## 1. GENERAL

Shenyang Public Utility Holdings Company Limited (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 are collectively referred to as the "Group".

The Group had undergone a strategic restructuring to discontinue the production and sale of urban purified water business segment in 2002. The Group is presently engaged in the development and sale of properties and investment and management of education projects.

## 2. STATEMENT OF COMPLIANCE

The financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP") and Interpretations approved by the HKSA.

The Group maintains its accounting records and prepares its statutory financial statements in accordance with the PRC accounting principles and the financial regulation for Foreign Investment Enterprises ("Statutory Financial Statements").

The accounting policies and basis adopted to the preparation of the Statutory Financial Statements differ in certain respects from HKFRS. The differences arising from the restatement of the results of operations and the net assets for compliance with HKFRS are adjusted in financial statements but will not be taken up in the accounting records of the Group.

## 3. ADOPTION OF REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE / CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The adoption of the SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting years. Accordingly, no prior year adjustment has been required.

## 4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as adjusted for the revaluation of certain fixed assets. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP"). 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.

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

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

### Investment in subsidiaries

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

### Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interests in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis over its useful economic life.

### 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition

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

Rental income under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease terms. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

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

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

### Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any identified impairment loss.

Construction in progress represents assets under construction and is stated at cost less any identified impairment loss. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and is transferred to a specific category of fixed assets 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.

Amortisation is calculated to write off the cost 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 fixed assets over their estimated useful economic lives, and after taking account their estimated residual values, using the straight line method, at the following rates per annum:

| | |
|---|---|
| Buildings and machinery | 2-10% |
| Leasehold improvements | 20% |
| Furniture, fixtures and office equipment | 8-16% |
| Motor vehicles | 8-16% |

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

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Properties under development for sale

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

### 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 has 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.

### Investments in securities

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any identified impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

### 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.

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 as no impairment loss had been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Inventories

Inventories comprise consumable supplies and spare parts held for consumption and usage and are stated at the lower of cost and net realisable value. 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.

### Foreign currencies

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

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation *(Continued)*

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the assets to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### 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 expenses in the income statement as they fall due.

## 5. TURNOVER

Turnover represents the net amounts received and receivable for sale of properties by the Group to outside customers, less returns and allowances and income from campus leasing and provision of property management services in the PRC for the year, and is analysed as follows:

| | THE GROUP | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| **Continuing operations** | | |
| Development of properties | **165,762** | 125,820 |
| Education projects | **2,500** | — |
| Others | **854** | 400 |
| | **169,116** | 126,220 |
| **Discontinuing operations** | | |
| Production and sale of urban purified water | **—** | 325,400 |
| | **169,116** | 451,620 |

In the previous years, the Group was also engaged in the production and sale of urban purified water in the PRC. Such operation was discontinued from 31st July 2002 upon the disposal of the subsidiary engaged in this operation.

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS

### BUSINESS SEGMENTS

For management purposes, the Group is currently organised into two operating divisions - property development and education projects. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Property development - development and sale of properties

Education projects - leasing of campus and equipment and investment and management of education projects.

There was no business transaction between the segments for both years.

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### BUSINESS SEGMENTS *(Continued)*

Segment information about these businesses is presented below:

For the year ended 31st December 2003 / as at 31st December 2003

| | Property development<br>*RMB'000* | Education projects<br>*RMB'000* | Others<br>*RMB'000* | Consolidated<br>*RMB'000* |
|---|---|---|---|---|
| **Income Statement** | | | | |
| Turnover | 165,762 | 2,500 | 854 | 169,116 |
| Segment results | 28,434 | (2,711) | (1,327) | 24,396 |
| Interest income from bank deposits | | | | 4,351 |
| Unallocated corporate expenses | | | | (15,178) |
| Profit from operations | | | | 13,569 |
| Finance costs | | | | (6,023) |
| Share of results of a jointly controlled entity | | | | 24,288 |
| Profit before taxation | | | | 31,834 |
| Taxation | (14,380) | — | — | (14,380) |
| Profit after taxation | | | | 17,454 |
| Minority interests | | | | 379 |
| Profit attributable to shareholders | | | | 17,833 |
| **Balance Sheet** | | | | |
| Segment assets | 599,338 | 593,860 | 110,356 | 1,303,554 |
| Interest in and amount due from a jointly controlled entity | | | | 163,380 |
| Unallocated corporate assets | | | | 1,274,234 |
| Total assets | | | | 2,741,168 |
| Segment liabilities | 68,184 | 194,030 | 2,977 | 265,191 |
| Unallocated corporate liabilities | | | | 507,688 |
| Total liabilities | | | | 772,879 |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### BUSINESS SEGMENTS *(Continued)*

| | Property development RMB'000 | Education projects RMB'000 | Others RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| **Other Information** | | | | |
| Additions to fixed assets | | | | |
| - Segment | 2,018 | 4,778 | 228 | 7,024 |
| - Corporate | | | | 505 |
| Depreciation and amortisation | | | | |
| - Segment | 350 | 2,469 | 251 | 3,070 |
| - Corporate | | | | 4,418 |
| Loss on disposal of fixed assets | | | | |
| - Segment | — | — | 185 | 185 |
| - Corporate | | | | 63 |

