

Notes to the Financial Statements

1. GENERAL INFORMATION

Shenyang Public Utility Holdings Company Limited (the "Company") is a joint stock limited company incorporated in the People's Republic of China (the "PRC"). The Company's H shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its ultimate holding company is Shenyang Public Utility Group Company Limited ("SPU"), a limited company incorporated in the PRC.

The Company and its subsidiaries are collectively referred to as the "Group".

The Group is presently engaged in the development, sale and rental of properties, investment and management of education projects and cemetery development business.

2. BASIS OF PREPARATION

The financial statements of the Group and the Company are prepared in accordance with the Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP") and Interpretations approved by the HKICPA.

(a) Recent issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Adoption of going concern basis

The Group recorded a net loss of RMB194,995,000 for the year and had overdue bank loans totaling RMB199,638,000 as at 31st December 2004. Notwithstanding this, the financial statements have been prepared on the assumption that the Group will continue to operate as a going concern. In the opinion of Directors, the Group will have sufficient working capital to continue its operations in the coming year, after taking into consideration of the following:

- (i) The Group is currently negotiating with its bankers to extend and re-schedule the repayment terms of certain bank loans and borrowings which either have been overdue for payment at the balance sheet date or will be due for repayment in the coming year. The Group is also in the course of discussion with some of its bankers to apply for additional credit facilities. The Directors anticipate that the Group will be able to maintain the existing credit facilities and obtain additional credit facilities from its bankers.

2. BASIS OF PREPARATION *(Continued)*

(b) Adoption of going concern basis *(Continued)*

- (ii) The Group is currently seeking potential buyers for its interests in certain of its subsidiaries and properties. As part of the Group's strategic plan, the Group intends to dispose these investments and properties and thereby to obtain additional cash resources for repayment of its overdue indebtedness and/or to provide additional working capital. The Directors anticipate that those assets will be sold at not less than their current net book value.

The Directors believe that the aforementioned financing plans and operational measures will be successful and the principal bankers will continue to support the Group. Having regard to the cash flow projections of the Group, which are prepared based on the key assumptions that these measures will be succeed, the Directors are of the opinion that, in the light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

Should the Group be unable to generate sufficient cash flows and/or secure the support of its bankers, the Group might not be able to continue its business as a going concern. Adjustments would have to be made in the financial statements to restate the value of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities as current assets and liabilities respectively.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention. 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 31st 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, as appropriate.

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

Investments in subsidiaries

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

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

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

Goodwill arising on the acquisition of a jointly controlled entity is included within the carrying amount of the jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

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 interest in a jointly controlled entity is 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.

Revenue recognition

Sales of properties are recognized on execution of legally binding, unconditional and irrevocable sale contracts.

Sales of other goods are recognized when goods are delivered and title has passed.

Rental income for leasing of tomb sets and niches for cremation urns is received when the legally binding contract is signed with the lessees. Rental income is recognized in the income statement on a straight-line basis over the relevant lease terms. The unrecognized portion is classified as deferred income in the balance sheet.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

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 impairment losses.

Construction in progress is stated at cost less any identified impairment loss. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and 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 People's Republic of China ("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 lives, and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	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 sale proceeds and the carrying amount of the asset and is recognized in the income statement.

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, capitalized interest and direct costs attributable to the development of the properties.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Completed properties held for sale

Completed properties held for sale are classified under current assets and stated at the lower of cost and net realizable value. Cost 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 realizable 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 recognized on a trade-date basis and are initially measured at cost and are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

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 recognized 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 increase carrying amount does not exceed the carrying amount that would have been no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

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 the 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 recognized as expenses in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

The Group maintains its books and records in Renminbi ("RMB"). Foreign currency transactions are 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

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.

Deferred tax is the tax expected to be payable or recoverable on 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, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognized 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 recognized for taxable temporary differences arising on investments in subsidiaries 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 reverse 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 profits will be available to allow all or part of the asset 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.

Notes to the Financial Statements

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

4. TURNOVER

Turnover represents the amounts received and receivable for development, sale, rental and management of properties less sale returns and discounts; revenue from education projects and cemetery development businesses for the year, and is analysed as follows:

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Development, sale, rental and management of properties	21,128	165,762
Revenue from education projects	10,658	2,500
Revenue from cemetery development (note 4a).	494	–
Others	3,032	854
	35,312	169,116

- 4(a) The subsidiary of the Group, 深圳市西麗報恩福地墓園有限公司 Shenzhen Xili Baoen Fu Di Cemetery Company Limited ("Xili Cemetery") operates cemetery business in Shenzhen of Guangdong Province, the PRC. The land on which the business is situated is a leasehold land with a medium lease terms expiry until 10th May 2048. Xili Cemetery develops tomb sets and niches for cremation urns on the land and conveys to the lessees for the period as same as the lease terms of the land. The rental income is wholly received from the lessee when the legally binding contract is signed. Such rental income is recognized on a straight-line basis in the income statement over the relevant lease terms. The rental income received but not yet recognized to income statement is classified as deferred income in the balance sheet.

5. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three (2003: two) operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

- Property development – development, sale, rental and management of properties.
- Education projects – leasing of campus and equipment, investment and management of education projects.
- Cemetery development – development and lease of tomb sets and niches for cremation urns.

The cemetery development business of the Group was commenced in the year of 2004.

There was no significant business and other transactions between the segments for both years.

