (see note 9).

Other operations represents the investment and management of education projects, property management services, investment in a jointly controlled entity and investment securities, none of which is of a sufficient size to be reported separately.

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

Segment information about these businesses is presented below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

For the year ended 31st December, 2002 / as at 31st December, 2002:

	Continuing operations		Discontinuing operations	Consolidated
	Sales of properties RMB'000	Others operations RMB'000	Sales of urban purified water RMB'000	
INCOME STATEMENT				
Turnover	125,820	400	325,400	451,620
Other operating income	287	1,251	152	1,690
	<u>126,107</u>	<u>1,651</u>	<u>325,552</u>	<u>453,310</u>
Segment results	<u>12,738</u>	<u>(469)</u>	<u>158,305</u>	170,574
Interest income				7,598
Interest income from a jointly controlled entity	—	2,016	—	2,016
Unallocated corporate expenses				(21,628)
Profit from operations				158,560
Finance costs				(2,286)
Share of results of a jointly controlled entity	—	20,388	—	20,388
Loss on disposal of a subsidiary	—	—	(20,382)	(20,382)
Profit before taxation				156,280
Taxation				(63,087)
Profit before minority interests				93,193
Minority interests				(402)
Net profit for the year				<u>92,791</u>
BALANCE SHEET				
Segment assets	924,425	20,075	—	944,500
Interest in and amount due from a jointly controlled entity	—	102,998	—	102,998
Unallocated corporate assets				1,024,929
Total assets				<u>2,072,427</u>
Segment liabilities	5,567	592	—	6,159
Unallocated corporate liabilities				218,340
Total liabilities				<u>224,499</u>
OTHER INFORMATION				
Additions to property, plant and equipment				
— Segment	133	54	6,065	6,252
— Corporate				6,438
Depreciation and amortisation				
— Segment	219	8	25,304	25,531
— Corporate				1,604
Loss on disposal of property, plant and equipment	—	—	23	23

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

For the year ended 31st December, 2001 / as at 31st December, 2001:

	Continuing operations		Discontinuing operations	Consolidated RMB'000
	Sales of properties RMB'000	Others operations RMB'000	Sales of urban purified water RMB'000	
INCOME STATEMENT				
Turnover	90,073	—	577,362	667,435
Other operating income	—	2,974	95,500	98,474
	<u>90,073</u>	<u>2,974</u>	<u>672,862</u>	<u>765,909</u>
Segment results	<u>16,780</u>	<u>2,974</u>	<u>267,167</u>	286,921
Interest income				20,062
Interest income from a jointly controlled entity	—	4,336	—	4,336
Unallocated corporate expenses				(15,961)
Profit from operations				295,358
Finance costs				(10,996)
Share of results of a jointly controlled entity	—	18,447	—	18,447
Profit before taxation				302,809
Taxation				(111,031)
Profit before minority interests				191,778
Minority interests				(1,162)
Net profit for the year				<u>190,616</u>
BALANCE SHEET				
Segment assets	369,012	20,062	870,321	1,259,395
Interest in and amount due from a jointly controlled entity	—	164,493	—	164,493
Unallocated corporate assets				531,466
Total assets				<u>1,955,354</u>
Segment liabilities	56,844	—	64,851	121,695
Unallocated corporate liabilities				77,837
Total liabilities				<u>199,532</u>
OTHER INFORMATION				
Additions to property, plant and equipment				
— Segment	809	11	21,733	22,553
— Corporate				1,376
Depreciation and amortisation				
— Segment	144	—	45,564	45,708
— Corporate				538
Loss on disposal of property, plant and equipment	—	—	5,870	5,870
Allowances for trade debtors and interest receivable	—	—	130,587	130,587

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

Geographical segments

All of the Group's turnover for both years was made in the PRC.

As at 31st December, 2001 and 2002, all of the Group's segment assets were located in the PRC.

All of the changes in the Group's property, plant and equipment took place in the PRC for both years.