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

| | Continuing operations Property Development RMB'000 | Continuing operations Others RMB'000 | Discontinuing operations Production and sale of urban purified water RMB'000 | Consolidated RMB'000 |
|---|---|---|---|---|
| **Income Statement** | | | | |
| Turnover | 125,820 | 400 | 325,400 | 451,620 |
| Segment results | 12,738 | (469) | 158,305 | 170,574 |
| Interest income from bank deposits | | | | 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 |
| Loss on disposal of a subsidiary | — | — | (20,382) | (20,382) |
| Profit before taxation | | | | 156,280 |
| Taxation | (10,012) | — | (53,075) | (63,087) |
| Profit after taxation | | | | 93,193 |
| Minority interests | | | | (402) |
| Profit attributable to shareholders | | | | 92,791 |

## 6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### BUSINESS SEGMENTS *(Continued)*

| | Continuing operations | | Discontinuing operations | |
|---|---|---|---|---|
| | Properties Development | Others | Production and sale of urban purified water | Consolidated |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Balance Sheet** | | | | |
| Segment assets | 924,425 | 20,075 | — | 944,500 |
| Interests in and amount due from a jointly controlled entity | | | | 102,998 |
| Unallocated corporate assets | | | | 1,024,929 |
| Total assets | | | | 2,072,427 |
| Segment liabilities | 5,567 | 592 | — | 6,159 |
| Unallocated corporate liabilities | | | | 218,340 |
| Total liabilities | | | | 224,499 |
| **Other Information** | | | | |
| Additions to fixed assets | | | | |
| - 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 fixed assets | — | — | 23 | 23 |

## 6. 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 2002 and 2003, all of the Group's segment assets were located in the PRC, no geographical segment information is presented accordingly.

## 7. OTHER OPERATING INCOME

| | THE GROUP | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| Interest on bank deposits | **4,351** | 7,598 |
| Interest from a jointly controlled entity | **—** | 2,016 |
| Total interest income | **4,351** | 9,614 |
| Dividend income from investment securities | **—** | 1,088 |
| Others | **—** | 602 |
| | **4,351** | 11,304 |

## 8. PROFIT FROM OPERATIONS

| | THE GROUP | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| Profit from operations has been arrived at after charging: | | |
| Directors' and supervisors' remuneration (note 10) | **1,880** | 1,997 |
| Staff salaries, allowances and bonuses | **5,655** | 21,592 |
| Contributions to retirement benefit schemes | **147** | 6,031 |
| Others | **850** | 5,626 |
| | **8,532** | 35,246 |
| Allowance for account receivables | **127** | — |
| Auditors' remuneration | **824** | 884 |
| Loss on disposal of fixed assets | **248** | 23 |
| Recognised impairment losses in respect of fixed assets | **36** | — |
| Minimum lease payments made in respect of rented premises | **600** | 1,168 |

## 9. FINANCE COSTS

| | THE GROUP | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| Interest on bank borrowings wholly repayable within five years | **12,311** | 2,286 |
| Less : amount capitalised in properties under development | **(6,288)** | — |
| | **6,023** | 2,286 |

The borrowing costs capitalised for the year were calculated by applying capitalisation rates ranging from 4.575% to 5.490% per annum on bank loans borrowed and used for the properties under development.

## 10. DIRECTORS' AND SUPERVISORS' REMUNERATION

| | THE GROUP | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| Directors | | |
| Fees: | | |
| Executive | **210** | 73 |
| Non-executive | **90** | 57 |
| Independent non-executive | **60** | 28 |
| | **360** | 158 |
| Other emoluments: | | |
| Executive: | | |
| Salaries and other benefits | **1,183** | 1,207 |
| Contributions to retirement benefits schemes | **21** | 169 |
| | **1,204** | 1,376 |
| Non-executive: | | |
| Salaries and other benefits | **—** | 6 |
| Contributions to retirement benefit schemes | **—** | — |
| | **—** | 6 |
| Independent non-executive: | | |
| Salaries and other benefits | **—** | 3 |
| Contributions to retirement benefits schemes | **—** | — |
| | **—** | 3 |
| **Total remunerations to directors** | **1,564** | 1,543 |
| Supervisors | | |
| Fees | **90** | 33 |
| Other emoluments: | | |
| Salaries and other benefits | **205** | 351 |
| Contributions to retirement benefit schemes | **21** | 70 |
| | **226** | 421 |
| **Total remunerations to supervisors** | **316** | 454 |
| **Total remunerations to directors and supervisors** | **1,880** | 1,997 |

## 10. DIRECTORS' AND SUPERVISORS' REMUNERATION *(Continued)*

The banding of directors' and supervisors' remuneration is as follows:

| | Number of directors and supervisors | |
|---|---|---|
| | **2003** | 2002 |
| Received emoluments | **18** | 18 |
| Did not receive any emoluments | **—** | 11 |
| | **18** | 29 |

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.

