

Management Discussion and Analysis

1. Summary of the Results

(1) Summary of income statement

The Group's profits

	2003	2002	2001	2000	<i>RMB'000</i>
					Pro forma
					1999
Turnover	169,116	451,620	667,435	612,640	432,368
Profit after taxation	17,454	93,193	191,778	289,520	224,041
Profit attributable to shareholders	17,833	92,791	190,616	287,900	222,047
Earnings per share (RMB)	0.02	0.09	0.19	0.28	0.36

(2) Analysis of segment results

	2003		2002 Amount	2001		2000 Amount	1999		<i>RMB'000</i>
	% on profit			% on profit			% on profit		Pro forma
	Amount	before taxation		before taxation	before taxation		before taxation	before taxation	Amount
Total profit before taxation of the Group	31,834	100	156,280	100	302,809	100	400,758	100	308,390
Of which:									
Property development	28,434	56.86	12,865	6.70	16,780	5.50	(403)	—	—
Shenhai Co-generation	24,288	48.56	20,388	10.61	18,447	6.10	21,444	5.40	38,419
Education Investment	(2,711)	(5.42)	—	—	—	—	—	—	—
Shenyang Water	—	—	158,816	82.69	267,167	88.20	357,319	89.20	264,717

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(3) Analysis of segment turnover

	<i>RMB'000</i>									
	Pro forma									
	2003	% on total	2002	% on total	2001	% on total	2000	% on total	1999	% on total
Turnover	turnover	Turnover	turnover	Turnover	turnover	Turnover	turnover	Turnover	turnover	
Total turnover	169,116	100	451,620	100	667,435	100	612,640	100	432,368	100
Of which:										
Property development	165,762	98.02	125,820	27.90	90,073	13.50	—	—	—	—
Education Investment	2,500	1.48	—	—	—	—	—	—	—	—
Other operations	854	0.50	400	0.05	—	—	—	—	—	—
Shenyang Water	—	—	325,400	72.05	577,362	86.50	595,285	97.20	403,425	93.30

2. Analysis of Real Estate Development Business

Summary of operating results

	2003	2002	Change (%)
Sales area ('000 sq.m.)	55.85	41.02	36.15
Turnover (RMB'000)	165,762	125,820	31.75
Profit before taxation (RMB'000)	28,434	12,865	121.02

During the Year, in order to build a new base for profit growth, the Group acquired the residential projects of “Cosmo International Mansion” in Shenyang and “Scenic Bay” in Beijing (being the project named “Lakefront Jade Palace” referred to in the 2003 interim results report) by way of company acquisition, details of which are set out in the section headed “Significant events” in the Report of the Directors. During the Year, the Group mainly focused on sales and construction of phase one and phase two for the project of “Water-Flowers City”, internal and external decoration of the project “Cosmo International Mansion” in Shenyang and preliminary preparation work of the project “Scenic Bay” in Beijing.

Phase one of project “Water-Flowers City” in Shenyang was formally offered for sale in March 2003. Currently, phase one of the project has been completed and ready for dwelling, and the main body of phase two of the project has basically been completed. As at 31st December 2003, the project “Water-Flowers City” in Shenyang recorded an actual sales area figure of 53,300 square metres and a sales revenue of RMB156,739,000.

The remaining saleable units of the “Hongji Garden” project in Shenyang achieved a sales area of 2,550 square metres and a sales revenue of RMB9,023,000.

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The project “Cosmo International Mansion” in Shenyang is the reconstruction of an incomplete project, with gross floor area of approximately 30,000 square metres. Currently, the decoration works for the sample floor has been completed. It is expected that by September 2004 the overall project will be completed.

The site for the project of “Scenic Bay” in Beijing occupies an area of 129,000 square metres, and the planned gross floor area is approximately 195,000 square metres. During the Year, the project is under the preliminary planning phase. It is estimated that phase one of the project will be roofed by August 2004.

During the Year, turnover from real estate development business for the Year amounted to RMB165,762,000, up 31.75% over that of the Previous Year. Profit before taxation amounted to RMB28,434,000, up 121.02% over that of the Previous Year. This is principally because the “Water-Flowers City” project in Shenyang was in the selling phase during the Year, and most of the sales revenue were recognised during the Year.

3. Analysis of Electricity and Heat Co-generation Business

Summary of operating results

	2003	2002	RMB '000 Change
Turnover	576,914	556,362	3.69
Profit before taxation	107,947	90,613	19.13
The Group's share of profit before taxation (22.50%)	24,288	20,388	19.13
Profit after taxation	90,133	72,755	23.89
The Group's share of profit after taxation (22.50%)	20,280	16,370	23.89

On 28th December 2002, the Company entered into an agreement with Pollon Investment Limited (“Pollon Investment”, a company connected to Pollon Industrial), pursuant to which the Company would transfer its 22.50% equity interests in Shenhai Co-generation to Pollon Investment. As the equity transfer failed to be completed before 31st December 2003, in accordance with the PRC laws and the terms in the Share Transfer Agreement and with the written confirmation from Pollon Investment, the Company was entitled to all rights and interests in connection with 22.50% equity interests in Shenhai Co-generation as at 31st December 2003.