6. OTHER OPERATING INCOME

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Interest on bank deposits and balances	7,598	20,062
Interest from a jointly controlled entity	2,016	4,336
Interest on overdue debtors	—	33,041
Total interest income	9,614	57,439
Dividend income from investment securities	1,088	1,022
Others	602	90
Refund of PRC Enterprise Income Tax (note 11)	—	62,369
Investment income from unlisted investment	—	1,952
	11,304	122,872

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

7. PROFIT FROM OPERATIONS

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Profit from operations has been arrived at after charging:		
Directors' and supervisors' remuneration (note 10)	1,997	2,361
Staff salaries, allowances and bonuses	21,592	42,352
Contributions to retirement benefit schemes	6,031	7,075
Others	5,626	4,080
	<u>35,246</u>	<u>55,868</u>
Allowance for trade debtors	—	97,546
Allowance for interest receivable	—	33,041
Total allowance for doubtful debts	<u>—</u>	<u>130,587</u>
Auditors' remuneration	884	1,945
Loss on disposal of property, plant and equipment	23	5,870
Minimum lease payments made in respect of rented premises	<u>1,168</u>	<u>2,620</u>

8. FINANCE COSTS

	2002 <i>RMB'000</i>	2001 <i>RMB'000</i>
Interest on bank borrowings wholly repayable within five years	2,286	12,472
Less: amount capitalised in properties under development	<u>—</u>	<u>(1,476)</u>
	<u>2,286</u>	<u>10,996</u>

The borrowing costs capitalised in the previous year was calculated by applying a capitalisation rate ranging from 5.022% to 6.138% per annum on bank loans borrowed and used for the properties under development.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

9. DISCONTINUING OPERATIONS

During the year, the Group disposed of its 99.37% equity interest in Shenyang Water to an unrelated party, Zheng Xing, for a consideration of RMB900,000,000 ("Disposal of Water Business"). As a result, the Group's production and sale of urban purified water business segment was discontinued thereafter. The Company and Zheng Xing commenced preliminary negotiations relating to the Disposal of Water Business in early 2002 and the major terms and conditions of the Disposal of Water Business were agreed in April 2002 and, accordingly, entered into a disposal agreement ("Disposal Agreement") on 13th June, 2002. The Disposal of Water Business was approved in the Company's extraordinary general meeting held on 20th August, 2002. Accordingly, the effective date of discontinuance for accounting purposes was 31st July, 2002 upon the completion of the Disposal of Water Business to Zheng Xing.

The loss on discontinuing operations is analysed as follows:

	2002	2001
	RMB'000	RMB'000
Loss on disposal of a subsidiary (note 31)	<u>(20,382)</u>	<u>—</u>

No taxation charge was arose from the disposal of a subsidiary (2001:nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

9. DISCONTINUING OPERATIONS *(continued)*

The result of the Shenyang Water for the period from 1st January, 2002 to 31st July, 2002, which have been included in the consolidated income statement, together with the corresponding comparative figures for the year ended 31st December, 2001, were as follows:

	1.1.2002 to 31.7.2002 RMB'000	1.1.2001 to 31.12.2001 RMB'000
Turnover	325,400	577,362
Other operating income	663	95,500
Total income	326,063	672,862
Staff costs	(27,862)	(47,752)
Depreciation and amortisation	(25,304)	(45,564)
Power costs	(42,944)	(74,687)
Raw water purchase costs	(38,109)	(50,283)
Repairs and maintenance	(6,644)	(10,772)
Allowance for doubtful debts	—	(130,587)
Other operating expenses	(26,384)	(46,050)
Profit before taxation	158,816	267,167
Taxation	(53,075)	(100,730)
Profit before minority interests	105,741	166,437
Minority interests	(876)	(1,138)
Net profit for the period/year	<u>104,865</u>	<u>165,299</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

10. DIRECTORS' AND SUPERVISORS' REMUNERATION

	2002 RMB'000	2001 RMB'000
Directors		
Fees:		
Executive	73	102
Non-executive	57	80
Independent non-executive	28	52
	<u>158</u>	<u>234</u>
Other emoluments:		
Executive:		
Salaries and other benefits	1,207	1,402
Contributions to retirement benefits schemes	169	219
	<u>1,376</u>	<u>1,621</u>
Non-executive:		
Salaries and other benefits	6	—
Contributions to retirement benefit schemes	—	—
	<u>6</u>	<u>—</u>
Independent non-executive:		
Salaries and other benefits	3	—
Contributions to retirement benefits schemes	—	—
	<u>3</u>	<u>—</u>
	<u>1,543</u>	<u>1,855</u>
Supervisors		
Fees	33	40
Other emoluments:		
Salaries and other benefits	351	391
Contributions to retirement benefit schemes	70	75
	<u>421</u>	<u>466</u>
	<u>454</u>	<u>506</u>
Total remunerations to directors and supervisors	<u><u>1,997</u></u>	<u><u>2,361</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

10. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

	Number of directors and supervisors	
	2002	2001
Received emoluments	18	21
Did not receive any emoluments	11	2
	<u>29</u>	<u>23</u>

The emoluments of each of the directors and supervisors who received emoluments were below RMB1,060,000 (equivalent to HK\$1,000,000) for each of the two years ended 31st December, 2002.