All of the five highest paid individuals of the Group for 2003 and 2002 were directors and their remunerations had been included in above.

## 11. TAXATION

| | THE GROUP | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| The charge comprises : | | |
| The Company and subsidiaries | | |
| - PRC Enterprise Income Tax | **10,568** | 59,069 |
| - Deferred taxation (note 29) | **(196)** | — |
| Share of taxation of a jointly controlled entity in the PRC | **4,008** | 4,018 |
| | **14,380** | 63,087 |

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 of 15% - 33%.

The applicable PRC income tax rate for the jointly controlled entity is 16.5%.

## 11. TAXATION *(Continued)*

The charge for the year can be reconciled to the profit per the consolidated income statement as follows:

| | **2003** | 2002 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **31,834** | 156,280 |
| Tax at the domestic income tax rates | **9,183** | 57,207 |
| Tax effect of expenses not deductible for tax purpose | **203** | 1,862 |
| Tax effect of unrecognised tax losses | **986** | — |
| Share of taxation of a jointly controlled entity in the PRC | **4,008** | 4,018 |
| Tax expenses for the year | **14,380** | 63,087 |

## 12. DIVIDEND

No dividend was paid or proposed during the year ended 31st December 2003, nor has any dividend been proposed since the balance sheet date (2002: Nil).

## 13. EARNINGS PER SHARE

The calculation of earnings per share for the year is based on the profit attributable to shareholders for the year of RMB17,833,000 (2002: RMB92,791,000) and the number of 1,020,400,000 shares (2002: 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 for both years.

## 14. FIXED ASSETS

| | Buildings and machinery | Leasehold improvements | Furniture, fixtures and office equipment | Motor vehicles | Construction in progress | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **THE GROUP** | | | | | | |
| **Cost** | | | | | | |
| At 1st January 2003 | 4 | 5,782 | 1,907 | 5,535 | — | 13,228 |
| Acquisition of subsidiaries | 165 | — | 1,945 | 2,034 | 370,519 | 374,663 |
| Transfer from construction in progress | 302,954 | — | 7,391 | — | (310,345) | — |
| Additions | — | 180 | 4,560 | 2,789 | 160,479 | 168,008 |
| Disposals | — | — | (235) | (336) | — | (571) |
| At 31st December 2003 | 303,123 | 5,962 | 15,568 | 10,022 | 220,653 | 555,328 |
| **Accumulated depreciation and impairment losses** | | | | | | |
| At 1st January 2003 | — | 964 | 558 | 1,228 | — | 2,750 |
| Acquisition of subsidiaries | 2 | — | 259 | 245 | — | 506 |
| Recognised impairment losses for the year | — | — | 36 | — | — | 36 |
| Charge for the year | 1,847 | 1,222 | 1,135 | 707 | — | 4,911 |
| Eliminated on disposals | — | — | (37) | (81) | — | (118) |
| At 31st December 2003 | 1,849 | 2,186 | 1,951 | 2,099 | — | 8,085 |
| **Net book value** | | | | | | |
| At 31st December 2003 | 301,274 | 3,776 | 13,617 | 7,923 | 220,653 | 547,243 |
| At 31st December 2002 | 4 | 4,818 | 1,349 | 4,307 | — | 10,478 |

## 14. FIXED ASSETS *(Continued)*

| | Leasehold improvements *RMB'000* | Furniture, fixtures and office equipment *RMB'000* | Motor vehicles *RMB'000* | Total *RMB'000* |
|---|---|---|---|---|
| **THE COMPANY** | | | | |
| **Cost** | | | | |
| At 1st January 2003 | 5,782 | 1,519 | 3,899 | 11,200 |
| Additions | 180 | 131 | 194 | 505 |
| Disposals | — | — | (207) | (207) |
| At 31st December 2003 | 5,962 | 1,650 | 3,886 | 11,498 |
| **Depreciation** | | | | |
| At 1st January 2003 | 964 | 452 | 926 | 2,342 |
| Provided for the year | 1,222 | 251 | 368 | 1,841 |
| Eliminated on disposals | — | — | (65) | (65) |
| At 31st December 2003 | 2,186 | 703 | 1,229 | 4,118 |
| **Net book value** | | | | |
| At 31st December 2003 | 3,776 | 947 | 2,657 | 7,380 |
| At 31st December 2002 | 4,818 | 1,067 | 2,973 | 8,858 |

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.

