



SHENYANG PUBLIC UTILITY HOLDINGS COMPANY LIMITED

Stock code: 747

INTERIM REPORT 2008



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The board of directors (“the Board”) of Shenyang Public Utility Holdings Company Limited (“the Company”) is pleased to present the interim report and condensed accounts of the Company and its subsidiaries (“the Group”) for the six months ended 30th June 2008 (“the Period”). The consolidated income statement, the consolidated cash flow statement, the consolidated statement of changes in equity for the Period and the consolidated balance sheet of the Group as at 30th June 2008 are all unaudited and prepared in condensed accounts form together with some selected explanatory notes to the accounts which are set out from page 23 to 28 in this report.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period, the turnover of the Group amounted to approximately RMB38,117,000, representing an increase of approximately 799.41% as compared with that of the corresponding period (“the Corresponding Period”) for the six months ended 30th June 2007 (“the 2007 Period”); profit after taxation and minority interests amounted to approximately RMB138,094,000; and earnings per share was approximately RMB0.135.

I. Review of the Group’s Major Business

The Group is a real estate developer and an investor in education business. It is principally engaged in the development and sale of real estate and investment in and management of education. The Company’s subsidiaries, Shenyang Development Real Estate Company Limited (“Shenyang Real Estate”), Shenyang Pollon Finance Building Management Company Limited (“Building Management Company”) and Beijing Diye Real Estate Development Company Limited (“Beijing Diye”), are real estate developers in Shenyang and Beijing respectively. The Company’s subsidiaries, Shenyang Development Beida Education Science Park Company Limited (“Shenyang Education”), Zhuhai Beida Education Science Park Company Limited (“Zhuhai Education”) and Shanghai Beida Jade Bird Education Investment Company Limited (“Shanghai Education”), are investors in education business in Shenyang, Zhuhai and Shanghai respectively. The Company’s subsidiary, Shenyang Beida Jade Bird Business Information System Company Limited (“Shenyang Business Information”) is a developer of application software in Shenyang. The Company’s subsidiary, Shenzhen Grand Science Investment Development Company Limited (“Shenzhen Grand Science”) is an industrial investor in Shenzhen. The Company’s subsidiary, Shenyang Development Property Management Company Limited (“Shenyang Property”) is a property management services provider in Shenyang.

During the Period, Shenyang Education, Shenyang Business Information and Shenyang Property ceased to be the subsidiaries of the Company.

1. **Analysis of Real Estate Development Business**

During the Period, the sales and the occupation arrangement of the phase two project of Shenyang Real Estate "Water-Flowers City" was completed in early section, with the completion and inspection and certificate registration are still under progress. Based on the ongoing effort of the Group, the relevant registration of the phase two project of "Water-Flowers City" was finished in September 2008 and the registration of property title certificate was started.

During the Period, the last stage improvement of construction and completion and inspection of Building Management Company "Cosmo International Mansion" was the primary focus. In June 2008, Building Management Company entered the Agreement of Settlement of Debts by Properties with the Company and relevant parties, pursuant to which the parties agreed to settled the debt of RMB24,300,000 of the Company by the properties of Cosmo International Mansion with a value of RMB24,300,000. The transfer procedures of these properties are under processing.

The "Scenic Bay" of Beijing Diye did not make significant progress during the Year. Owing to the promulgation of Property Law, the resettlement problem of the land purposed for "Scenic Bay" cannot accomplish completely. As a result, the land failed to meet the requirements for sale. Beijing Diye is under negotiation with local authorities to seek a resolution.

2. **Analysis of Education Investment Business**

During the Period, Zhuhai School has paid Zhuhai Education a rental fee amounting to RMB1,500,000. The senior middle school of Zhuhai School has been included in the list of public school by Bureau of Education of Zhuhai Municipality. The number of students at school in the fall semester 2008 has reached 990.

II. The Group's Liquidity and Financial Resources

1. Borrowing Level and Analysis at the Balance Sheet Date

As at 30th June 2008, the Group's bank borrowings totaled RMB20,000,000 (As at 31st December 2007: RMB62,000,000). Abovementioned borrowings are not secured and bear interest at 9.71% per annum.

	As at 30th June 2008 (RMB'000)	As at 31st December 2007 (RMB'000)
Bank borrowings payable as follows:		
Within one year	20,000	62,000
The second year	—	—
	<u>20,000</u>	<u>62,000</u>

During the Period, the Group did not default in paying the principle and interests of bank borrowings.

2. Bills payable

During the Period, the Company has no bills payable.