All of the five highest paid individuals of the Group for 2002 and 2001 were directors.

11. TAXATION

	2002 RMB'000	2001 RMB'000
The charge comprises:		
PRC Enterprise Income Tax	59,069	106,856
Share of taxation attributable to a jointly controlled entity in the PRC	4,018	4,175
	<u>63,087</u>	<u>111,031</u>

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Taxation of the Group arising in the PRC is calculated at the rates prevailing in the PRC. The Group is subject to an unified enterprise income tax rate of 33% for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

11. TAXATION *(continued)*

In the previous years, however, pursuant to an approval document dated 13th February, 1999 issued by Liaoning Provincial Government and a circular "Caishui [2000] No. 99" issued by the Ministry of Finance of the PRC on 13th October, 2000, the Group was subject to an enterprise income tax rate at 15%. The Finance Bureau of Shenyang Economic and Technological Development Zone would refund the 18% by way of government subsidies. The refund of PRC Enterprise Income Tax for the year ended 31st December, 2001 of RMB62,369,000 was received and recorded as other operating income for that year (see note 6).

In accordance with various approval documents issued by the State Administration of Taxation of the PRC, Shenyang Shenhai Hot Electricity Company Limited, being a sino-foreign joint venture company engaged in power generation, is subject to an income tax rate of 15% plus local surcharge.

No provision for deferred taxation has been recognised in the financial statements as the amount involved is insignificant.

12. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31st December, 2002. A total dividend of RMB71,428,000 for the previous year represented the interim dividend of RMB0.07 per share. The 2001 interim dividend of RMB71,428,000 and the 2000 final dividend of RMB57,004,000 were paid in 2001.

13. EARNINGS PER SHARE

The calculation of earnings per share for the year is based on the net profit for the year of RMB92,791,000 (2001: RMB190,616,000) and the number of 1,020,400,000 shares (2001: 1,020,400,000 shares) in issue during the year.

No diluted earnings per share are presented as the Company has no dilutive potential shares outstanding in both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

14. PROPERTY, PLANT AND EQUIPMENT

	Land use rights RMB'000	Buildings and wells RMB'000	Pipelines RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Furniture, fixtures and office equipment RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
THE GROUP									
COST OR VALUATION									
At 1st January, 2002	331,490	244,990	106,664	171,523	21,185	5,906	—	2,521	884,279
Additions	—	500	47	1,901	1,340	973	5,782	2,147	12,690
Other disposals	—	(23)	—	—	(1,101)	—	—	—	(1,124)
Disposal of a subsidiary	(331,490)	(245,467)	(106,711)	(173,420)	(15,889)	(4,972)	—	(4,668)	(882,617)
At 31st December, 2002 *	—	—	—	4	5,535	1,907	5,782	—	13,228
DEPRECIATION AND AMORTISATION									
At 1st January, 2002	16,989	78,368	19,875	29,438	4,327	1,043	—	—	150,040
Provided for the year	4,560	7,326	4,506	7,590	1,577	612	964	—	27,135
Eliminated on other disposals	—	—	—	—	(246)	—	—	—	(246)
Eliminated on disposal of a subsidiary	(21,549)	(85,694)	(24,381)	(37,028)	(4,430)	(1,097)	—	—	(174,179)
At 31st December, 2002	—	—	—	—	1,228	558	964	—	2,750
NET BOOK VALUES									
At 31st December, 2002	—	—	—	4	4,307	1,349	4,818	—	10,478
At 31st December, 2001	314,501	166,622	86,789	142,085	16,858	4,863	—	2,521	734,239