## 15. INVESTMENTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| Unlisted investment, at cost | **682,380** | 264,655 |

Particulars of the Company's subsidiaries, which are limited liability companies established and operating in the PRC, as at 31st December 2003 are as follows:

| Name of subsidiary | Paid-up registered capital RMB'000 | Percentage of equity interests held by the Company Directly | Indirectly | Principal activities |
|---|---|---|---|---|
| 瀋陽發展房產開發有限公司 Shenyang Development Real Estate Company Limited | 250,000 | 100% | — | Development and sale of properties |
| 瀋陽發展物業管理有限公司 Shenyang Development 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 Shenyang Development Beida Education Science Park Company Limited("Shenyang Education") | 50,000 | 30% | 70% | Development and sale of properties and investment and management of education projects |
| 上海北大青鳥教育投資有限公司 Shanghai Beida Jade Bird Education Investment Company Limited ("Shanghai Education") | 100,000 | 80% | 20% | Investment and management of education projects |
| 珠海北大教育科學園有限公司 Zhuhai Beida Education Science Park Company Limited ("Zhuhai Education") | 20,000 | 70% | — | Investment and management of education projects |
| 瀋陽發展旅遊開發有限公司 Shenyang Development Tourism Industrial Company Limited ("Shenyang Tourism") | 100,000 | 51% | — | Investment of tourism and entertainment projects |

## 15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

| Name of subsidiary | Paid-up registered capital RMB'000 | Percentage of equity interests held by the Company Directly | Indirectly | Principal Activities |
|---|---|---|---|---|
| 瀋陽江勝金融大廈管理有限公司 Shenyang Pollon Finance Building Management Company Limited ("Building Management Company") | 50,000 | 92.5% | 7.5% | Development and sale of properties |
| 北京地業房地產開發有限公司 Beijing Diye Real Estate Development Company Limited ("Beijing Diye") | 30,000 | — | 100% | Development and sale of properties |
| 瀋陽北大青鳥商用信息系統有限公司 Shenyang Beida Jade Bird Business Information System Company Limited ("Shenyang Business Information") | 10,000 | — | 90% | Development of business information system and provision of information consultation services |

瀋陽發展物業管理有限公司 Shenyang Development Property Management Company Limited was formerly known as 瀋陽鴻基物業管理有限公司 Shenyang Hongji Property Management Company Limited.

On 31st January 2003, the Group invested RMB194,397,500 to acquire 100% equity interests in Shanghai Education.

On 31st January 2003, the Group invested RMB166,596,000 to acquire 70% equity interests in Zhuhai Education.

On 30th June 2003, the Group invested RMB33,000,000 to acquire 100% equity interests in Beijing Diye.

On 5th December 2003, the Company and an unrelated party contributed jointly to set up Shenyang Tourism.

On 31st December 2003, the Group invested RMB50,000,000 to acquire 100% equity interests in Building Management Company.

On 31st December 2003, the Group invested RMB8,901,000 to acquire 90% equity interests in Shenyang Business Information.

During the year, one of the Group's subsidiary, 瀋陽發展高爾夫房產開發有限公司 Shenyang Development Golf Real Estate Development Company Limited, was undergone liquidation.

## 16. INTEREST IN A JOINTLY CONTROLLED ENTITY

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Unlisted investment, at cost | **—** | — | **79,952** | 79,952 |
| Share of net assets | **103,380** | 100,265 | **—** | — |
| | **103,380** | 100,265 | **79,952** | 79,952 |

As at 31st December 2003, the Company held a 22.5% (2002: 22.5%) equity interests 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.

In December 2002 the Company has entered into an agreement with an unrelated party to dispose its entire 22.5% equity interests in Shenhai Co-generation at a consideration of RMB177,314,000. However, according to the agreement, the approval from the relevant government authorities in the PRC must be obtained for the disposal of equity interests in Shenhai Co-generation before this transaction is completed. Up to the date of this report, such approval has not been obtained from the relevant government authorities. Therefore, Shenhai Co-generation is still accounted for by equity method of accounting for the year.

## 17. GOODWILL

| | THE GROUP |
|---|---|
| | *RMB'000* |
| **Cost** | |
| Acquisition of subsidiaries | 65,215 |
| **Amortisation** | |
| Charge for the year | (2,577) |
| **Net book value** | |
| At 31st December 2003 | 62,638 |
| At 31st December 2002 | — |

## 18. DEPOSITS PAID FOR ACQUISITION OF SUBSIDIARIES

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Deposits made for acquisition of: | | | | |
| 深圳市景梅實業發展有限公司 Shenzhen Jingmei Industrial Developemnt Company Limited ("Jingmei Industrial") | **391,100** | — | **391,100** | — |
| Shanghai Education | **—** | 194,398 | **—** | 155,518 |
| Zhuhai Education | **—** | 166,596 | **—** | 166,596 |
| | **391,100** | 360,994 | **391,100** | 322,114 |

During the year, the Company has made a deposit of RMB391,100,000 to acquire 95% equity interests in Jingmei Industrial. The total consideration of this acquisition is RMB570,000,000.