Segment information about these businesses is presented below:

(a) For the year ended 31st December 2004/as at 31st December 2004:

	Property development RMB'000	Education projects RMB'000	Cemetery development RMB'000	Others RMB'000	Consolidated RMB'000
Consolidated Income Statement					
Turnover	<u>21,128</u>	<u>10,658</u>	<u>494</u>	<u>3,032</u>	<u>35,312</u>
Segment results	<u>(76,040)</u>	<u>(11,584)</u>	<u>(38,546)</u>	<u>(4,061)</u>	(130,231)
Interest income					5,160
Unallocated corporate expenses					<u>(53,033)</u>
Loss from operations					(178,104)
Finance costs					(40,471)
Share of results of a jointly controlled entity					21,288
Profit on disposal of a jointly controlled entity					<u>2,821</u>
Loss before taxation					(194,466)
Taxation					<u>(3,016)</u>
Loss after taxation					(197,482)
Minority interests					<u>2,487</u>
Loss attributable to shareholders					<u>(194,995)</u>

Notes to the Financial Statements

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

(a) For the year ended 31st December 2004/as at 31st December 2004: *(Continued)*

	Property development RMB'000	Education projects RMB'000	Cemetery development RMB'000	Others RMB'000	Consolidated RMB'000
Consolidated Balance Sheet					
Segment assets	831,652	1,039,497	626,883	21,289	2,519,321
Amount due from a former jointly controlled entity					60,000
Unallocated corporate assets					447,733
Total assets					<u>3,027,054</u>
Segment liabilities	268,129	267,636	51,285	9,927	596,977
Unallocated corporate liabilities					707,273
Total liabilities					<u>1,304,250</u>
Other Information					
Additions to fixed assets					
– Segment	75,971	261,895	7,790	42	345,698
– Corporate					551
Depreciation and amortisation					
– Segment	2,859	11,907	30,371	425	45,562
– Corporate					1,804
Loss on disposal of fixed assets					
– Segment	98	48	–	1,094	1,240
– Corporate					219
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

(b) For the year ended 31st December 2003/as at 31st December 2003:

	Property development RMB'000	Education projects RMB'000	Cemetery development RMB'000	Others RMB'000	Consolidated RMB'000
Consolidation Income Statement					
Turnover	165,762	2,500	-	854	169,116
Segment results	28,434	(2,711)	-	(1,327)	24,396
Interest income					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

Notes to the Financial Statements

5. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

(b) For the year ended 31st December 2003/as at 31st December 2003: *(Continued)*

	Property development RMB'000	Education projects RMB'000	Cemetery development RMB'000	Others RMB'000	Consolidated RMB'000
Consolidated 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					<u>2,741,168</u>
Segment liabilities	68,184	194,030	–	2,977	265,191
Unallocated corporate liabilities					507,688
Total liabilities					<u>772,879</u>
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

Geographical segments

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

As at 31st December 2003 and 2004, all of the Group's segment assets were located in the PRC, accordingly no geographical segment information is presented.

6. OTHER INCOME

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Interest on bank deposits	5,160	4,351

7. PROVISION ON PROPERTIES HELD FOR SALE

The amount represents the provision made in the year of 2004 on the Group's property development projects, namely "Water-Flowers City Phase II" 「水樹花都二期」 and "Cosmo International Mansion" 「金茂國際公寓」. Provision was made because there were unforeseeable delays in the construction works which made the development cost over-budgeted and the selling prices were not up to the amount as estimated. At the balance sheet date, those development projects were substantially completed. Development costs can be reliably measured and the selling prices can be ascertained. Accordingly, the Directors consider that no significant provision will be further required.

8. (LOSS) PROFIT FROM OPERATIONS

	THE GROUP	
	2004 RMB'000	2003 RMB'000
(Loss) profit from operations has been arrived at after charging:		
Directors' and supervisors' remuneration (note 10)	1,899	1,880
Staff salaries, allowances and bonuses	11,573	5,655
Contributions to retirement and other benefits schemes	2,091	997
	15,563	8,532
Allowances for bad and doubtful debts	3,812	127
Auditors' remuneration	900	824
Depreciation on fixed assets	15,157	4,911
Amortization of goodwill	32,209	2,577
Loss on disposal of fixed assets	1,459	248
Recognized impairment losses in respect of fixed assets	-	36
Minimum lease payments made in respect of rented premises	615	600

Notes to the Financial Statements

9. FINANCE COSTS

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Interest on bank borrowings wholly repayable within five years	44,032	12,311
Less: amount capitalized in construction in progress	(3,561)	(6,288)
	40,471	6,023

The borrowing costs capitalized for the year was calculated by applying a capitalisation rate of 5.31% (2003: 4.575% to 5.490%) per annum on bank loans borrowed and used for the construction in progress for education projects.

10. DIRECTORS' AND SUPERVISORS' REMUNERATION

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Directors		
Fees:		
Executive	210	210
Non-executive	90	90
Independent non-executive	60	60
	<u>360</u>	<u>360</u>
Other emoluments:		
Executive:		
Salaries and other benefits	1,193	1,183
Contributions to retirement benefits schemes	21	21
	<u>1,214</u>	<u>1,204</u>
Non-executive:		
Salaries and other benefits	-	-
Contributions to retirement benefits schemes	-	-
	<u>-</u>	<u>-</u>
Independent non-executive:		
Salaries and other benefits	-	-
Contributions to retirement benefits schemes	-	-
	<u>-</u>	<u>-</u>
Total remunerations to directors	<u>1,574</u>	<u>1,564</u>
Supervisors		
Fees	87	90
Other emoluments:		
Salaries and other benefits	217	205
Contributions to retirement benefits schemes	21	21
	<u>238</u>	<u>226</u>
Total remunerations to supervisors	<u>325</u>	<u>316</u>
Total remunerations to directors and supervisors	<u>1,899</u>	<u>1,880</u>

Notes to the Financial Statements

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

	Number of directors and supervisors	
	2004	2003
Received emoluments	19	18
Did not receive any emoluments	–	–
	19	18

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 2004.

All of the five highest paid individuals of the Group for 2004 and 2003 were directors and their remunerations had been include in above.

11. TAXATION

	THE GROUP	
	2004 RMB'000	2003 RMB'000
The taxation comprises:		
The Company and subsidiaries		
PRC Enterprise Income Tax	–	(10,568)
Deferred taxation (note 35)	785	196
Share of taxation of a jointly controlled entity in the PRC	(3,801)	(4,008)
	(3,016)	(14,380)

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 taxation for the year can be reconciled to the (loss) profit per the consolidated income statement as follows:

	2004 RMB'000	2003 RMB'000
(Loss) profit before taxation	<u>(194,466)</u>	<u>31,834</u>
Tax at the domestic income tax rates	74,066	(9,183)
Tax effect of expenses not deductible for tax purpose	(29,139)	(203)
Tax effect of unrecognized tax losses	(44,142)	(986)
Share of taxation of a jointly controlled entity in the PRC	<u>(3,801)</u>	<u>(4,008)</u>
Tax expenses for the year	<u>(3,016)</u>	<u>(14,380)</u>

12. DIVIDEND

No dividend was paid or proposed during the year ended 31st December 2004, nor has any dividend been proposed since the balance sheet date (2003: Nil).

13. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share for the year is based on the loss attributable to shareholders for the year of RMB194,995,000 (2003: profit of 17,833,000) and the number of 1,020,400,000 shares (2003: 1,020,400,000 shares) in issue during the year.

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

Notes to the Financial Statements

14. FIXED ASSETS

	Land and buildings	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 2004	303,123	5,962	15,568	10,022	220,653	555,328
Acquisition of subsidiaries	43,270	–	1,147	–	18,670	63,087
Transfer from construction in progress	41,434	–	2,655	–	(44,089)	–
Additions	130,348	–	3,011	1,184	211,706	346,249
Disposals/write-off	–	–	(544)	(2,603)	(905)	(4,052)
At 31st December 2004	518,175	5,962	21,837	8,603	406,035	960,612
Accumulated depreciation and impairment losses						
At 1st January 2004	1,849	2,186	1,951	2,099	–	8,085
Acquisition of subsidiaries	842	–	404	–	–	1,246
Charge for the year	9,341	1,192	3,806	818	–	15,157
Eliminated on disposals/write-off	–	–	(201)	(603)	–	(804)
At 31st December 2004	12,032	3,378	5,960	2,314	–	23,684
Net book values						
At 31st December 2004	506,143	2,584	15,877	6,289	406,035	936,928
At 31st December 2003	301,274	3,776	13,617	7,923	220,653	547,243

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 2004	5,962	1,650	3,886	11,498
Additions	–	104	447	551
Disposals	–	(51)	(1,325)	(1,376)
	<u>5,962</u>	<u>1,703</u>	<u>3,008</u>	<u>10,673</u>
At 31st December 2004	5,962	1,703	3,008	10,673
Accumulated depreciation				
At 1st January 2004	2,186	703	1,229	4,118
Charge for the year	1,192	269	343	1,804
Eliminated on disposals	–	(15)	(389)	(404)
	<u>3,378</u>	<u>957</u>	<u>1,183</u>	<u>5,518</u>
At 31st December 2004	3,378	957	1,183	5,518
Net book values				
At 31st December 2004	<u>2,584</u>	<u>746</u>	<u>1,825</u>	<u>5,155</u>
At 31st December 2003	<u>3,776</u>	<u>947</u>	<u>2,657</u>	<u>7,380</u>

- 14(a) 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.
- 14(b) The Group has pledged land and buildings with net book value of approximately RMB53,873,000 (2003: Nil) to secure banking facilities granted to the Group.
- 14(c) Included in additions to fixed assets of the Group for the year was land and buildings of RMB55,869,000 which were transferred from properties held for sale. The usage of these properties has been changed for leasing purpose.
- 14(d) Included in the Group's land and buildings and construction in progress was a land of RMB64,953,000 for cemetery business carried out by the Group's subsidiary, Xili Cemetery. The land was acquired and paid by the Group's another subsidiary, 深圳市景梅實業發展有限公司 Shenzhen Jingmei Industrial Development Company Limited ("Jingmei Industrial"). The land cost was reimbursed by Xili Cemetery to Jingmei Industrial. However, up to the date of approval of this financial statements, the application for change of name in the land use rights permit from Jingmei Industrial to Xili Cemetery is still in progress.

Notes to the Financial Statements

14. FIXED ASSETS *(Continued)*

As Xili Cemetery defaulted in the repayment of bank loan of RMB25,000,000 from Shenzhen Development Bank, Great Wall Branch (note 42b), the creditor bank has filed a claim to the People's Court of Shenzhen City for repayment of the debt and sequestration of its assets as security for the claim. On 25th October 2004, The Court issued a judgement to sequester the aforesaid land. Up to 31st December 2004, the Group has repaid RMB362,000 to the bank. Up to the date of approval of this financial statements, the case has not yet been finalized.

- 14(e) Included in construction in progress of the Group was a piece of land located in Shanghai, PRC for education project purpose with net book value of RMB95,600,000 (2003: RMB95,600,000). This land was acquired by the Group at its then appraised value in the year of 2003 through the acquisition of a subsidiary. Although the Group has obtained the 建築用地規劃許可證 Construction Land Planning Permit issued by the 上海市青浦區規劃管理局 Shanghai Qing Pu District Planning Administration Bureau, due to national macro-economic control policies imposed by the PRC government to tighten the procedure of land approval, there was no progress in obtaining the land use rights permit of this land in the year 2004. The Directors believe that the Group can eventually obtain the land use rights permit and the development can be in progress as planned.
- 14(f) Interest expense of RMB9,849,000 (2003: RMB6,288,000) had been capitalised in the Group's construction in progress.

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	<u>1,228,019</u>	<u>682,380</u>

15. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the Company's subsidiaries, as at 31st December 2004 are as follows:

Name of subsidiary	Paid-up registered capital RMB'000	Percentage of effective 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	250,000	100%	–	Development and sale of properties
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	50,000	30%	70%	Development and sale of properties, 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	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	20,000	70%	–	Investment and management of education projects
瀋陽北大青鳥學校 Shenyang Beida Jade Bird School ("Shenyang School")	–	–	100%	Operation of school

Notes to the Financial Statements

15. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Paid-up registered capital RMB'000	Percentage of effective equity interests held by the Company		Principal activities
		Directly	Indirectly	
瀋陽北大青鳥外國語培訓學校 Shenyang Beida Jade Bird Foreign Language Training School ("Shenyang Training School")	30	–	100%	Operation of school
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	10,000	–	90%	Development of business information system and provision of consultation services
景梅實業 Jingmei Industrial	10,000	95%	–	Investment holding and management of cemetery business
西麗墓園 Xili Cemetery	5,000	–	66.5%	Operation of cemetery business
深圳市盛景投資發展有限公司 (Shenzhen Grand Scene Investment Development Company Limited) ("Shenzhen Grand Scene")	50,000	50%	42.5%	Not yet commence business

15(a) Apart from Shenyang School and Shenyang Training School which are unincorporated entities in the PRC, all the Group's subsidiaries are companies with limited liabilities established in the PRC. All the subsidiaries are operating in the PRC.