3. Financial Indicators and Basis of Calculation

Financial Indicators	Basis of Calculation	As at 30th June 2008	As at 31st December 2007
Gearing ratio	Total liabilities/ total assets x 100%	39.79%	53.80%
Earnings/net assets ratio	Net profit/ net assets x 100%	22.73%	22.30%
Sales profit margin	Net profit/sales x 100%	343.29%	1,578.40%

III Capital Structure of the Group

Items	As at 30th June 2008		As at 31st December 2007	
	Amount (RMB'000)	Percentage of Total Capital	Amount (RMB'000)	Percentage of Total Capital
Share capital	1,020,400	158.98%	1,020,400	202.55%
Share premium	323,258	50.37%	323,258	64.17%
Statutory surplus reserve	103,582	16.14%	103,582	20.56%
Accumulated profits	-839,752	-130.84%	-977,824	-194.10%
Minority interests	34,335	5.35%	34,357	6.82%
Total capital	<u>641,823</u>	<u>100%</u>	<u>503,773</u>	<u>100.00%</u>

IV. Significant Investments Held

During the Period, Tsinghua Unisplendour Hi-Tech Venture Capital, Inc., changed its name to Unisplendour Venture Capital, Inc., ("Unisplendour Venture Capital"). As at 30th June 2008, the Group held 8% equity interest in Unisplendour Venture Capital with investment cost of RMB20,000,000 (31st December 2007: RMB20,000,000). During the Period, Unisplendour Venture Capital has recorded a loss of RMB1,316,000, representing a loss decrease of RMB858,000 as compared with that of the Corresponding Period.

V. Changes in the Composition of the Group

1. Shenyang Education ceased to be a subsidiary of the Company

Shenyang Real Estate transferred 70% equity interest in Shenyang Education to Hanhua Property Management Company Limited ("Shanghai Hanhua") to settle the assistance provided by Shanghai Hanhua of RMB5,866,150 according to the Civil Mediation Agreement (2006) Shen Zhong Min (2) Fang Chu Zi No.129 (2006)沈中民(2)房初字第129號《民事調解書》and the Civil (Execution) Judgement Order (2007) Shen Fa Zhi Zi No.577 (2007)沈法執字第577號《民事(執行)裁定書》issued by the Intermediate People's Court of Shenyang. (details please refer to section XXIII – Material Litigation in Management Discussion and Analysis)

On 28th February 2008, the Company, Shenyang Real Estate, Shenyang Pollon, Shenyang Property and Shanghai Hanhua entered the Debt Transfer and Shares Subscription Agreement, pursuant to which the parties agreed that Shanghai Hanhua shall purchase the debt of Shenyang Education due to the Company, Shenyang Real Estate, Shenyang Pollon, Shenyang Property totalling RMB256,638,760 at cost. Shanghai Hanhua shall pay RMB100,000,000 within 18 months after the date of the Debt Transfer and Shares Subscription Agreement and the balance shall be fully paid within the following 24 months. Upon Shanghai Hanhua paid the first instalment of debt purchase payment of RMB100,000,000, the Company will transfer 30% equity interest in Shenyang Education to Shanghai Hanhua at a price of RMB2,514,060. As at September 2008, Shanghai Hanhua has paid RMB2,514,060 in respect of the purchase of equity interest and acquired 30% equity interest in Shenyang Education. Since then, Shenyang Education ceased to be a subsidiary of the Company .

The Management Committee of Shenyang Economic and Technological Development Zone has resolved to take back the state-owned land use rights of Shenyang Education freely in 2005, and has taken back a parcel of land with an area of 80,000 square meters for the purpose of Shenyang Machine Tools Matching Industrial Park. Due to the liquidity problem, Shenyang Education was unable to develop the residential units according to the agreed schedule. Given above situation, the arrangements aforesaid would maximize the flexibility of the Group's pro-investments and existing assets for the interest of the Group.

2. Shenyang Business Information ceased to be a subsidiary of the Company

During the Period, Shenyang Education has been unregistered and ceased to be a subsidiary of the Company.

3. Shenyang Property ceased to be a subsidiary of the Company

During the Period, the Company and Shenyang Real Estate entered the Equity Interest Transfer Agreement with an independent third party to dispose of 60% equity interest in Shenyang Property held by the Company and Shenyang Real Estate. Since then, Shenyang Property ceased to be a subsidiary of the Company.

VI. Number of Employees, Emoluments Policies, Training Schemes and Share Option Schemes

As at 30th June 2008, the Group employed a total of 39 employees (excluding the directors of the Company) and provided them with emoluments totaling approximately RMB3,005,840 during the Period (2007 Period: RMB2,721,430). The employees are offered different emoluments with respect to their different positions. The Group also made contributions to endowment insurance, basic medical insurance and housing reserves for all the employees in accordance with the relevant laws of the PRC. To date, the Group has not adopted any share option scheme for any of its senior management or employees.

VII. Details of the Group's Assets Secured/Pledged

From June to November 2007, the Company and Shenyang Real Estate have entered Assumption and Equity Pledge Agreement and Extension of Credit and Equity Pledge Supplementary Agreement with Beijing Mingyude Business and Trade Company Limited ("Mingyude"), pursuant to which the 80% equity interest in Beijing Diye held by Shenyang Real Estate was pledged as security, and Mingyude paid the construction payment of RMB12,870,000 to Shenyang Tianbei Construction Installation Work Company ("Tianbei Construction") for Shenyang Real Estate and paid the debt due to Liaoning Hua Jin Hua Gong Group Company Limited ("Hua Jin") of RMB32,160,000 for the Company.