NOTES TO THE FINANCIAL STATEMENTS

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Motor vehicles <i>RMB'000</i>	Furniture, fixtures and office equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
THE COMPANY				
COST				
At 1st January, 2002	4,536	1,327	—	5,863
Additions	464	192	5,782	6,438
Disposals	(1,101)	—	—	(1,101)
At 31st December, 2002	<u>3,899</u>	<u>1,519</u>	<u>5,782</u>	<u>11,200</u>
DEPRECIATION				
At 1st January, 2002	754	230	—	984
Provided for the year	418	222	964	1,604
Eliminated on disposals	(246)	—	—	(246)
At 31st December, 2002	<u>926</u>	<u>452</u>	<u>964</u>	<u>2,342</u>
NET BOOK VALUES				
At 31st December, 2002	<u>2,973</u>	<u>1,067</u>	<u>4,818</u>	<u>8,858</u>
At 31st December, 2001	<u>3,782</u>	<u>1,097</u>	<u>—</u>	<u>4,879</u>

* As at 31st December, 2002, all of the Group's property, plant and equipment were stated at cost. 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 resulting surplus on revaluation was not available for distribution to shareholders until the disposal or retirement of the assets concerned. The revaluation surplus did not constitute a timing difference and deferred taxation had therefore not been quantified.

As at the balance sheet date, all of the Group's land and buildings were located in the PRC. The land on which the Group's buildings were erected had been granted lease periods ranging from 25 to 50 years.

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15. PROPERTIES UNDER DEVELOPMENT

	THE GROUP	
	2002 RMB'000	2001 RMB'000
The properties under development are due for completion:		
Within one year	115,996	—
More than one year	279,732	171,000
	395,728	171,000

The Group's properties under development are located in the PRC and held under medium term leases.

16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 RMB'000	2001 RMB'000
Unlisted investment, at cost	264,655	732,022

Particulars of the Company's subsidiaries, which were limited liability companies established and are operating in the PRC, as at 31st December, 2002 are as follows:

Name of subsidiary	Paid-up registered capital RMB'000	Percentage of equity interests held by the Company		Principal activities
		Directly	Indirectly	
瀋陽發展房產開發有限公司 Shenyang Development Real Estate Company Limited ("Real Estate Company")	250,000	99.86%	—	Development and sale of properties
瀋陽鴻基物業管理有限公司 Shenyang Hongji Property Management Company Limited	500	1%	99%	Provision of property management services
瀋陽發展北大教育科學園有限公司	50,000	30%	70%	Development and sale of properties and investment and management of education projects
瀋陽盛京高爾夫房產開發有限公司	20,000	—	60%	Development and sale of properties

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

17. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Unlisted investment, at cost	—	—	79,952	79,952
Share of net assets	100,265	96,161	—	—
Advance to the jointly controlled entity	—	44,477	—	44,477
	<u>100,265</u>	<u>140,638</u>	<u>79,952</u>	<u>124,429</u>

As at 31st December, 2002, the Company held a 22.5% (2001: 22.5%) equity interest in 瀋陽瀋海熱電有限公司 Shenyang Shenhai Hot Electricity Company Limited ("Shenhai Co-generation"), which was a joint venture company established in the PRC and is 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 company will be distributed to the joint venture partners in proportion to their respective shares of interest. In December 2002, the Company has entered into an agreement with a related party to dispose of its entire 22.5% equity interest in Shenhai Co-generation at a consideration of RMB177,314,000. However, the completion of the disposal of interest in Shenhai Co-generation is still pending for the approval from the relevant government authorities in the PRC.

The amount due from the jointly controlled entity was unsecured, borne interest at a rate of 7.56% (2001: 7.56%) per annum and was fully repaid during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

18. DEPOSITS PAID FOR ACQUISITIONS OF SUBSIDIARIES

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Deposits made for acquisitions of:				
上海北大青鳥教育投資有限公司 Shanghai Beida Jade Bird Education Investment Company Limited ("Shanghai Education")	194,398	—	155,518	—
珠海北大教育科學園有限公司 Zhuhai Beida Education Science Park Company Limited ("Zhuhai Education")	166,596	—	166,596	—
	360,994	—	322,114	—

As at 31st December, 2002, the Company and Real Estate Company, a 99.86% owned subsidiary of the Company, have made deposits of RMB155,518,000 and RMB38,880,000 to acquire 80% and 20% equity interest in Shanghai Education respectively. In addition, the Company has also made another deposit of RMB166,596,000 to acquire a 70% equity interest in Zhuhai Education. Both Shanghai Education and Zhuhai Education are limited company established in the PRC and became the subsidiaries of the Company after the balance sheet date (see note 36). Accordingly, the deposits paid are classified as non-current.