15(b) In May 2004, the Group established Shenyang School.

15(c) In June 2004, the Group invested RMB30,000 to establish Shenyang Training School.

15(d) In 2003, the Company entered into an agreement to acquire 95% equity interests in Jingmei Industrial and its subsidiary, Xili Cemetery at a consideration of RMB570,000,000. With effect from 1st January 2004, the Company obtained the control over Jingmei Industrial and Xili Cemetery and they became the subsidiaries of the Group.

15(e) In May 2004, the Group invested RMB50,000,000 to establish Shenzhen Grand Scene.

15(f) During the year, one of the Group's subsidiary, 瀋陽發展旅遊開發有限公司 Shenyang Development Tourism Industrial Company Limited ("Shenyang Tourism") was undergone deregistration.

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted investment, at cost	-	-	-	79,952
Share of net assets	-	103,380	-	-
	-	103,380	-	79,952

In December 2002, the Company has entered into an agreement with an unrelated party to dispose its entire 22.5% equity interest in Shenyang Shenhai Hot Electricity Company Limited ("Shenhai Co-generation"). Shenhai Co-generation was a joint venture company established in the PRC and is engaged in the production and sale of electricity and heat. According to the agreement, the approval from the relevant government authorities in the PRC had to be obtained before this transaction was completed. In July 2004, the Company has ultimately obtained such approval and accordingly, such transfer of equity interest was completed on that date.

17. GOODWILL

	THE GROUP RMB'000
Cost	
At 1st January 2004	65,215
Arising from acquisition of subsidiaries	578,943
At 31st December 2004	644,158
Accumulated Amortisation	
At 1st January 2004	2,577
Charges for the year	32,209
At 31st December 2004	34,786
Net book values	
At 31st December 2004	609,372
At 31st December 2003	62,638

Goodwill is amortised over its estimated useful life on a straight-line basis. The foreseeable life of the goodwill on acquisitions of subsidiaries is 20 years.

Notes to the Financial Statements

17. GOODWILL (Continued)

The analysis of the goodwill arising on acquisition of subsidiaries at 31st December 2004 with reference to the businesses of the subsidiaries are as follows:

	THE GROUP
	RMB'000
Property development	6,420
Education projects	49,402
Cemetery development	549,996
Others	3,554
	<u>609,372</u>

The addition of goodwill for the year was arising from the acquisition of cemetery development business. The purchase consideration of RMB570,000,000 was based on the valuation report prepared by Vigers Appraisal & Consulting Limited (a professional valuer) by the application of discounted cash flow method to discount the future economic benefits of the business into present market value. At the effective date of acquisition, the business was at net liabilities of RMB8,943,000.

18. DEPOSIT PAID FOR ACQUISITION OF SUBSIDIARIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Deposit made for acquisition of equity interests in Jingmei Industrial and Xili Cemetery	<u>—</u>	<u>391,100</u>	<u>—</u>	<u>391,100</u>

In 2004, Jingmei Industrial and Xili Cemetery became subsidiaries of the Group.

19. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted equity securities, at cost	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>	<u>20,000</u>

The amount represents a 8% (2003: 8%) equity interest in 清華紫光科技創新投資有限公司 Tsinghua Unisplendour Hi-Tech Venture Capital, Inc., a company established in the PRC and is engaged in investment in technology projects.

20. LONG-TERM OTHER RECEIVABLE

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
瀋陽市自來水總公司 Shenyang Water General Corporation ("SWGC")	97,056	97,056	97,056	97,056
For the purpose of this report:				
Receivable within one year	97,056	38,822	97,056	38,822
Receivable after one year	–	58,234	–	58,234
	97,056	97,056	97,056	97,056

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. In 2000, the Group obtained a parcel of land in Shenyang from SWGC to satisfy the outstanding balance of water sold thereto. The land was prepared to use for development of properties for sale. 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 was required to refund RMB38,822,000 to the Group by the end of 2004 and the remaining balance by the end of 2005. Up to the date of the financial statements, there was RMB400,000 settled by SWGC. The Group has actively requested SWGC to settle the amount. A debt recovery procedure, including taking legal action, has been set up by the Group. The Directors consider that through the debt recovery actions, the Company should be able to recover the aforesaid debts in full.

21. PROPERTIES HELD FOR SALE

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Properties under development		
At cost	378,465	280,796
Less: provision (note 7)	(58,913)	–
At net realizable value	319,552	280,796
Completed properties, at cost	2,311	145,405
	321,863	426,201

Notes to the Financial Statements

21. PROPERTIES HELD FOR SALE *(Continued)*

- 21(a) The Group's properties held for sale were all located in PRC and held under medium-term leases (lease periods of 20 years or more but less than 50 years).
- 21(b) Included in properties under development was construction cost of a development project in Beijing of RMB131,230,000 (2003: RMB105,204,000). The total land cost was RMB162,397,000. At the balance sheet date, amount of RMB103,605,000 (2003: RMB90,000,000) had been paid by the Group. The land was purchased from the Municipal Government of Zhaoyang District of Beijing. The application for land use rights permit of the land is in progress.
- 21(c) At the balance sheet date, certain properties under development had been pre-sold to individual buyers.

22. INVENTORIES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Consumables and spare parts, at cost	2,099	469

23. OTHER INVESTMENTS

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted investments in PRC, at cost				
瀋陽上東風華房產開發 有限公司 (Shenyang Shinning Festival Real Estate Development Company Limited)	8,618	–	8,000	–
瀋陽嘉源風華房產開發有限公司 (Shenyang Jia Yuan Feng Hua Real Estate Development Company Limited)	6,002	–	–	–
	14,620	–	8,000	–
Less: Amount due thereto	(14,000)	–	(7,000)	–
	620	–	1,000	–

23. OTHER INVESTMENTS *(Continued)*

At 31st July 2004, the Group owned 100% and 60% in 瀋陽上東風華房產開發有限公司 Shenyang Shinning Festival Real Estate Development Company Limited (“Shinning Festival Real Estate”) and 瀋陽嘉源風華房產開發有限公司 Shenyang Jia Yuan Feng Hua Real Estate Development Company Limited (“Jia Yuan Feng Hua”) respectively. They are PRC subsidiaries established by the Group in 2004 for a specific property development project. Due to commercial reasons, the Group decided to terminate the abovesaid project and transferred all equity interests in Shinning Festival Real Estate and Jia Yuan Feng Hua together with the interest in land deposit of the abovesaid project to independent parties (see note 26a) at an aggregate consideration of RMB135,214,000. The said transactions are considered to be completed when the land use rights of the land has been transferred. The Directors expect the transactions will be completed in the second half of the year 2005. At the date of signing the agreements, the control and management of Shinning Festival Real Estate and Jia Yuan Feng Hua have been transferred to the purchasers. Accordingly, effective from that date, Shinning Festival Real Estate and Jia Yuan Feng Hua were not included in the consolidation of the Group, and their net asset values at that date were stated as other investments.