Shanghai Education and Zhuhai Education have become the subsidiaries of the Company during the year.

## 19. INVESTMENT SECURITIES

| | THE GROUP AND THE COMPANY | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| Unlisted equity securities, at cost | **20,000** | 20,000 |

The amount represents a 8% (2002: 8%) equity interests 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.

## 20. LONG-TERM RECEIVABLE

| | THE GROUP AND THE COMPANY 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| 瀋陽市自來水總公司 Shenyang Water General Corporation ("SWGC") | **97,056** | — |
| Less: Amount repayable within one year and classified as current assets | **38,822** | — |
| Amount repayable after one year | **58,234** | — |

In 2000, the Group obtained a parcel of land in Shenyang from SWGC to satisfy the outstanding balance of water sold thereto. SWGC was a sole customer of water and was a subsidiary of SPU when the Group was engaged in production and sale of urban purified water business before July 2002. The land was prepared to use for development of properties for sales. However, due to the rescheduling of the usage of land in Shenyang, the land was retrieved by the PRC authorities in 2003 and SWGC was ordered to refund the land cost to the Group. The resulting balance due from SWGC as at 31st December 2003 was RMB97,056,000. According to the agreement entered with SWGC, SWGC will refund RMB38,822,000 to the Group by the end of 2004 and the remaining balance by the end of 2005.

## 21. PROPERTIES FOR SALE

| | THE GROUP 2003 RMB'000 | 2002 RMB'000 |
|---|---|---|
| Completed properties, at cost | **145,405** | 8,149 |
| Properties under development, at cost | **306,597** | 395,728 |
| | **452,002** | 403,877 |

The Group's properties under development are located in the PRC and held under medium-term leases (lease periods of 20 years or more but less than 50 years).

## 22. ACCOUNT RECEIVABLES

As at 31st December 2003, the Group's account receivables mainly represent the amounts due from buyers of the Group's developed properties and balances transferred from the acquired subsidiaries. The Group allows an average credit period of 30 days (2002: 30 days) to these buyers.

An aging analysis of account receivables at the balance sheet date is set out as follows:

| | THE GROUP | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| 0 - 30 days | **1,139** | 1,891 |
| 31 - 60 days | **—** | 954 |
| 61 - 365 days | **3,558** | — |
| 1 - 2 years | **1,992** | — |
| Over 2 years | **792** | — |
| | **7,481** | 2,845 |
| Provision for doubtful debts | **(431)** | — |
| Net amount of account receivables | **7,050** | 2,845 |

## 23. OTHER RECEIVABLES AND PREPAID EXPENSES

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Advances to a construction contractor (note a) | **—** | 360,000 | **—** | 360,000 |
| Deposit for an investment (note b) | **—** | 94,380 | **—** | 94,380 |
| Prepaid construction costs | **74,199** | — | **—** | — |
| Long-term receivable - repayable within one year (note 20) | **38,822** | — | **38,822** | — |
| Other receivables and prepayments | **95,974** | 229,262 | **52,735** | 213,104 |
| | **208,995** | 683,642 | **91,557** | 667,484 |

a) The amount advanced was fully repaid to the Company in March 2003.

b) The deposit was paid in 2002 for the acquisition of equity interests in a company. As the plan was subsequently withdrawn in 2003, the deposit paid was fully refunded to the Company.

## 24. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

### THE GROUP AND THE COMPANY

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

## 25. PLEDGED BANK DEPOSITS

### THE GROUP AND THE COMPANY

The amount represents the bank deposits pledged to banks as securities for granting of bank loans and issuance of bills payable.

## 26. ACCOUNT PAYABLES

An aging analysis of account payables at the balance sheet date is set out as follows:

| | THE GROUP | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| 0-90 days | **2,133** | 1,182 |
| 91-180 days | **70** | 299 |
| 181-365 days | **319** | 508 |
| 1-2 years | **810** | — |
| | **3,332** | 1,989 |

## 27. INVESTMENT COST PAYABLE

### THE GROUP AND THE COMPANY

The amount represents the outstanding balance of investment cost for acquisition of Building Management Company.