19. INVESTMENT SECURITIES

	THE GROUP AND THE COMPANY	
	2002 RMB'000	2001 RMB'000
Unlisted equity securities, at cost	20,000	20,000

The amount represents a 8% (2001: 8%) equity interest in 清華紫光科技創新投資公司 Tsinghua Unisplendour Hi-Tech Venture Capital, Inc. a company established in the PRC and is engaged in investment in technology projects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

20. DEBTORS, DEPOSITS AND PREPAYMENTS

As at 31st December, 2002, the Group's trade debtors mainly represent the amounts due from buyers of the Group's developed properties. The Group allows an average credit period of 30 days (2001: 30 days) to these buyers. As at 31st December, 2001, the Group's trade debtors included an amount of RMB233,683,000 due from 瀋陽市自來水總公司 Shenyang Water General Corporation ("SWGC"), a fellow subsidiary of the Company and the sole customer of Shenyang Water.

An aged analysis of trade debtors at the balance sheet date is set out as follows:

	THE GROUP	
	2002 RMB'000	2001 RMB'000
0 – 30 days	1,891	90,655
31 – 60 days	954	86,191
Over 180 days	—	66,590
	2,845	243,436
Allowance for trade debtors	—	(97,546)
Net trade debtors	2,845	145,890
Other debtors, deposits and prepayments	229,262	111,278
	232,107	257,168

21. ADVANCE TO A BUILDING CONTRACTOR

THE GROUP AND THE COMPANY

In December 2002, the Company advanced a sum of RMB360,000,000 to a building contractor. The advance is unsecured, interest free and repayable for a period of not more than three months from the date of advance. The building contractor has fully repaid the advance to the Company in March 2003.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

22. DEPOSIT PAID FOR AN INVESTMENT

THE GROUP AND THE COMPANY

On 28th November, 2002, the Company entered into a purchase agreement with 北京市北大青鳥軟件系統公司 Beijing Beida Jade Bird Software System Company (“Jade Bird Software”) and other individuals to acquire a 50% equity interest in 北京北大在線網絡有限責任公司 Beijing Beida-Online Internet Company Limited (“Beida-Online”) at a consideration RMB94,380,000. This agreement had not been put forward to the shareholders of the Company for consideration at the extraordinary general meeting of the Company held on 10th February, 2003 and, accordingly, the Company withdraw the acquisition of a 50% equity interest in Beida Online.

The Company paid the whole amount of the consideration as the deposit before 31st December, 2002 and the deposit was fully refunded by the vendor subsequent to the balance sheet date.

23. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

THE GROUP AND THE COMPANY

The amount was unsecured, interest free and repayable on demand.

24. AMOUNT DUE FROM A FELLOW SUBSIDIARY

THE GROUP AND THE COMPANY

The amount was unsecured, interest-free and fully repaid during the year.

25. PLEDGED BANK DEPOSITS

THE GROUP AND THE COMPANY

As at 31st December, 2001, the amount represented the bank deposits pledged to banks for bank loans totalling RMB60,000,000 granted to the Group (see note 28). The pledge of bank deposits was released during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

26. CREDITORS AND ACCRUED CHARGES

An aged analysis of trade creditors at the balance sheet date is set out as follows:

	THE GROUP	
	2002 RMB'000	2001 RMB'000
0 – 90 days	1,182	16,766
91 – 180 days	299	—
Over 180 days	508	—
	1,989	16,766
Other creditors and accrued charges	93,724	90,708
	95,713	107,474

27. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

THE GROUP AND THE COMPANY

The amount is unsecured, interest free and repayable on demand.

28. BANK LOANS

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Bank loans payable within one year:				
Secured (note 25)	—	60,000	—	60,000
Unsecured	120,000	20,000	120,000	—
	120,000	80,000	120,000	60,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

29. SHARE CAPITAL

	THE COMPANY	
	2002 RMB'000	2001 RMB'000
Registered, issued and fully paid:		
600,000,000 Domestic 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

Except for the currency in which dividends are payable and the restrictions as to whether the shareholders can be PRC investors or foreign investors, Domestic shares and H shares issued by the Company rank pari passu in all respects with each other.