At the date of the agreements, the total net asset values of Shinning Festival Real Estate and Jia Yuan Feng Hua are as follows:

	RMB'000
Bank balances and cash	4,444
Other receivables	14,178
Minority interests	(4,002)
	<u>14,620</u>

Notes to the Financial Statements

24. ACCOUNTS RECEIVABLE

As at 31st December 2004, the Group's accounts receivable mainly represents the amounts due from buyers of the Group's developed properties held for sale and amounts acquired through the acquisition of subsidiaries. The Group allows an average credit period of 30 days (2003: 30 days) to the buyers of the Group's developed properties.

An aged analysis of accounts receivable at the balance sheet date is set out as follows:

	THE GROUP	
	2004 RMB'000	2003 RMB'000
0–30 days	3,651	1,139
31–60 days	–	–
61–365 days	7,194	3,558
1–2 years	836	1,992
Over 2 years	1,407	792
	13,088	7,481
Allowances for bad and doubtful debts	(623)	(431)
Net amount of accounts receivable	12,465	7,050

25. AMOUNT DUE FROM A FORMER JOINTLY CONTROLLED ENTITY

THE GROUP AND THE COMPANY

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

26. PREPAYMENTS

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Prepaid land considerations (note 26a)	100,000	100,000
Prepaid expenses	1,835	17,374
	101,835	117,374

26. PREPAYMENTS *(Continued)*

26(a). In December 2003, the Group acquired the land use rights of a parcel of land (the "Land") from the Planning and National Land Resources Bureau of Shenyang (the "Shenyang Land Bureau") by way of auction at a consideration of approximately RMB366,000,000. The land was acquired originally for development purposes. It is located in Shenyang, the PRC, with a site area of approximately 203,000 square meters. A deposit of RMB100,000,000 was paid by the Group.

According to the auction confirmation signed between Shenyang Land Bureau and the Group, the Group should pay further deposit of RMB200,000,000 by 28th February 2004 and pay the remaining balance when the land use rights of the Land was handed-over to the Group which was scheduled on or before 1st May 2004.

The Directors confirm that such transfer of land use rights to the Group shall take place upon fulfillment of certain conditions, including demolition of structures currently erected on the Land by the Shenyang Land Bureau and settlement of the outstanding balance of the purchase consideration by the Group. Up to the date of approval of this report, the demolition of the structures currently erected on the Land had not been completed. Shenyang Land Bureau had not requested the Group to make further payment and no demand had been made to the Group. After several discussion with Shenyang Land Bureau, the Group estimate that the demolition would be completed before the end of 2005.

The Group had entered into agreements with unrelated parties in July and November 2004 to dispose the entire equity interests in two subsidiaries, namely Shinning Festival Real Estate and Jia Yuan Feng Hua, which were established for the development projects on the Land (note 23), with an aggregate carrying value of RMB620,000 and the interest in the Land deposit at an aggregate consideration of RMB135,214,000 (the "Disposals"). As at 31st December 2004, the Group has received part of the consideration totalling RMB120,214,000 in respect of the aforesaid Disposals (note 31). The Disposals will be recognized when the transfer of land use rights of the Land is completed.

The Directors estimate that the Disposals will be completed in the year of 2005 when the land use rights of the Land have been transferred to the Group and all the outstanding balances of the Disposals have been received.

27. OTHER RECEIVABLES

Other receivables are unsecured, interest free and have no fixed repayments terms.

At the date of approval of financial statements, the Group had recovered RMB354,705,000 in respect of these debtors. The unsettled amounts was RMB197,189,000. The Group had signed repayment agreements with certain of these outstanding debtors where they agree to settle the outstanding amounts of RMB51,800,000 by the end of 2005.

28. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

THE GROUP AND THE COMPANY

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

As the Company failed to repay the bank loan in accordance with the terms of loan agreement. At 31st December 2004, certain bank balances totalling approximately of RMB180,000,000 were sequestered by the creditor bank. The bank balances was released from sequestration on 28th January 2005 (note 42).

Notes to the Financial Statements

29. ACCOUNTS PAYABLE

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

	THE GROUP	
	2004 RMB'000	2003 RMB'000
0–90 days	7,908	2,133
91–180 days	1,020	70
181–365 days	1,338	319
1–2 years	4,099	810
Over 2 years	407	–
	14,772	3,332

30. INVESTMENT COST PAYABLE

THE GROUP AND THE COMPANY

As at 31st December 2004, the amount represents the outstanding balance of investment cost for the acquisitions of Jingmei Industrial and Xili Cemetery (2003: acquisition of Building Management Company).

31. RECEIPTS IN ADVANCE

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Sales of properties (note 31a)	150,368	25,688	–	–
Deposits for leasing of tombs sets and niches	11,849	–	–	–
Disposal of equity interests in subsidiaries and transfer of land deposit (note 26a)	120,214	–	62,386	–
Others	3,419	–	–	–
	285,850	25,688	62,386	–

31(a) The amount represents the sales proceeds received of properties for sale which were under development. There were delays in providing the properties to the buyers in accordance with sales and purchase agreements. In the opinion of the Directors, the development of the properties will be completed in June 2005. Provision for default payments had been made in the financial statements.