Shenhai Co-generation's turnover and profit before taxation for the Year amounted to RMB576,914,000 and RMB24,288,000, up 3.69% and 19.13% over that of the Previous Year respectively.

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On-grid sales volume of electricity for the Year was 2,186,800 MWh, up 4.73% over that of the Previous Year. Total heat production was 4,749,635 GJ, representing an increase of 2.54% over the Previous Year.

The growth in electricity production is mainly attributable to an increase in on-grid sales volume of electricity of Shenhai Co-generation due to the increasing demand for electricity in the Year.

4. Analysis of Education Investment Business

The construction of phase one of Shenyang Education Park invested by Shenyang Education commenced in September 2003. It is expected to be completed in July 2004. At the same time, Shenyang School has begun working on the enrollment of students, and has signed teaching cooperation agreements and letters of intention with a number of overseas education organisations. Schooling is expected to commence in September 2004.

All the construction of phase one of Zhuhai Education Park invested by Zhuhai Education has been put into use during the Year. Zhuhai School commenced schooling on 1st September 2003. According to Zhuhai Master Lease Agreement (for details please refer to the Company's circular dated 23rd December 2003), Zhuhai School entered into a Lease Contract with Zhuhai Education in September 2003. Under the Lease Contract, Zhuhai Education received the rent amounting to RMB2,500,000 for the Year paid by Zhuhai School.

During the Year, construction works of phase one of Shanghai Education Park invested by Shanghai Education has not commenced. The Company has taken active measures in order to resolve this problem for commencement of construction as soon as possible.

5. Analysis of System Integration Business

During the Year, the Board of the Company approved an acquisition of the 90.00% equity interests in Shenyang Business Information (for details please refer to the section headed "Significant events" in Report of the Directors). Shenyang Business Information is principally engaged in development of application software and the Group plans to use its software development capability to provide facility services for projects such as the Group's building automation and electronic education projects.

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6. Analysis of the Group's Assets and the Financial Position

(1) Financial statistics of the Group

Items	Basis of calculation	As at 31st December 2003	As at 31st December 2002
Gearing ratio	Total liabilities/total assets x 100%	28.20%	10.83%
Current ratio	Current assets/current liabilities	2.36	7.04
Quick ratio	(Current assets - inventories - properties under development - properties held for sale)/current liabilities	1.68	5.24
Earnings/net assets ratio	Net profit/net assets x 100%	0.91%	5.02%
Sales profit margin	Net profit/sales x 100%	10.54%	20.55%
Debt equity ratio	Total liabilities/shareholders' equity x 100%	41.61%	12.20%

(2) Overall position of the Group's assets

During the Year, there was an increase in the total assets of the Group when compared with that of the Previous Year. The total assets of the Group increased to approximately RMB2,741,168,000 in 2003 from approximately RMB2,072,427,000 in the Previous Year, representing an increase of approximately RMB668,741,000 or 32.27%.

Items	As at 31st December 2003	As at 31st December 2002	<i>RMB'000</i> Change in amounts
Total assets	2,741,168	2,072,427	668,741
Of which :			
Fixed assets	547,243	10,478	536,765
Interests in a jointly controlled entity	103,380	100,265	3,115
Goodwill	62,638	—	62,638
Deposits paid for acquisitions of subsidiaries	391,100	360,994	30,106
Investment securities	20,000	20,000	—
Long-term receivable	58,234	—	58,234
Current assets	1,558,573	1,580,690	(22,117)

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(3) Current assets of the Group

During the Year, the current assets of the Group decreased by approximately RMB22,117,000 to RMB1,558,573,000 as compared with RMB1,580,690,000 of the Previous Year, representing a decrease of approximately 1.40%.

Items	<i>RMB'000</i>		
	As at 31st December 2003	As at 31st December 2002	Change in amounts
Current assets	1,558,573	1,580,690	(22,117)
Of which:			
Properties held for sale	452,002	403,877	48,125
Inventories	469	—	469
Account receivables	7,050	2,845	4,205
Other receivables and prepaid expenses	208,995	683,642	(474,647)
Amount due from a jointly controlled entity	60,000	2,733	57,267
Tax recoverable	—	1,285	(1,285)
Pledged bank deposits	46,072	—	46,072
Cash and bank balance	783,985	486,308	297,677

(4) Bank borrowings of the Group

As at 31st December 2003, the Company's bank borrowings totalled RMB425,000,000 (2002: RMB120,000,000, guaranteed by SPU), of which RMB29,000,000 were loans secured by the Company's pledged deposit of RMB10,302,700, and the remaining balance was guaranteed. RMB40,000,000 were credit loans, and the remaining balance were guaranteed loans, within which guarantees provided by Beida Jade Bird and SPU totalled RMB246,000,000. Among the above-mentioned borrowings, borrowings repayable within one year bear interest at 5.31% per annum, and borrowings repayable within two years bear interest at 5.49% or 6.039% per annum.