On 31st July 2008, the Company and Shenyang Real Estate have entered Debt Repayment and Equity Pledge Release Agreement with Mingyude, pursuant to which the parties determined the schedule of repayment and equity pledge release. As at 31st August 2008, the Company and Shenyang Real Estate have fully repaid the assistance and interest thereof to Mingyude, and the 80% equity interest in Beijing Diye was recovered by the Company.

VIII. Taxation

During the Period, no provision for Hong Kong Profits Tax had been made as the Group's income neither arose in nor was derived from Hong Kong. During the Period, the Group was subject to pay income tax at the prevailing tax rate of 15%–25% in the PRC.

IX. Currency Risks

According to the "Quotations of the Exchange Rates for Converting Renminbi to Foreign Currencies by the Head Office of Designated Banks (I-6)" periodically promulgated by the State Administration of Foreign Exchange of the PRC in 2008, the exchange rate of the Hong Kong dollar to Renminbi experienced slight fluctuations during the Period. In addition, the translation of the Company's deposits denominated in Hong Kong dollar was basically completed. Accordingly, the Company does not have any currency risk.

X. Prospects of the Second Half of 2008

In the second half of the year, the Group's operation will focus on the following:

1. To reorganize existing assets and businesses, increase its efforts in receivables recovering, and maximize the use of assets;
2. To seek new investors for the Company and introduce new businesses with development potential;
3. To carry on the compliance work of pro-period such as information disclosure so as to lay a foundation for the resumption of trading of the Company;
4. To actively accelerate the resumption of trading of the Company's H shares and protect the interest of public shareholders;
5. To actively accelerate the reorganization of the Company, so as to lay a solid foundation for the sustainable and healthy development of the Company.

XI. Purchase, Sale or Redemption of Shares

During the Period, the Group has not purchased, sold or redeemed any of the Company's shares.

XII. Interests and/or Short Positions of Directors, Supervisors and Chief Executive in Shares, Underlying Shares, Securities, Equity Derivatives and/or Debentures of the Company and/or the Company's Associated Corporations

1. As at 30th June 2008, for each of the directors, supervisors and chief executive of the Company, in respect of the Company or its associated corporations (as defined under Part XV of the Securities and Futures Ordinance (the "SFO"), Chapter 571 of the Laws of Hong Kong:
 - (1) None of them held any interests and/or short positions in the shares, underlying shares, securities, equity derivatives and/or debentures as shown in the register maintained in accordance with section 352 of the SFO; and

- (2) None of them held any interests and/or short positions in the shares, underlying shares, securities, equity derivatives and/or debentures which is required to notify the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") in accordance with the Model Code for Securities Transactions by Directors of Listed Companies.
2. During the Period, none of the directors or supervisors of the Company is a director or employee of another company which held interests in the shares, underlying shares, securities, equity derivatives and/or debentures of the Company which is required to notify the Company and the Hong Kong Stock Exchange in accordance with division 2 and 3 of Part XV of the SFO.
3. No contracts of significance in relation to the Group's business to which the Company or any of its fellow subsidiaries or holding companies were a party and in which any of the Company's directors or supervisors had a material interest, whether directly or indirectly.

XIII. Share Capital Structure

During the Period, there was no change in the share capital structure of the Company. As at 30th June 2008, the share capital structure of the Company was as follows:

Types of Shares	Number of Shares	Percentage to Total Issued Share Capital
State shares	600,000,000	58.80%
H shares	420,400,000	41.20%
Total share capital	<u>1,020,400,000</u>	<u>100%</u>

XIV. Share Options

During the Period, the Company did not issue or grant any convertible securities, options, warrants or other similar rights.

XV. Substantial Shareholders

As at 30th June 2008, save as the Company's directors, supervisors and chief executive, the register of holders maintained by the Company pursuant to section 336 of the SFO showed that the following companies and persons had interests and/or short positions in the Company's shares, underlying shares, securities, equity derivatives and/or debentures:

	Beneficial Owners	Shares	Percentage to Total Issued Share Capital
1	Shenyang Public Utility Group Company Limited ("SPU")	600,000,000 State shares (unlisted shares)	58.80%
2	Shenyang Urban Infrastructure Facility Construction Investment Development Company Limited ("Shenyang Urban Construction") (Note 1)	600,000,000 State shares	58.80%
3	Beijing Beida Hi-tech Industry Investment Company Limited ("Beida Hi-Tech") (Note 2)	600,000,000 State shares	58.80%
4	Beijing Beida Gongxue Education Investment Company Limited ("Beida Gongxue") (Note 3)	600,000,000 State shares	58.80%
5	Beijing Beida Jade Bird Company Limited ("Beida Jade Bird") (Note 4)	600,000,000 State shares	58.80%
6	Beijing Beida Jade Bird Software System Company Limited ("Jade Bird Software") (Note 5)	600,000,000 State shares	58.80%
7	Beida Assets Management Company Limited ("Beida Assets") (Note 6)	600,000,000 State shares	58.80%
8	HKSCC Nominees Limited (Note 7)	418,749,990 H shares (listed shares)	41.04%