32. BANK LOANS

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Short-term bank loans				
Secured	111,720	–	72,720	–
Guaranteed (note)	345,000	336,000	275,000	316,000
Unsecured and not guaranteed	32,138	40,000	–	–
	488,858	376,000	347,720	316,000
Add: Current portion of long-term bank loans	49,000	–	29,000	–
	537,858	376,000	376,720	316,000
Long-term bank loans				
Secured	179,700	10,303	179,700	10,303
Guaranteed (note)	40,300	38,697	20,300	18,697
	220,000	49,000	200,000	29,000
Less: Current portion of long-term bank loans	(49,000)	–	(29,000)	–
	171,000	49,000	171,000	29,000
Total bank loans	708,858	425,000	547,720	345,000

Notes to the Financial Statements

32. BANK LOANS (Continued)

The maturity profile of the bank loans is as follows:

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Overdue (Note 42)	199,638	–	175,000	–
Within one year	338,220	376,000	201,720	316,000
	537,858	376,000	376,720	316,000
More than one year, but not exceeding two years	171,000	49,000	171,000	29,000
	708,858	425,000	547,720	345,000

Note:

Details of the guaranteed bank loans are as follows:

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
SPU	50,000	80,000	–	80,000
SPU and other party	20,300	–	20,300	–
北京北大青島有限責任公司 Beijing Beida Jade Bird Company Limited (“Beida Jade Bird”)	140,000	166,000	100,000	166,000
Beida Jade Bird and Liaoning Hua Jin Hua Gong Group Company Limited (“Huajin Company”)	175,000	–	175,000	–
Other party	–	128,697	–	88,697
	385,300	374,697	295,300	334,697

33. SHARE CAPITAL

	THE COMPANY	
	2004 RMB'000	2003 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.

34. RESERVES

The Company

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1st January 2003	323,258	64,780	32,390	361,738	782,166
Profit attributable to shareholders	–	–	–	2,630	2,630
Transfer of reserves	–	1,020	510	(1,530)	–
At 31st December 2003 and at 1st January 2004	323,258	65,800	32,900	362,838	784,796
Loss attributable to shareholders	–	–	–	(42,806)	(42,806)
At 31st December 2004	323,258	65,800	32,900	320,032	741,990

(a) Share premium

Share premium comprises surplus between the value of net assets acquired and the nominal value of State 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. As the Group recorded a loss for the year, no appropriation was made.

Notes to the Financial Statements

34. RESERVES (Continued)

The Company (Continued)

(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. As the Group recorded a loss for the year, no appropriation was made.

(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 profits determined in accordance with accounting principles generally accepted in Hong Kong. The Company's reserve available for distribution as at 31st December 2004 was RMB103,825,000 (2003: RMB333,321,000) which is the amount determined in accordance with PRC accounting standards and regulations.

35. DEFERRED TAXATION

THE GROUP

The following are the major deferred tax liabilities recognized and movements thereon during the current and prior reporting periods:

	RMB'000
Acquisition of subsidiaries	63,852
Credit to income for the year	<u>(196)</u>
At 31st December 2003 and 1st January 2004	63,656
Credit to income for the year	<u>(785)</u>
At 31st December 2004	<u><u>62,871</u></u>

As the balance sheet date, the Group's deferred tax liabilities were related to the differences between the fair value of assets acquired and the corresponding tax bases arising from the acquisition of business.

As at 31st December 2004, the Group has estimated unused tax losses of RMB199,225,000 (2003: RMB66,845,000) available for offsetting future profits. No deferred tax asset has been recognized for these tax losses in the financial statements due to the unpredictability of future profit streams. The expiry of these unused tax losses are as follows:

	RMB'000
2007	49,781
2008	17,064
2009	132,380

36. ACQUISITION OF SUBSIDIARIES

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

	2004 RMB'000	2003 RMB'000
Net assets acquired:		
Fixed assets	61,841	374,157
Inventories	–	455
Properties held for sale	–	189,088
Accounts receivable	97	2,916
Other receivables and prepayments	23,881	149,960
Bank balances and cash	346	8,739
Bank loans	(48,500)	–
Other payables and accrued charges	(46,255)	(212,272)
Deferred taxation	–	(63,852)
Minority interests	(353)	(61,511)
	<hr/>	<hr/>
Net (liabilities) assets	(8,943)	387,680
Goodwill	578,943	65,215
	<hr/>	<hr/>
Acquisition consideration	570,000	452,895
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	570,000	452,895
	<hr/> <hr/>	<hr/> <hr/>
Analysis of net outflow of cash and cash equivalents in connection with the acquisition of subsidiaries:		
Cash consideration	570,000	452,895
Deposit paid	(391,100)	(360,994)
Investment cost payable	(39,512)	(50,000)
Bank balances and cash acquired	(346)	(8,739)
	<hr/>	<hr/>
	139,042	33,162
	<hr/> <hr/>	<hr/> <hr/>

The subsidiaries acquired contributed RMB494,000 (2003: RMB2,500,000) of revenue and RMB38,546,000 (2003: RMB2,175,000) of loss before taxation for the period between the date of acquisition and the balance sheet date.

The subsidiaries acquired in 2004 contributed RMB18,802,000 to the Group's net operating cashflow, utilized RMB1,245,000 for investing activities and utilized RMB16,362,000 in respect of financing activities during the year.

Notes to the Financial Statements

37. CASH AND CASH EQUIVALENTS

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

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Bank balances and cash	124,064	783,985
Less: Bank deposits with maturity over three months	–	(58,720)
	124,064	725,265

38. PLEDGE OF ASSETS

As at 31st December 2004, the details of pledged assets are as follows:

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Fixed assets	53,873	–	–	–
Bank deposits	180,399	46,072	166,448	21,103
	234,272	46,072	166,448	21,103

39. CAPITAL COMMITMENTS

(a) At the balance sheet date, the Group and the Company had capital commitments contracted but not provided for in the financial statements as follows:

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Acquisition of fixed assets/ construction costs	53,846	66,884	–	–
Acquisition of a parcel of land	46,800	46,800	–	–
Acquisition of a subsidiary	–	178,900	–	–
	100,646	292,584	–	–

39. CAPITAL COMMITMENTS *(Continued)*

- (b) As stated in notes 23, 26 and 31. The Group acquired the land use rights of a land by way of auction at a consideration of RMB366,000,000. The Group had paid RMB100,000,000. At the end of the year, the Group entered into agreements with unrelated parties for the disposal of the entire equity interests in two subsidiaries with net book value of RMB620,000 and the aforesaid land deposit of RMB100,000,000 which was intended to be held for property development purpose at an aggregate consideration of RMB135,214,000. At the balance sheet date, the Group has received RMB120,214,000 in respect of the aforesaid transactions.

