

Chairman's Statement



Dear shareholders,

I hereby present the audited operating results of the Group for the Year.

During the Year, due to the macro-economic control policy of the PRC central government, adjustment to the policies of land administration and real estate credit loan, the Group's real estate development and education investment business were affected considerably, some of the real estate projects and education investment projects proceeded slowly or reported unsatisfactory profits.

According to the "Notice on Issues Related to Further Enhancing the Coordination and Accommodation between Industrial Policies and Credit Policies So As to Control Credit Risk", jointly promulgated by the State Development and Reform Commission of the PRC, the People's Bank Of China and the China Banking Regulatory Commission on 30th April 2004, commercial banks are required to tighten up the size of loans to property developers and homebuyers aiming at curbing property-specific financial risk as a result of excessive investment in fixed assets, thereby cooling down the overheated property development sector became a keynote in financial policies in 2004. As such, it had not only increased the difficulty of obtaining bank financing by the Group's real estate business but also posed additional difficulty of obtaining home mortgage loans by the Group's clients. As Consequently, we faced a relatively negative financing sentiment and sale environment.

On 29th April 2004, the General Office of the State Council of the PRC issued the document "Urgent Notice on Deepening the Rectification of the Land Market and Exercising Stricter Control over Land", which required the deepening of rectification of the land market, implementing a stricter examination and approval system over construction land, and suspending nationwide examination and approval in respect of converting agricultural land to non-agricultural construction land other than priority construction projects. As a result, the increasing difficulty in acquisition of land and obtaining approval to commence construction for certain of the Group's new projects resulted in delay in progress or termination of some projects.



As a result of the above combined factors, progress of the Group's property development and education investment projects was delayed for the Year. Escalating cost of property development, mounting difficulty in obtaining project finance and slowdown in sales collection rate were causes of suspension of projects and fund shortage for the property development projects, thus resulting in a significant decrease in economic benefits and incurring a significant loss for the Year. During the Year, turnover of the Group amounted to RMB35,312,000, representing a decrease of 79.12% from that of the Previous Year. Loss amounted to RMB194,995,000, and loss per share was RMB0.19.

Shenyang Tourism originally planned to acquire land in Shenyang Qipanshan International Scenery and Tourism Development Zone for development of tourist facilities and large-scale ecotype community. On 8th June 2004, the Ministry of Land and Resources of the PRC and the State Development and Reform Commission jointly promulgated "Opinions on the Implementation of Stricter Examination and Approval of the Construction Land in the course of Further Deepening Rectification of the Land Market", requiring land and resources departments at the provincial level to suspend handling of the change in use of agricultural land which would otherwise be submitted to the provincial governments for approval. Shenyang Tourism was thus unable to continue its principal business activities and accordingly ceased operation and its registration was cancelled in December 2004.

In December 2003, Shenyang Real Estate acquired a parcel of land located in Laoguapu, Dadong District of Shenyang at a public auction for use of state-owned land organized by the Planning and National Land Resources Bureau of Shenyang. However, due to changes in macro-economic situation and tightening of loans to the property sector, the Group entered into an agreement with a third party to dispose of its rights and interests in Laoguapu land in November 2004.


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In 2004, Shanghai Municipal Government made adjustment to major land use projects in urban areas, and the proposed site for the education project to be used by Shanghai Education was within the adjustment plan. Therefore, there was no concrete progress reported for the construction project of Shanghai Beida Education Science Park ("Shanghai Education Park"). Shanghai Education has been negotiating and communicating with Shanghai Municipal Government in respect of the related issues.

On 25th March 2004, the People's Municipal Government of Beijing issued "Opinions on Further Tackling and Rectifying the Order of Land Market to Strengthen the Administration of Land", pursuant to which, relevant Beijing municipal regulators exercised stricter control over the examination and approval of construction projects in connection with property development in 2004 and suspended the examination and approval of related construction application before 31st August 2004. As the property development project of Beijing Diye was at preliminary stage of examination and approval of construction application, all preliminary formalities and procedures was then postponed and the progress of the project was lagging behind schedule, thus having a negative impact on the operating income of the Group for the Year.

The renovation and decoration works of the ground floor podium of Cosmo International Mansion of the Building Management Company was substantially completed. The shopping mall at ground floor had been successfully let out and the sales of superstructure apartments had already commenced. Since this project was an old building transformation project with substantial transformation works needed and due to the difficulty in renovation and improvement works and the complexity in examination and approval was far beyond expectation, the construction works and approval procedures of this project were delayed, thereby having a negative impact on the Group's operating income for the Year.



As banks had tightened up their policy on credit loans to the property sector and the Group's liquidity position for the Year was relatively tense, the Group's financing ability were, to some extent, affected accordingly. In December 2004, the Company was involved in a litigation with Shenzhen Development Bank, Dalian Branch, in relation to a loan in the amount of RMB200 million. As a result of this, trading in the Company's H shares was suspended on the Stock Exchange. Both parties reached an amicable settlement agreement on 24th January 2005 through friendly consultation.

Despite various adverse factors mentioned above, certain projects of the Group had, to some extent, made progress: the construction of Shenyang Development Beida Education Science Park ("Shenyang Education Park"), a project under Shenyang Education, was substantially completed. Shenyang School commenced schooling in September 2004. Zhuhai Beida Affiliated Experimental School ("Zhuhai School") also commenced schooling in September 2004 for its second year classes. Zhuhai Education had received related lease payment. The preliminary integration of sales and management systems of Xili Cemetery was completed during the Year and it recorded a moderate sales income. The preliminary construction application for Beijing Diye had been granted an approval from the Urban Construction Department of Beijing, thus paving the way for a full scale development. Despite the difficulties, the sale of phase two of Water-Flowers City in Shenyang was basically completed, partly relieving the financing pressure on the Group.

Save for the negative impact of the PRC's macro-economic control policies, we must admit, the substantial loss of the Group for 2004 was mainly due to the underperformance in our quality and cost control efforts, funding arrangement as well as product sale management. All these require an improvements in the near future.

Looking into 2005, the Group will strengthen its internal management to minimize costs and expenses, and make greater efforts in marketing to revitalize the value of its assets, and speed up the completion and sales of its existing real estate development projects. Meanwhile, the Group will strive to explore new sources of revenue and improve income from its education investment in Shenyang Education and Zhuhai Education. Furthermore, with the integration of sale and management systems aiming at a desirable growth in sales revenue of Xili Cemetery, the Group is committed to a turnaround of its overall operations.

Xu Er Hui

Chairman

Shenyang Public Utility Holdings Company Limited

Shenyang, the PRC, 29th July 2005