Notes:

1. Shenyang Urban Construction is a limited company established in the PRC. It holds 42.23% equity interest in SPU. Pursuant to section 316 of the SFO, Shenyang Urban Construction is regarded as holding interests in the underlying shares of the Company held by SPU.
2. Beida Hi-Tech is a limited company established in the PRC. It holds 50.00% equity interest in SPU. Pursuant to section 316 of the SFO, Beida Hi-Tech is regarded as holding interests in the underlying shares of the Company held by SPU.
3. Beida Gongxue is a limited company established in the PRC. It holds 76.9% equity interest in Beida Hi-Tech. Through Beida Hi-Tech, it holds 50% equity interest in SPU. Pursuant to section 316 of the SFO, Beida Gongxue is regarded as holding interests in the underlying shares of the Company held by SPU.
4. Beida Jade Bird is a limited company established in the PRC. It holds 70% equity interest in Beida Gongxue. Through Beida Gongxue and Beida Hi-Tech, it holds 50% equity interest in SPU. Pursuant to section 316 of the SFO, Beida Jade Bird is regarded as holding interests in the underlying shares of the Company held by SPU.
5. Jade Bird Software is a limited company established in the PRC. It holds 46% equity interest in Beida Jade Bird. Through Beida Jade Bird, Beida Gongxue and Beida Hi-Tech, it holds 50% equity interest in SPU. Pursuant to section 316 of the SFO, Jade Bird Software is regarded as holding interests in the underlying shares of the Company held by SPU.
6. Beida Assets is a state-owned company with limited liability established in the PRC and wholly owned by Beijing University. It holds 48% equity interest in Jade Bird Software. Through Jade Bird Software, Beida Jade Bird, Beida Gongxue and Beida Hi-Tech, it holds 50% equity interest in SPU. Pursuant to section 316 of the SFO, Beida Assets is regarded as holding interests in the underlying shares of the Company held by SPU.
7. As notified by HKSCC Nominees Limited, as at 30th June 2008, the following participants in the central clearance system had interests amounting to 5% or more of the total issued H shares of the Company as shown in the securities accounts in the central clearance system:
 - (1) Tai Fook Securities Company Limited as nominee holds 103,964,000 H shares, representing 24.73% of the issued H shares of the Company, of which Sino-French Water Development (Liaoning) Company Limited beneficially owned 88,146,000 H shares, representing 20.97% of the issued H shares of the Company.
 - (2) The Hongkong and Shanghai Banking Corporation Limited as nominee holds 50,955,000 H shares, representing 12.12% of the issued H shares of the Company.
 - (3) Shenyin Wanguo Securities (H.K.) Limited as nominee holds 28,346,000 H shares, representing 6.74% of the issued H shares of the Company.

Save as disclosed above, during the Period, the Company has not been notified of any interests and/or short positions in shares, underlying shares, securities, equity derivatives and/or debentures of the Company which are required to be recorded in the register maintained in accordance with section 336 of the SFO.

XVI. Dividend

During the Period, no dividend was paid. The Board resolved not to declare any interim dividend in 2008.

XVII. Connected Transactions

During the Period, the connected transaction of the Group was shown as follows:

Zhuhai Education rented properties and equipments of Zhuhai Education Park to Zhuhai School at a rental of RMB1,500,000. The Board considered that

1. the aforesaid connected transaction was conducted on normal commercial terms (by reference to terms of similar transactions conducted by similar entities in the PRC) in the ordinary and usual course of business of the Company in accordance with the terms of the agreement or terms that were no less favourable than those available to third parties and were fair and reasonable so far as the independent shareholders of the Company were concerned;
2. the amount of the connected transaction did not exceed the cap in respect of the waiver for the connected transaction granted by the Hong Kong Stock Exchange in prior period; and
3. in prior period, the waiver for the continuing connected transaction granted by the Hong Kong Stock Exchange has expired in 2006, the Company will obtain the approval from the independent Shareholders and the waiver for the connected transaction from the Hong Kong Stock Exchange as soon as possible.

XVIII. Compliance With The Code On Corporate Governance Practices Under The Listing Rules

Due to the suspension of trading and litigation, the Company has not fully complied with the Code on Corporate Governance Practices as set out in the Appendix 14 to the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") during the Period. The Directors will be committed to ensuring the Group to comply with the principles and provisions of the Code on Corporate Governance Practices in general.

XIX. Model Code for Securities Transactions By Directors of Listed Issuers

During the Period, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Code") in Appendix 10 of the Listing Rules to govern the purchase and sales of the Company's securities by the directors and supervisors of the Company. Each of the director or supervisor has replied to the Company in writing confirming that he/she has fully observed the Code and no violation of the Code has occurred.