40. OPERATING LEASE COMMITMENTS

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 as follows:

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within one year	661	600	600	600
In the second to fifth years inclusive	2,400	2,400	2,400	2,400
Over five years	750	1,300	750	1,300
	3,811	4,300	3,750	4,300

Operating leases payments represent rentals payable by the Group and the Company for certain office premises. Leases are negotiated and rentals are fixed for terms ranging from one to nine years.

As lessor

During the year, the Group received rental income from leasing of campus with related equipment and shopping mall amounted to RMB10,000,000 and RMB5,266,000 (2003: RMB2,500,000 and Nil) respectively.

Notes to the Financial Statements

40. OPERATING LEASE COMMITMENTS *(Continued)*

As lessor *(Continued)*

At the balance sheet date, the Group entered agreements with tenants to lease out the campus with related equipment and shopping mall. In respect of the leasing of the campus with related equipment, the lease period is from September 2003 to August 2023. The rental for the first three years ended August 2006 is at a fixed rate and for the remaining lease period is subject to negotiation. In respect of the leasing of shopping mall, the lease period is from January 2004 to December 2013 at a fixed rental rate. The future minimum lease payment of the campus with related equipment to be received for the period ended August 2006 and that of shopping mall up to the end of its lease period are as follows:

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Within one year	24,803	10,000
In the second to fifth years inclusive	42,547	35,000
After five years	25,880	–
	93,230	45,000

41. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Corporate guarantee given to subsidiaries for bank loans granted	–	–	7,500	–

41(a) Pursuant to the sales and purchase agreement for the acquisition of equity interests in Jingmei Industrial and its subsidiary, Xili Cemetery (collectively refers as "Cemetery Companies") dated 31st December 2003, all assets and liabilities not relating to the operations of cemetery business would be transferred out of the Cemetery Companies and taken up by the former shareholder of Cemetery Companies (the "Former Shareholder"). During the year, the Company entered into an agreement with the Former Shareholder that a total of the Cemetery Companies' other payables of approximately RMB24,771,000 and other receivables of approximately RMB8,785,000 would be offset against the outstanding balances of approximately RMB14,886,000 owed to the Cemetery Companies by the Former Shareholder and that the net balance of RMB1,100,000 owed to the Former Shareholder was waived.

As written confirmations from these creditors to signify their agreements to above arrangement had not yet been obtained, the Group was still primarily liable to these liabilities. In the opinion of the Directors, as the debts had been undertaken up by the Former Shareholder, they believe that there will not have material adverse impact on the Group's operating results and cash flows for the year.

41. CONTINGENT LIABILITIES *(Continued)*

- 41(b) Prior to acquisition by the Group, Jingmei Industrial was involved in a litigation relating to construction contracts. The Court held in the year 2002 that Jingmei Industrial together with another party were required to pay a compensation amount of RMB16,054,000. Jingmei Industrial and the other party had filed an appeal to the Appeal Court. Up to the date of approval of the financial statements, the case is still in progress. In the opinion of the Directors, no provision should be made for this case because as mentioned in above paragraph, the consequence of the case and related costs should be taken up by the Former Shareholder.
- 41(c) In addition to the above, the Company gave an undertaking to the minority shareholders of the Company's deregistered subsidiary, Shenyang Tourism, during the year to undertake all liabilities incurred during the operating period of Shenyang Tourism. In the opinion of the Directors, the undertaking would not have any material adverse impact on the operation and financial position of the Group.

42. LITIGATIONS

- 42(a) On 6th December 2004, the Company received a writ of summons from Shenzhen Development Bank, Dalian Branch dated 15th November 2004 in relation to a claim of RMB200,000,000 together with interest and costs pursuant to a loan agreement made between the Company and this bank on 12th January 2004 ("Loan Agreement").

Pursuant to the terms of the Loan Agreement, the Company should repay the loan of RMB200,000,000 (the "Loan") by instalment. The Company failed to repay the full amount of the first instalment of RMB50,000,000 before the due date, being 12th November 2004, and accordingly the entire principal amount of the loan became immediately due.

On 6th December 2004, the Company received a judgement from the Supreme People's Court of Liaoning Province, the PRC (the "Liaoning Court") dated 16th November 2004 in relation to the claim which temporarily sequester, detain and freeze the assets of the Company and its guarantors (i.e. Beida Jade Bird and Hua Jin Company). The amount of cash of the Company being frozen at that time was RMB180,000,000.

At 31st December 2004, the outstanding balance of the Loan was RMB175,000,000.

Pursuant to the Settlement Agreement from Liaoning Court dated 24th January 2005, the bank agreed to discontinue the legal actions and the Company was required to repay the bank outstanding balance and interest of the Loan by five instalments in the following schedule:

- the principal amount of RMB8,000,000 together with interest accrued thereon before 31st January 2005;
- the principal amount of RMB12,000,000 together with interest accrued thereon before 20th February 2005;
- the principal amount of RMB50,000,000 together with interest accrued thereon before 20th March 2005;
- the principal amount of RMB50,000,000 together with interest accrued thereon before 20th April 2005;
- the principal amount of RMB55,000,000 together with interest accrued thereon before 20th May 2005.

On 28 January 2005, the Company has obtained the release of cash held in various banks from sequestration and detainment.

Notes to the Financial Statements

42. LITIGATIONS *(Continued)*

Up to April 2005, the Company has repaid the principal of RMB25,000,000 to the Bank. As the repayment schedule was not strictly followed, on 28th April 2005, the Bank sequestered an amount of RMB155,000,000 from one of the guarantors of the Loan - Hua Jin Company. From then on, the Bank had already received the outstanding amount due under the Loan and interest from the Company and the guarantors for the Loan. The Company is now liaising with the Liaoning Court to conclude the case. The aggregate costs for the litigation were RMB2,011,000 which had included in the loss for the year.