30. RESERVES

The Company	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare reserve RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1st January, 2001	323,258	34,079	17,040	138,170	512,547
Net profit for the year	—	—	—	200,526	200,526
Transfer of reserves	—	23,198	11,599	(34,797)	—
2000 final dividend paid	—	—	—	(57,004)	(57,004)
2001 interim dividend paid	—	—	—	(71,428)	(71,428)
At 31st December, 2001 and 1st January, 2002	323,258	57,277	28,639	175,467	584,641
Net profit for the year	—	—	—	197,525	197,525
Transfer of reserves	—	7,503	3,751	(11,254)	—
At 31st December, 2002	323,258	64,780	32,390	361,738	782,166

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

30. RESERVES (continued)

Notes:

(a) Share premium

Share premium comprises surplus between the value of net assets acquired and the nominal value of Domestic 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 the 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 the capital.

(c) Statutory public welfare reserve

The Group is required to transfer 5% to 10% of their profit after taxation prepared in accordance with the 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 for both years.

(d) Distributable reserves

Pursuant to the relevant PRC regulations, distributable reserve shall be the lower of the accumulated distributable profits determined in accordance with PRC accounting standards and regulations as stated in the PRC statutory audited financial statements and the accumulated distributable profit determined in accordance with accounting principles generally accepted in Hong Kong. The Company's reserve available for distribution as at 31st December, 2002 was RMB324,655,000 (2001: RMB175,467,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

31. DISPOSAL OF A SUBSIDIARY

	<i>RMB'000</i>
Net assets disposed of:	
Property, plant and equipment	708,438
Inventories	950
Debtors, deposits and prepayments	445,529
Bank balances and cash	1,295
Creditors and accrued charges	(167,737)
Taxation payable	(59,006)
Minority interests	(9,087)
	<hr/>
	920,382
Loss on disposal	(20,382)
	<hr/>
	900,000
	<hr/> <hr/>
Satisfied by:	
Cash consideration received	900,000
	<hr/> <hr/>
Analysis of net inflow of cash and cash equivalents in connection with the disposal of a subsidiary:	
Cash consideration received	900,000
Bank balances and cash disposed of	(1,295)
	<hr/>
	898,705
	<hr/> <hr/>

The subsidiary disposed of during the year used cash flows of RMB72,402,000 and RMB10,708,000 in the operating activities and investing activities respectively. The subsidiary disposed of during the year did not generated or used any cash flows in the financial activities.

In the opinion of the directors of the Company, no comparative figures of cash flows were prepared since it was not practical to do so.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

32. MAJOR NON-CASH TRANSACTIONS

- (a) During the year, a minority interest of a subsidiary contributed certain properties under development of RMB8,000,000 to the Group as the capital contribution to this subsidiary.
- (b) During the year, the Group disposed a motor vehicle with a carrying amount of RMB855,000 in exchange for certain properties under development with the same value.
- (c) In the previous year, 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 RMB142,464,000 were satisfied by off setting against the trade debtor from SWGC.
- (d) In the previous year, pursuant to a debt assignment agreement entered into by the Company, a subsidiary of the Company 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 debtor due from this third party company.

33. COMMITMENTS

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	RMB'000	RMB'000	RMB'000	RMB'000
(a) Commitment for the capital expenditure at the balance sheet date in respect of the acquisition of property, plant and equipment:				
Contracted but not provided for the financial statements	—	19,527	—	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

33. COMMITMENTS (continued)

(b) Operating lease commitment

At the balance sheet date, the Group and the Company had entered into certain non-cancellable operating leases in respect of rented premises. The future minimum lease payments committed by the Group and the Company in respect of the leases fall due are as follows:

	THE GROUP		THE COMPANY	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
Within one year	600	1,020	600	600
In the second to fifth year inclusive	2,400	4,080	2,400	2,400
Over five years	1,900	20,010	1,900	3,000
	<u>4,900</u>	<u>25,110</u>	<u>4,900</u>	<u>6,000</u>

Operating lease payments represent rentals payable by the Group and the Company for certain office premises. Leases are negotiated and rentals are fixed for an average term of 9 years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

34. RELATED PARTY TRANSACTIONS

- (a) The Group had the following significant transactions with certain related parties during the year.