XX. Independent Non-Executive Directors

In the extraordinary general meeting held on 28th November 2005, Mr. Choy Shu Kwan, Wilson, Mr. Cui Yan and Mr. Cai Lian Jun were elected as the independent non-executive director of the Company. Since Mr. Choy Shu Kwan, Wilson and Mr. Cui Yan have resigned in 2007, the number of independent non-executive directors is less than the minimum required by the Listing Rules. After the trading of the Company's shares is resumed, the Board will try its best to nominate new director to meet the requirements of Listing Rules and the Articles of Association of the Company. (Details please refer to the Company's announcement dated 6th October 2008)

XXI. Audit Committee

In the extraordinary general meeting held on 28th November 2005, Mr. Choy Shu Kwan, Wilson, Mr. Cui Yan and Mr. Cai Lian Jun were elected as the independent non-executive directors of the Company and form the Audit Committee. Since Mr. Choy Shu Kwan, Wilson and Mr. Cui Yan have resigned as independent non-executive directors in 2007, the Audit Committee of the Company currently only comprises of Mr. Cai Lian Jun.

On 17th September 2008, Mr. Lam Tsan Wing Alexander, Mr. Wong Kai Tat and Mr. Chan Ming Sun Jonathan (together as the "Committee Members") were appointed by the Company as the members of the resumption application committee to expedite the implementation of the resumption proposal. The Committee Members will be appointed as the independent non-executive directors of the Company and will form a new Audit Committee upon the trading of the Company's shares resumed. (Details please refer to the Company' announcement dated 6th October 2008)

XXII. Material Litigation

During the Period, there is no new material litigation involving the Company. Litigation matters in prior period have already been settled, or have achieved further development.

(1) The Claim from Hua Jin

Since Hua Jin have discharge the guarantee liability and repaid the principle and the interest thereof of RMB56,461,630 to the Guangdong Development Bank Shenyang branch for the Company during the prior period, in September 2007, Hua Jin made a claim against the Company, SPU and Beida Jade Bird, the guarantee parties, for the sum it paid. Under the mediation of the Higher People's Court of Liaoning Province, Hua Jin, the Company, Building Management Company, SPU, Beida Jade Bird and Mingyude reached a settlement. The Higher People's Court of Liaoning Province issued the Civil Mediation Agreement (2007) Liao Min San Chu Zi No.36 民事調解書(2007)遼民三初字第36號 on 17th October 2007, pursuant to which (1) the Company was liable to repay RMB32,160,000 to Hua Jin, the plaintiff, before 30th November 2007 and Mingyude jointly guaranteed the repayment; (2) the Company was liable to repay RMB24,300,000 to Hua Jin before 25th December 2007 and Building Management Company jointly guaranteed the repayment by the properties of Cosmo International Mansion;

On 17th November 2007, Mingyude repaid RMB32,160,000 to Hua Jin for the Company as the Company failed to discharge the liability of repayment. The Company repaid the assistance provided by Mingyude and the interest accrued to Mingyude in August 2008.

In June 2008, Building Management Company entered the Agreement of Settlement of Debts by Properties (以房抵債協議) with the Company, Hua Jin, SPU and Beida Jade Bird, pursuant to which the residential units of Cosmo International Mansion with a value of RMB24,300,000 were sequestered to settle the RMB24,300,000 debts of the Company. The transfer of ownership of these residential units is under processing. (Details please refer to the Company' announcement dated 26th September, 2008)

(2) The Claim from Shanghai Hanhua

In July 2006, No.6 Construction Work Company of No.4 Works Bureau of China Construction ("China Construction") commenced legal action against Shenyang Real Estate for the unpaid balance of construction payment. The parties reached a settlement after negotiation. The Intermediate People's Court of Shenyang issued the Civil Mediation Agreement (2006) Liao Zhong Min (2) Fang Chu Zi No.129 民事調解書(2006)遼中民(2)房初字第129號 in 14th February 2007, pursuant to which Shenyang Real Estate was liable to pay China Construction the unpaid balance of construction payment and interest thereof of RMB5,830,700 before 10th April 2007, and Shanghai Hanhua guaranteed the payment.

Owing to the fact that the Shenyang Real Estate did not implement the repayment, Shanghai Hanhua discharged the liability of guarantee and paid the unpaid balance of construction payment and interest thereof for Shenyang Real Estate to China Construction in May 2007.

Since Shenyang Real Estate failed to pay the assistance to Shanghai Hanhua within the designated period, Shanghai Hanhua then made a claim to the Intermediate People's Court of Shenyang for the repayment of the assistance and applied for the enforcement against Shenyang Real Estate according to the Civil Mediation Agreement (2006) Liao Zhong Min (2) Fang Chu Zi No.129 民事調解書(2006)遼中民(2)初字第129號. In the process of execution, the parties reached a settlement and agreed to pay off all the debts with the 70% equity interest in Shenyang Education held by Shenyang Real Estate, the executed party, at a price of RMB5,866,150. The parties signed the Agreement of Settlement of Debts by Equity Interest (股權抵債協議書) on this matter.