The directors was given to understand from Beida Jade Bird that prior to the Settlement, Beida Jade Bird had given a back to back guarantee to Hua Jin Company if Hua Jin Company was required to fulfill its obligations of guarantee under the Loan, Beida Jade Bird would correspondingly be responsible to Hua Jin Company. As a result of the sequestration of its monies and the guarantee it gave for the Loan, Hua Jin Company sequestered the shares of 潍坊北大青鸟华光科技股份有限公司 Weifang Beida Jade Bird Huaguang Technology Company Limited ("Jade Bird Huaguang") and 北京天桥北大青鸟科技股份有限公司 Beijing Tianqiao Beida Jade Bird Technology Company Limited ("Beijing Tianqiao") (with aggregate value of approximately RMB142,000,000), both owned by Beida Jade Bird on 17th May 2005. The relationships between Jade Bird Huaguang and Beijing Tianqiao; and the Company are set out in note 43.

On 14th June 2005, Huajin Company then sequestered certain units of the properties held for sale (with a value of approximately RMB24,000,000) owned by the Company's subsidiary, Building Management Company and bank deposits of approximately RMB200,000 from another subsidiary Beijing Diye. The about matters had some effect on the normal operations of the Group. The Company and Beida Jade Bird were in negotiations with Huajin Company concerning the above matters and repayment but had not reached any final agreement up to the date of the financial statements.

- 42(b) In respect of the non-repayment of the bank loan of RMB25,000,000 from Shenzhen Development Bank Great Wall Branch, the creditor bank has filed a claim to The People's Court of Shenzhen City, Guangdong Province ("Shenzhen Court") and requested the Shenzhen Court to sequester the Group's assets as security for the claim. On 25th October 2004, Shenzhen Court issued a judgement to sequester the land which is in the name of the guarantor, Jingmei Industrial (the ownership of the land belongs to Xili Cemetery, while the land use rights permit is registered in the name of Jingmei Industrial) (see note 14d). At 31st December 2004, the outstanding balance of the loan was RMB24,638,000. As at 11th April 2005, Shenzhen Court issued a writ of summon which requested Jingmei Industrial to attend the Court in respect of the abovesaid claim. Up to the date of approval of this report, the case had not been finalised.

43. RELATED PARTY TRANSACTIONS

Companies are considered to be related if one company has ability, directly or indirectly, to control over the other company or exercise significant influence 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 of the Group are as follows:

Name of company	Relationships with the Company
SPU	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
Jade Bird Huaguang	Holding company of Beida Hi-Tech
Beida Jade Bird	Shareholder of Jade Bird Huaguang
Beijing Tianqiao	Shareholder of Jade Bird Huaguang
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
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	Former jointly controlled entity of the Company

Apart from the guarantees given by the related parties as disclosed in note 32, the principal related party transactions which were carried out in the ordinary course of business are as follows:

- 43(a) During the year, the Group received rental income of RMB10,000,000 (2003: RMB2,500,000) from Zhuhai School for leasing of campus with related equipment. The lease term is irrevocable for 20 years. The rental for the first three years ended 31st August 2006 is at a fixed rate and that for the remaining lease term is negotiable.

Notes to the Financial Statements

43. RELATED PARTY TRANSACTIONS *(Continued)*

43(b) As at 31st December 2004, the outstanding balances of related parties with the Group are as follows:

	2004 RMB'000	2003 RMB'000
Amount due from a former jointly controlled entity Shenhai Co-generation	<u>60,000</u>	<u>60,000</u>
Accounts payable and accrued charges		
Beida Jade Bird	3,920	2,920
SPU	1,911	161
Beijing Tianqiao	4,404	–
Zhuhai School	–	1,339
	<u> </u>	<u> </u>
Accounts receivable		
Zhuhai School	774	–
	<u> </u>	<u> </u>

44. RETIREMENT BENEFITS SCHEME

The employees of the Group are members of state-managed retirement benefits 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% (2003: 25.5%). The only obligation of the Group with respect to the retirement benefits schemes is to make such specified contributions.

45. DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND HKFRS

Other than the differences in the classifications 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 HKFRS. The major differences are as follows:

(i) Amortisation of 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 HKFRS 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 HKFRS, the amortisation of goodwill are different accordingly.

45. DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND HKFRS *(Continued)*

(ii) Depreciation and amortisation of fixed assets

Under the PRC Accounting Rules and Regulations and HKFRS, 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 HKFRS.

(iii) Goodwill of a jointly controlled entity reversed upon disposal

There was 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 HKFRS. The goodwill had been written off in the financial statements prepared under HKFRS in previous year. As the jointly controlled entity was disposed during the year, the difference in accounting treatment was 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 HKFRS, 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) Unrecognized investment loss

Under the PRC Accounting Rules and Regulations, the share of loss of the subsidiaries is limited to the investment cost paid by holding company. However, under HKFRS, the share of loss of subsidiaries should be fully included 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 HKFRS, pre-operating expenses are expensed when incurred.

(vii) Deferred tax charge

The amount represents the deferred tax effect arising from acquisition of subsidiaries where the net identifiable assets of the acquired subsidiaries are stated at their fair value at the date of acquisition under the HKFRS.

Notes to the Financial Statements

45. DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND HKFRS *(Continued)*

Effects of major differences between the PRC Accounting Rules and Regulations and HKFRS on loss attributable to shareholders for the year ended 31st December 2004 and net assets at 31st December 2004 are analysed as follows:

	Note	Loss attributable to shareholders RMB'000	Net assets RMB'000
Amount as determined under the PRC Accounting Rules and Regulations		(238,149)	1,625,288
Adjustments according to HKFRS:			
Amortisation of goodwill arising from acquisition of subsidiaries	(i)	24,924	32,849
Depreciation and amortisation of fixed assets	(ii)	(3,662)	(4,578)
Goodwill of a jointly controlled entity reversed upon disposal	(iii)	20,782	–
Capitalisation of borrowing costs	(iv)	7,112	9,029
Unrecognized investment loss	(v)	(9,225)	–
Written off of pre-operating expenses	(vi)	2,347	(765)
Deferred tax charge	(vii)	785	981
Others		91	(219)
		43,154	37,297
Amount as determined under HKFRS		(194,995)	1,662,585

46. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with the current year's presentation.