Name of related party	Nature of transaction	Notes	2002	2001
			RMB'000	RMB'000
SWGC	Sale of urban purified water	(i)	325,400	577,362
SWGC	Purchase of raw water	(ii)	38,109	50,283
SWGC	Interest income on overdue receivable	(iii)	—	33,041
Shenhai Co-generation	Interest income	(iv)	2,016	4,336
Sino-French Water Development (Liaoning) Company Limited ("Sino-French Liaoning")	Payment of management service fee	(v)	2,917	5,000

- (i) The price of water sold to SWGC, a fellow subsidiary, by Shenyang Water was determined in accordance with an agreed formula stipulated in a water supply agreement entered into between Shenyang Water and SWGC.
- (ii) The price of raw water purchased from SWGC by Shenyang Water was determined in accordance with the raw water purchase agreement entered into between Shenyang Water and SWGC.
- (iii) According to the water supply agreement, the Group was entitled to charge interest at a rate of 0.1% per day on overdue debtor balance with SWGC. As at 31st December, 2001, full allowance was made for the interest receivable due from SWGC of RMB33,041,000 (see note 7).
- (iv) Interest at the rate of 7.56% (2001: 7.56%) per annum was charged on the outstanding balance of the amount due from Shenhai Co-generation.
- (v) The management service fee paid to Sino-French Liaoning, a shareholder of the Company, was determined in accordance with the service agreement entered into between Shenyang Water and Sino-French Liaoning.
- (b) During the year, the Group's ultimate holding company has entered into a guarantee agreement with a banker of the Group to facilitate the Group in obtaining bank loans of RMB120,000,000 (2001: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

34. RELATED PARTY TRANSACTIONS *(continued)*

- (c) During the year, the Group entered into two agreements with 北京北大教育投資有限公司 Beijing Beida Education Investment Company Limited (“Beida Education Investment”) and 北京北大公學教育投資有限公司 Beijing Beida Public School Education Investment Company Limited (“Beida Public School”) to acquire 70% equity interest in Zhuhai Education for a consideration of RMB166,596,000 and 100% equity interest in Shanghai Education for a consideration of RMB194,398,000. In addition, the Company also entered into an agreement with Jade Bird Software and other individuals to acquire a 50% equity interest in Beida-Online for a consideration of RMB94,380,000. Deposits for the full amount of these considerations were paid by the Group before 31st December, 2002 (see notes 18 and 22).

Peking University beneficially owns approximately 66% and 54% equity interest in Beida Education Investment and Beida Public School. In addition, Jade Bird Software is a wholly-owned subsidiary of Peking University.

Peking University also owns over 50% beneficial interest in 北京北大高科產業投資有限公司 Beijing Beida Hi-tech Industrial Investment Limited which in turn has a 50% interest in the registered capital of SPU, the ultimate holding company of the Company. Under the Rules Governing the Listing of Securities on the Stock Exchange, the above transactions constituted connected transactions and the details of the above transactions were set out in a circular dated 23rd December, 2002 (the “Circular”) to the shareholders of the Company.

35. RETIREMENT BENEFITS PLAN

The employees of the Group are members of state-managed retirement benefit schemes operated by the PRC government. The Group is required to contribute at a certain percentage on the total compensation paid to the Group’s employees for the year to fund the retirement benefits. The rate of contributions for the current year is 25.5% (2001: 25.5%). The only obligation of the Group with respect to the retirement benefit schemes is to make such specified contributions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2002

36. POST BALANCE SHEET EVENTS

On 28th November, 2002, the Group has entered into purchase agreements with Beida Education Investment and Beida Public School to acquire 70% equity interest in Zhuhai Education for a consideration of RMB166,596,000 and 100% equity interest in Shanghai Education for a consideration of RMB194,398,000. Details of the transactions were set out in the Circular. These purchase agreements were passed by an ordinary resolutions in the Company's extraordinary general meeting held on 10th February, 2003.

On 28th November, 2002, the Company also entered into a purchase agreement with Jade Bird Software and other individuals to acquire a 50% equity interest in Beida-Online for a consideration of RMB94,380,000. Details of the transaction were set out in the Circular. This agreement had not been put forward to the shareholders' of the Company for consideration at the extraordinary general meeting of the Company held on 10th February, 2003 and, accordingly, the Company withdraw the acquisition of a 50% equity interest in Beida-Online. The deposit of RMB94,380,000 paid by the Company was fully refunded by the vendor subsequent to the balance sheet date.