On 15th January 2008, the Intermediate People's Court of Shenyang issued the Civil (Execution) Judgement Order (2007) Shen Fa Zhi Zi No.577 民事(執行)裁定書(2007)沈法執字第577號 and confirmed the Agreement of Settlement of Debts by Shareholding (股權抵債協議書) signed by the parties is legal and effective, the parties may process the transfer of equity interest, and the Civil Mediation Agreement (2006) Liao Zhong Min (2) Fang Chu Zi No.129 民事調解書(2006)遼中民(2)房初字第129號 issued by the Intermediate People's Court of Shenyang ceased to be effective.

(3) The Claim from Beida Jade Bird

In December 2006, Beida Jade Bird's assets have been auctioned by the Court and the proceeds were applied to settle the assistance provided by Hua Jin to the Company due to the litigation in respect of the loan from Shenzhen Development Bank Dalian Branch. In May 2007, Beida Jade Bird commenced legal action against the Company and SPU and Shenzhen Jingmei, the guarantors, for the said amount. Up to 31st August 2008, the Company has repaid approximately RMB101,000,000 to Beida Jade Bird. The unpaid balance of the claim of Beida Jade Bird and the interest thereof amount to approximately RMB80,000,000.

On 17th September 2008, Beida Jade Bird executed an undertaking to the Company and confirmed that it will not enforce to recover the debts from the Company within two years given the liquidity problem of the Company. SPU and Shenzhen Jingmei executed an undertaking to the Company and confirmed that they will not enforce to recover the debt from the Company within two years when they discharge the guarantee liabilities to the Beida Jade Bird and the assuming party given the liquidity problem of the Company. (Details please refer to the Company' announcement dated 26th September, 2008)

XXIII. Suspension of Trading

Dealing in the H shares of the Company has been suspended since December 2004 due to the litigation of bank loans. In July 2007, the Stock Exchange announces that the Company will be put into the second stage of the Delisting Procedures. In January 2008, the Stock Exchange announces that the Company will be put into the third stage of the Delisting Procedures.

In July 2008, the Company made an application to the Stock Exchange for the extension of the submission of resumption proposal. The Stock Exchange did not approve the application and resolved to delist the Company. The Company then made an application to the review committee of the Stock Exchange for the review of the delisting decision.

In August 2008, SPU, the Company and White Knight entered the Restructuring Agreement. On 24th October 2008, the review committee held a hearing in for the delisting of the Company.

On 5th November, 2008, the Listing (Review) Committee, having considered the submissions (both written and oral) made by the Company and the Listing Division, including their respective supplemental written submissions, decided to uphold the decision of the Listing Committee that the listing of the Company's shares be cancelled upon the expiry of the third stage of the delisting in accordance with Practice Note 17 to the Listing Rules.

The Company will make a further application to the Listing Appeals Committee of the Stock Exchange for the final review of the delisting decision.

XXIV. Extraordinary General Meetings

During the Period, no extraordinary general meeting was held by the Company.

XXV. Company Information

Legal address: No.1-4, 20A, Central Street
Shenyang Economic and Technological Development Zone
Shenyang, the PRC

Place of business: Jinmao International Apartment 14/F
No.1 Xiao Dong Road, Da Dong District, Shenyang
the PRC

Postal code: 110041

Tel: 8624-24351041

Fax: 8624-24333288

Website: www.sgyfz.com.cn

XXVI. Publication of Further Information on the Website of the Hong Kong Stock Exchange

The Company will publish its interim report on the Hong Kong Stock Exchange's website at an appropriate time as required by paragraph 46 of Appendix 16 to the Listing Rules.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2008

	Note	Six months ended 30th June	
		2008 (Unaudited) RMB'000	2007 (Unaudited) RMB'000
Turnover	3	38,117	4,238
Other operating income		2,110	–
Cost of properties sold		(38,866)	(4,910)
Taxes on sales of properties		(83)	(176)
Other operating expenses		(7,376)	(15,064)
		<hr/>	<hr/>
Loss from operations		(6,098)	(15,912)
Finance costs		(13,739)	(6,756)
Gain on disposal of subsidiaries		157,909	–
		<hr/>	<hr/>
Profit/(loss) before taxation		138,072	(22,668)
Taxation	4	–	(463)
		<hr/>	<hr/>
Profit/(loss) after taxation		138,072	(23,131)
		<hr/>	<hr/>
Profit/(loss) attributable to:			
Shareholders of the Company		138,094	(22,518)
Minority interests		(22)	(613)
		<hr/>	<hr/>
		138,072	(23,131)
		<hr/>	<hr/>
Earnings (loss) per share – basic	6	RMB0.135	RMB(0.02)
		<hr/>	<hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2008

	Note	As at 30th June 2008 (Unaudited) RMB'000	As at 31st December 2007 (Audited) RMB'000
Non-current assets			
Plant and equipment		11,308	146,795
Investment properties		254,977	255,390
Prepaid lease payments on land use rights		–	86,752
Available-for-sale financial assets		20,000	20,000
Other non-current assets		255	–
		286,540	508,937
Current assets			
Properties held for sale		441,400	484,987
Inventories		–	341
Accounts receivable	7	1,500	–
Amount due from the holding company		54,268	54,268
Prepaid lease payments on land use rights		–	2,564
Prepayments		1,064	3,039
Other receivables	8	280,816	31,915
Bank balances and cash		380	4,478
		779,428	581,592
Current liabilities			
Accounts payable	9	32,391	43,080
Receipts in advance		24,373	44,089
Other payables and accrued charges		322,783	411,821
Tax payables		–	1,168
Bank loans – repayable within one year	10	20,000	62,000
Provision for potential liabilities		2,043	2,043
		401,590	564,201
Net current assets		377,838	17,391
Total assets less current liabilities		664,378	526,328