## 28. BANK LOANS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Secured | **10,303** | — | **10,303** | — |
| Guaranteed (note) | **374,697** | 120,000 | **334,697** | 120,000 |
| Unsecured and not guaranteed | **40,000** | — | **—** | — |
| | **425,000** | 120,000 | **345,000** | 120,000 |

The maturity profile of the bank loans and overdrafts is as follows:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within one year | **376,000** | 120,000 | **316,000** | 120,000 |
| More than one year, but not exceeding two years | **49,000** | — | **29,000** | — |
| | **425,000** | 120,000 | **345,000** | 120,000 |
| Less :Amounts due within one year shown under current liabilities | **(376,000)** | (120,000) | **(316,000)** | (120,000) |
| Amounts due after one year | **49,000** | — | **29,000** | — |

Note: Included in the above guaranteed bank loans are RMB80,000,000 and RMB166,000,000 guaranteed by SPU and 北京北大青鳥有限責任公司 Beijing Beida Jade Bird Company Limited ("Beida Jade Bird").

## 29. DEFERRED TAXATION

| | THE GROUP | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| Acquisition of subsidiaries | **63,852** | — |
| Transfer to income for the year | **(196)** | — |
| Balance at end of year | **63,656** | — |

## 30. SHARE CAPITAL

| | THE COMPANY | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| Registered, issued and fully paid: | | |
| 600,000,000 State shares of RMB1.00 each | **600,000** | 600,000 |
| 420,400,000 H shares of RMB1.00 each | **420,400** | 420,400 |
| | **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, State shares and H shares issued by the Company rank pari passu in all respects with each other.

## 31. 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 31st 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 and 1st January 2003 | 323,258 | 64,780 | 32,390 | 361,738 | 782,166 |
| Net profit for the year | — | — | — | 2,630 | 2,630 |
| Transfer of reserves | — | 1,020 | 510 | (1,530) | — |
| At 31st December 2003 | 323,258 | 65,800 | 32,900 | 362,838 | 784,796 |

*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 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 recommended by Directors. 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 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 reserve**

Pursuant to the relevant PRC regulations, distributable reserve shall be the lower of the accumulated distributable profits determined in accordance with the PRC accounting standards and regulations as stated in the PRC statutory audited financial statements and accounting principles generally accepted in Hong Kong. The Company's reserve available for distribution as at 31st December 2003 was RMB333,321,000 (2002:RMB324,655,000) which is the amount determined in accordance with the PRC accounting standards and regulations.

## 32. ACQUISITION OF SUBSIDIARIES

The acquisition of subsidiaries has been accounted for by the purchase method of accounting.

| | 2003 |
|---|---|
| | *RMB'000* |
| Net assets acquired : | |
| Fixed assets | 374,157 |
| Inventories | 455 |
| Properties held for sale | 189,088 |
| Account receivables | 2,916 |
| Others receivables and prepaid expenses | 149,960 |
| Bank balances and cash | 8,739 |
| Other payables and accrued charges | (212,272) |
| Deferred taxation | (63,852) |
| Minority interests | (61,511) |
| | 387,680 |
| Goodwill | 65,215 |
| Acquisition consideration | 452,895 |
| Satisfied by: | |
| Cash | 452,895 |
| Analysis of net inflow of cash and cash equivalents in connection with the acquisition of a subsidiary: | |
| Cash consideration | 452,895 |
| Deposits paid | (360,994) |
| Investment cost payable | (50,000) |
| Bank balances and cash acquired | (8,739) |
| | 33,162 |

The acquired subsidiaries contributed RMB2,500,000 of revenue and RMB2,175,000 of loss before tax for the period between the date of acquisition and the balance sheet date.

## 33. CASH AND CASH EQUIVALENTS

For the purpose of consolidated cash flow statement, cash and cash equivalents represent:

| | THE GROUP | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| Bank balances and cash | **783,985** | 486,308 |
| Less: Bank deposits with maturity terms over three months | **(58,720)** | — |
| | **725,265** | 486,308 |

## 34. CAPITAL COMMITMENTS

(a) At the balance sheet date, there were capital commitments contracted but not provided for in the financial statements:

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Capital commitments in respect of acquisition of fixed assets | **113,684** | — | **—** | — |

(b) On 31st December 2003, the Group entered an agreement with an unrelated party (the "transferor") to acquire 95% equity interests in Jingmei Industrial at a consideration of RMB570,000,000. Pursuant to the agreement, the Company will transfer 30% equity interests in Shenyang Education valued at RMB70,500,000, as a part of the consideration, to the transferor or any of the third party it may appoint. The remaining part of consideration will be satisfied by cash. As at 31st December 2003, the Company had made a deposit of RMB391,100,000. Details of this transaction are published in the announcement of 7th January 2004.