	As at 31st December 2003 <i>(RMB'000)</i>	As at 31st December 2002 <i>(RMB'000)</i>
Bank borrowings repayable in the following periods		
Within one year	376,000	120,000
The 2nd year	49,000	0
	<u>425,000</u>	<u>120,000</u>

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

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(5) Bills payable

As at 31st December 2003, the balance of the Group's bank acceptance totalled RMB83,792,000, of which RMB37,011,000 was used by the Company's subsidiary, Shenyang Real Estate, as payment for the project "Water-Flowers City" in Shenyang; RMB10,781,000 was used by the Company's subsidiary, Shenyang Education, as payment for the project Shenyang Education Park; and RMB36,000,000 was used by the Company as payment for acquisition of 95.00% equity interests in Jingmei Industrial.

(6) Currency risks

According to the "Quotations of the Exchange Rates for Converting Renminbi to Foreign Currencies by the Head Office of Designated Banks" periodically promulgated by the State Administration of Foreign Exchange of the PRC in 2003, the exchange rates of Renminbi to US dollar and to Hong Kong dollar were stable as a whole, and the exchange rate of the Hong Kong dollar to Renminbi experienced slight fluctuations during the Year. Accordingly, the risks of the Company's deposits in Hong Kong were relatively low.

(7) Land reserves

During the Year, the Group has four parcels of land in its reserves with a total area of 1,392,000 square meters as follows:

1. Portion of land at 10th Road in Shenyang Economic and Technological Development Zone with an area of approximately 664,000 square meters and with cost of RMB84,051,000 already paid up, in which the Group holds 99.90% interests;
2. Portion of land at Laoguapu East Road, Dadong District, Shenyang with an area of approximately 203,000 square meters and with cost of RMB100,000,000 already paid up, in which the Group holds 99.86% interests;
3. A parcel of land in Guan Zhuan Xin Cun, Chaoyang District, Beijing with an area of approximately 129,000 square meters and with cost of RMB90,000,000 already paid up, in which the Group holds 93.87% interests; and
4. A parcel of land in Fuxing Road, Zhu Jia Jiao Town, Qingpu District, Shanghai with an area of approximately 396,000 square meters and with cost of RMB120,000 already paid up, in which the Group holds 99.97% interests.

The Group intends to use the aforementioned land reserves for real estate development and education investment.

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(8) Contingent liabilities

During the Year, the Group did not have any contingent liabilities.

(9) Analysis of equity and reserves

	31 December 2003	31 December 2002	RMB'000 Change in amounts
Share capital	1,020,400	1,020,400	—
Share premium	323,258	323,258	—
Statutory surplus reserve	69,054	66,332	2,722
Statutory public welfare reserve	34,528	33,167	1,361
Accumulated profits	410,340	396,590	13,750

7. Use of Proceeds Arising from the Issue of H Shares

The issue of 420,400,000 H Shares of the Company in December 1999 raised net proceeds of RMB684,256,000. No proceeds were raised by means of issuing new shares thereafter. The proceeds were applied basically in accordance with the use of proceeds as disclosed in the prospectus of the Company dated 7th December 1999 (the "Prospectus"). The extraordinary general meeting of the Company convened on 20th August 2002 approved the resolution to change the intended use of proceeds amounting to RMB200,000,000, which was the remaining unused net proceeds of the total amount of RMB489,000,000 originally intended to be used for Shenyang Water. Up to 31st December 2003, the Company had made investments totalling approximately RMB593,230,000 (2002: RMB593,230,000), of which:

- (1) RMB231,951,000 had been applied to invest in the acquisition of No. 8 Water Plant (as defined in the Prospectus);
- (2) RMB56,787,000 had been applied for the acquisition and construction of the Shifosi Water Source expansion project (as defined in the Prospectus);
- (3) RMB9,041,000 had been applied to renovate the system of production facilities of Shenyang Water;
- (4) RMB1,000,000 had been applied to purchase new vehicles for Jingwei Transportation (as defined in the Prospectus);
- (5) RMB100,000,000 had been applied to acquire the land use right of a parcel of land in Shenyang Economic and Technological Development Zone with an area of 790,000 square meters; and
- (6) the balance was used as working capital.

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8. Number of Employees and Their Education Levels

As at 31st December 2003, the Group had 172 employees.

162 employees of the Group had received university or higher education, and 103 technicians were of intermediate rank or above.

During the Year, the aggregate salaries and allowances paid to the employees amounted to RMB8,532,000 (2002: RMB22,269,000). The Group has not established any share option scheme for any of its senior management or employees.