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

As at 30th June 2006

		As at 30th June 2008 (Unaudited) RMB'000	As at 31st December 2007 (Audited) RMB'000
	Note		
Equity			
Share capital		1,020,400	1,020,400
Reserves		(412,912)	(550,984)
Shareholders' equity		607,488	469,416
Minority interests		34,335	34,357
Total equity		641,823	503,773
Non-current liabilities			
Deferred taxation	11	22,555	22,555
		664,378	526,328

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2008 (Unaudited)

	Equity attributable to shareholders of the Company						
	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare reserve	Accumulated profits	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2007	1,020,400	323,258	103,582	-	(1,093,482)	35,931	389,689
Loss for the Period	-	-	-	-	(22,518)	(613)	(23,131)
At 30th June 2007	<u>1,020,400</u>	<u>323,258</u>	<u>103,582</u>	<u>-</u>	<u>(1,116,000)</u>	<u>35,318</u>	<u>366,558</u>
At 1st January 2008	1,020,400	323,258	103,582	-	(977,824)	34,357	503,773
Profit for the Period	-	-	-	-	138,072	(22)	138,050
At 30th June 2008	<u>1,020,400</u>	<u>323,258</u>	<u>103,582</u>	<u>-</u>	<u>(839,752)</u>	<u>34,335</u>	<u>641,823</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2008

	30th June 2008 (Unaudited) RMB'000	30th June 2007 (Unaudited) RMB'000
Net cash generated from (used in) operating activities	702	34,094
Net cash generated from (used in) investing activities	108,980	97,675
Net cash (used in) generated from financing activities	(110,987)	(119,295)
Increase (decrease) in cash and cash equivalents	(1,305)	12,474
Cash and cash equivalents at the beginning of the Period	1,685	9,444
Cash and cash equivalents at the end of the Period	<u>380</u>	<u>21,918</u>
Cash and cash equivalents at the end of the Period, analysis of Bank balances and cash	<u>380</u>	<u>21,918</u>
	<u>380</u>	<u>21,918</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June 2008

1. Accounting Policies and Basis of Preparation

The unaudited condensed consolidated financial statements of the Group has been prepared in accordance with new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKAS") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, which are effective for accounting periods beginning on or after 1st January 2005. The accounts have been prepared under historical cost convention, except for certain financial instruments which are measured at their fair values.

The preparation of the unaudited condensed consolidated financial statements in conformity with the HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the unaudited condensed financial statements include provision for doubtful debts, provision for taxation, provision for asset impairment and fair values of financial assets at fair value through profit or loss.

2. Adoption of Going Concern Basis

The Group recorded a net profit for the year of RMB138,072,000 for the financial year ended 30th June 2008. The management of the Company has taken the following measures:

- (i) Carry out debt restructuring with its creditors. Up to the date of approval of these consolidated financial statements, the Group has reached agreements with its creditors in respect of debt restructuring and the court litigations have been discharged. Therefore, these consolidated financial statements have been prepared on the assumption that the Group will continue to operate as a going concern;
- (ii) The management of the Company is considering to strengthen the capital base of the Company and provide immediate cash flow through various financing activities and capital restructuring, including, but not limited to, private placement of the Company's shares;
- (iii) The management of the Company continues to take action to strengthen cost control in respect of various administrative and other operating expenses, and is actively seeking new investment and business opportunities to pursue profitable businesses that would bring positive cash flow.

The management of the Company believes 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 working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, the management of the Company is of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis.

3. Turnover and Segment Information

For management purposes, the Group is currently organised into two major 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; and investment and management of education projects.

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

For the six months ended 30th June 2008 (Unaudited)

	Property development RMB'000	Education projects RMB'000	Cemetery development RMB'000	Others RMB'000	Consolidated RMB'000
Turnover	<u>36,617</u>	<u>1,500</u>	<u>–</u>	<u>–</u>	<u>38,117</u>
Segment results	<u>(843)</u>	<u>(2,367)</u>	<u>–</u>	<u>–</u>	<u>(3,210)</u>
Unallocated corporate expenses					<u>(3,248)</u>
Profit/(Loss) from operations					(6,458)
Finance costs					(13,379)
Gain on disposal of a subsidiary					157,909
Profit before taxation					138,072
Taxation					<u>–</u>
Profit after taxation					<u>138,072</u>

For the six months ended 30th June 2007 (Unaudited)