## 35. OPERATING LEASE COMMITMENT

### As lessee

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 | |
|---|---|---|---|---|
| | **2003** | 2002 | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within one year | **600** | 600 | **600** | 600 |
| In the second to fifth year inclusive | **2,400** | 2,400 | **2,400** | 2,400 |
| Over five years | **1,300** | 1,900 | **1,300** | 1,900 |
| | **4,300** | 4,900 | **4,300** | 4,900 |

Operating leases payments represent rentals payable by the Group and the Company for certain office premises. Leases are negotiated and rentals are fixed for an average terms of 8 years.

### As lessor

At the balance sheet date, the Group leased the Group's campus and equipment and contracted with tenants for a period from September 2003 to August 2023. The rental for the first three years ended August 2006 is on a fixed rate and that of the remaining lease terms are subject to negotiation. The future minimum lease payment to be received for the first three years ended August 2006 is as follows:

| | THE GROUP | |
|---|---|---|
| | **2003** | 2002 |
| | ***RMB'000*** | *RMB'000* |
| Within one year | **10,000** | — |
| In the second to third year inclusive | **35,000** | — |
| | **45,000** | — |

## 36. RELATED PARTIES TRANSACTIONS

Companies are considered to be related if one company has ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

The identified related parties are as follows:

| Name of company | Relationships with the Group |
|---|---|
| SPU | Ultimate holding company of the Company |
| 北京北大高科技產業投資有限公司 Beijing Beida Hi-Tech Industry Investment Company Limited (“Beida Hi-Tech”) | Shareholder of SPU |
| Beida Jade Bird | Shareholder of Beida Hi-Tech |
| 北京天橋北大青鳥科技股份有限公司 Beijing Tianqiao Beida Jade Bird Sci-Tech Company Limited (“Beijing Tianqiao”) | Shareholder of Beida Hi-Tech |
| 北京北大教育投資有限公司 Beijing Beida Education Investment Company Limited (“Beida Education Investment”) | Subsidiary of Beida Jade Bird |
| 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”) | Subsidiary of Beida Jade Bird |
| 珠海北大附屬實驗學校 Zhuhai Beida Subsidiary Experiment School (“Zhuhai School”) | Branch of Beida Education Investment |
| Shenhai Co-generation | Jointly controlled entity of the Company |
| Sino-French Water Development (Liaoning) Company Limited (“Sino-French Liaoning”) | Strategic investor of the Company |

## 36. RELATED PARTIES TRANSACTIONS *(Continued)*

The principal related party transactions which were carried out in the ordinary course of business are as follows:

| | Note | **2003** **RMB'000** | 2002 RMB'000 |
|---|---|---|---|
| Revenue | | | |
| Sale of purified water | (i) | **—** | 325,400 |
| Interest income | (ii) | **—** | 2,016 |
| Rental income from leasing of campus | (iii) | **2,500** | — |
| Expenditure | | | |
| Purchase of raw water | (i) | **—** | 38,109 |
| Service charges | (iv) | **—** | 2,917 |

Note:

(i) The sale of purified water and the purchase of raw water was made with SWGC when the Group was engaged in the business of sale of urban purified water. This business segment had been discontinued in July 2002.

(ii) The interest income was received from Shenhai Co-generation on the outstanding balance due therefrom.

(iii) The rental income was received from Zhuhai School in accordance with the lease agreement. The lease terms are for 20 years, the rental is fixed for the first three years ended August 2006 and is subject to negotiate for the remaining lease period.

(iv) The management service fee was paid to Sino-French Liaoning when the Group was engaged in the business of sale of urban purified water. This business segment had been discontinued in July 2002.

(v) During the year, SPU and Beida Jade Bird had entered into guarantee agreement with bank to facilitate the Group in obtaining bank loans of RMB80,000,000 and RMB166,000,000 respectively (2002: RMB120,000,000 and NIL).

(vi) During the year, the Group had acquired the equity interests of the following companies from the related parties:

| **Name of related party** | **Acquiree company** | **Percentage of interests acquired** | **Purchase consideration** *RMB'000* |
|---|---|---|---|
| Beijing Tianqiao | Shenyang Business Information | 90 | 8,901 |
| Beida Education Investment | Zhuhai Education | 35 | 83,298 |
| Beida Public School | Zhuhai Education | 35 | 83,298 |
| Beida Education Investment | Shanghai Education | 80 | 155,518 |
| Beida Public School | Shanghai Education | 20 | 38,880 |

## 36. RELATED PARTIES TRANSACTIONS *(Continued)*

(vii) During the first half year of 2003, the Company delegated SPU and another related entities to perform preliminary work relating to the acquisition of a number of projects in the name of the Company or its subsidiaries. Because of the above, the Company and its subsidiaries placed some monies, in escrow, into the bank accounts of the above related parties. As at the end of 2003, the acquisition of Jingmei Industrial is almost completed and the Group has paid a deposit of RMB391,100,000. As the Company has decided not to proceed or temporary not to proceed the other uncompleted projects, SPU and another related entities had refunded all the remaining monies to the Company and its subsidiaries in December 2003.