	Property development RMB'000	Education projects RMB'000	Cemetery development RMB'000	Others RMB'000	Consolidated RMB'000
Turnover	<u>–</u>	<u>2,000</u>	<u>2,053</u>	<u>185</u>	<u>4,238</u>
Segment results	<u>(868)</u>	<u>(973)</u>	<u>(6,806)</u>	<u>(5,873)</u>	(14,520)
Unallocated corporate expenses					<u>(1,392)</u>
Operating loss					(15,912)
Finance costs					<u>(6,756)</u>
Loss before taxation					(22,668)
Taxation					<u>(463)</u>
Loss after taxation					<u>(23,131)</u>

4. TAXATION

Six months ended 30th June

2008	2007
(Unaudited)	(Unaudited)
RMB'000	RMB'000

Taxation comprises :

The Company and its subsidiaries

– PRC enterprise income tax	–	(463)
– Deferred taxation	–	–
	<u>–</u>	<u>(463)</u>

* "PRC" represents the People's Republic of China.

No provision for Hong Kong Profits Tax had been made as the Group's income neither arose in nor was derived from Hong Kong.

5. DIVIDENDS

The Board resolved not to declare any dividend for the current interim period.

6. EARNINGS PER SHARE

The calculation of earnings per share for the period is based on the earnings attributable to shareholders of the Company for the period of RMB138,094,000 (loss for the six months ended 30th June 2007: RMB22,518,000) and the number of 1,020,400,000 shares (2007: 1,020,400,000 shares) in issue during the period.

No diluted earnings/loss per share are presented as the Company has no dilutive potential shares outstanding for both periods.

7. ACCOUNTS RECEIVABLE

As at the balance sheet date, the Group's accounts receivables mainly represent the rental receivable for leasing of campus and equipment.

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

	At 30th June 2008	At 31st December 2007
	RMB'000	RMB'000
0-30 days	250	–
31-60 days	250	–
61-365 days	1,000	–
1-2 years	–	–
Over 2 years	12,518	12,518
	<hr/>	<hr/>
	14,018	12,518
Provision for bad debts	(12,518)	(12,518)
	<hr/>	<hr/>
Net amount of accounts receivables	1,500	–
	<hr/> <hr/>	<hr/> <hr/>

The management considered the carrying amount of accounts receivables approximate their fair value.

8. OTHER RECEIVABLES

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

The management considered the carrying amount of other receivables approximate their fair value.

9. ACCOUNTS PAYABLE

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

	At 30th June 2008	At 31st December 2007
	RMB'000	RMB'000
0-90 days	-	-
91-180 days	-	-
180-365 days	-	-
1-2 years	-	-
Over 2 years	32,391	43,080
	<hr/>	<hr/>
	32,391	43,080
	<hr/> <hr/>	<hr/> <hr/>

The management considered the carrying amount of accounts payables approximate their fair value.

10. BANK LOANS

During the period, the bank loans of RMB42,000,000 due on 17th May 2008 have been transferred due to the transfer of Shenyang Education Park. The Group has no new bank loans.

11. DEFERRED TAXATION

	Fair value adjustment on business combination
	RMB'000
At 1st January 2007	23,168
Credited to income statement	-
	<hr/>
At 30th June 2007	23,168
Credited to income statement	(613)
	<hr/>
At 1st January 2008	22,555
Credited to income statement for the period	-
	<hr/>
At 30th June 2008	22,555
	<hr/> <hr/>

12. SHARE CAPITAL

	At 30th June 2008 RMB'000	At 31st December 2007 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

There were no movements in the share capital of the Company in both the current and the prior interim reporting periods.

13. CONTINGENT LIABILITIES

The Group provided guarantee of RMB9,000,000 to the bank for 珠海科教's bank borrowings. The fair value of the guarantee did not account for as financial liabilities in Consolidated Balance Sheet as the management considered the fair value of this guarantee is insignificant.

In 2007, the Company provided a guarantee for the loan of Shenyang Development Beida Education and Science Park Limited ("Shenyang Education") advanced by CITIC Bank Shenyang branch. As at 30th October 2008, the balance of the loan amounted to RMB33,600,000.

During the Period, Shenyang Education ceased to be the subsidiary of the Company. The Company is negotiating with CITIC Bank Shenyang branch to cancel the guarantee.

14. ASSETS SECURED/PLEDGED

From June to November 2007, the Company and Shenyang Real Estate have entered Assumption and Equity Pledge Agreement and Extension of Credit and Equity Pledge Supplementary Agreement with Beijing Mingyude Business and Trade Company Limited ("Mingyude"), pursuant to which the 80% equity interest in Beijing Diye held by Shenyang Real Estate was pledged as security, and Mingyude paid the construction payment of RMB12,870,000 for Shenyang Real Estate and paid the debt due to Hua Jin of RMB32,160,000 for the Company.

On 31st July 2008, the Company and Shenyang Real Estate have entered Debt Repayment and Equity Pledge Release Agreement with Mingyude, pursuant to which the parties determined the schedule of repayment and equity pledge release. As at 31st August 2008, the Company and Shenyang Real Estate have fully repaid the assistance and interest thereof to Mingyude, and the 80% equity interest in Beijing Diye was recovered by the Company.

By order of the board of

Wang Hui

Director