(viii) As at 31st December 2003, the outstanding balances of related parties to the Group are as follows:

| Name of related party | **2003** *RMB'000* | 2002 *RMB'000* |
|---|---|---|
| Other receivables and prepaid expenses | | |
| Shenhai Co-generation | **60,000** | 2,733 |
| SWGC | — | 9,125 |
| Beida Education Investment | — | 277,696 |
| Beida Public School | — | 94,380 |
| Beida Jade Bird | — | 83,298 |
| Account payables and accrued charges | | |
| SPU | **161** | 8,786 |
| Zhuhai School | **1,339** | — |
| Beida Jade Bird | **2,920** | — |

## 37. RETIREMENT BENEFITS PLAN

The employees of the Group are the 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% (2002:25.5%). The only obligation of the Group to the retirement benefit schemes is to make such specified contributions.

## 38. DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND HKGAAP

Other than the differences in the classification of certain financial captions and the accounting for the items described below, there are no material differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and HKGAAP. The major differences are:

## 38. DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND HKGAAP
*(Continued)*

### i) Goodwill arising from acquisition of subsidiaries

Under the PRC Accounting Rules and Regulations, goodwill arising from acquisition of subsidiaries is the amount in excess of the acquisition costs and the share of the net book value of net identifiable assets acquired. However, under HKGAAP, the goodwill is determined by the share of the fair value of net identifiable assets acquired. As the basis of the goodwill recognition are different under the PRC Accounting Rules and Regulations and HKGAAP, the amortisation of goodwill are different accordingly.

### ii) Depreciation and amortisation of fixed assets

Under the PRC Accounting Rules and Regulations and HKGAAP, the depreciable amount of fixed assets should be allocated on a systematic basis over its useful lives. Due to the reason as discussed in (i) above, the depreciable amount of the fixed assets acquiring from the acquisition of subsidiaries as determined under the PRC Accounting Rules and Regulations is different from the amount under HKGAAP.

### iii) Amortisation of goodwill of a jointly controlled entity

The amount represents the difference treatment on goodwill of a jointly controlled entity in the financial statements of previous years prepared under the PRC Accounting Rules and Regulations and under HKGAAP. The goodwill had been written off in the financial statements of HKGAAP in previous year. Accordingly, the amortisation of goodwill for the year as determined under the PRC Accounting Rules and Regulations should be reversed.

### iv) Capitalisation of general borrowing costs

Under the PRC Accounting Rules and Regulations, only borrowing costs on funds that are specifically borrowed for construction are eligible for capitalisation as fixed assets. Under HKGAAP, to the extent that funds are borrowed generally and used for the purpose of obtaining qualifying assets, the borrowing costs should be capitalised as part of the cost of these assets.

### v) Unrecognised investment loss

Under the PRC Accounting and Regulations, the share of loss of the subsidiaries is limited to the investment cost paid by the holding company. However, under HKGAAP, the share of loss of subsidiaries should be fully taken up by the holding company on consolidation.

### vi) Written off of pre-operating expenses

Under the PRC Accounting Rules and Regulations, pre-operating expenses are capitalised before the commencement of operation and will be written off when the enterprise commences operation. Under HKGAAP, pre-operating expenses are expensed when incurred.

## 38. DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND HKGAAP *(Continued)*

### vii) Deferred tax charge

The amount represents the deferred tax effect arising from the net identifiable assets, which are acquired on acquisition of subsidiaries, at their fair value under the HKGAAP.

Effects of major differences between the PRC Accounting Rules and Regulations and HKGAAP on profit attributable to shareholders for the year and ended 31st December 2003 and net assets at 31st December 2003 are analysed as follows:

| | *Note* | **Profit attributable to shareholders** ***RMB'000*** | Net assets *RMB'000* |
|---|---|---|---|
| Amount as determined under the PRC Accounting Rules and Regulations | | **10,196** | 1,871,233 |
| Adjustments according to HKGAAP: | | | |
| Amortisation of goodwill arising from acquisition of subsidiaries | (i) | **8,844** | 8,844 |
| Depreciation and amortisation of fixed assets | (ii) | **(916)** | (916) |
| Amortisation of goodwill of a jointly controlled entity | (iii) | **2,187** | (20,782) |
| Capitalisation of borrowing cost | (iv) | **1,917** | 1,917 |
| Unrecognised investment loss | (v) | **(1,484)** | — |
| Written off of pre-operating expenses | (vi) | **(3,103)** | (3,103) |
| Deferred tax charge | (vii) | **196** | 196 |
| Other | | **(4)** | 191 |
| | | **7,637** | (13,653) |
| Amount as determined under HKGAAP | | **17,833** | 1,857,580 |