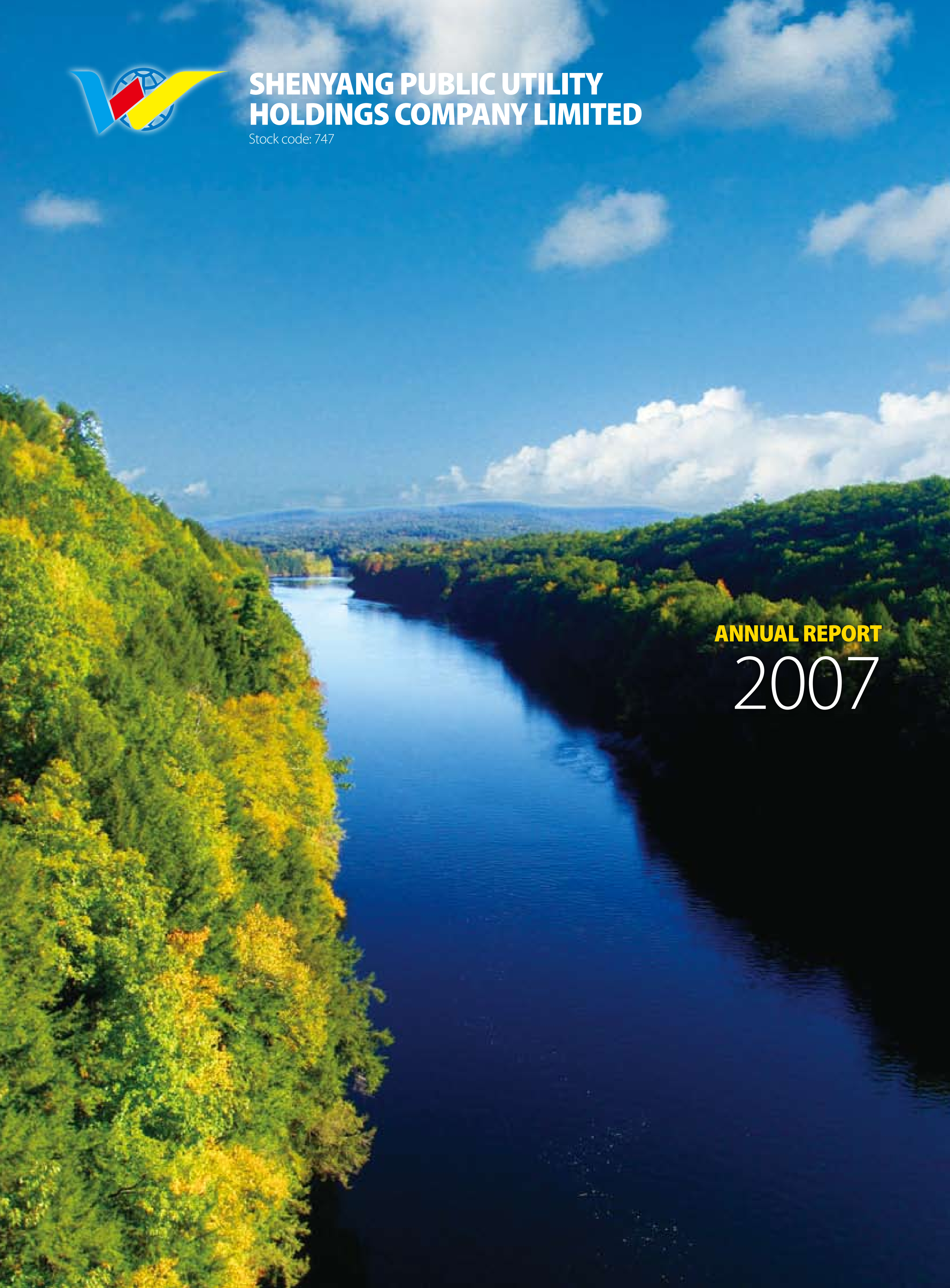
SHENYANG PUBLIC UTILITY HOLDINGS COMPANY LIMITED

Stock code: 747



ANNUAL REPORT

2007

Contents

Company Profile

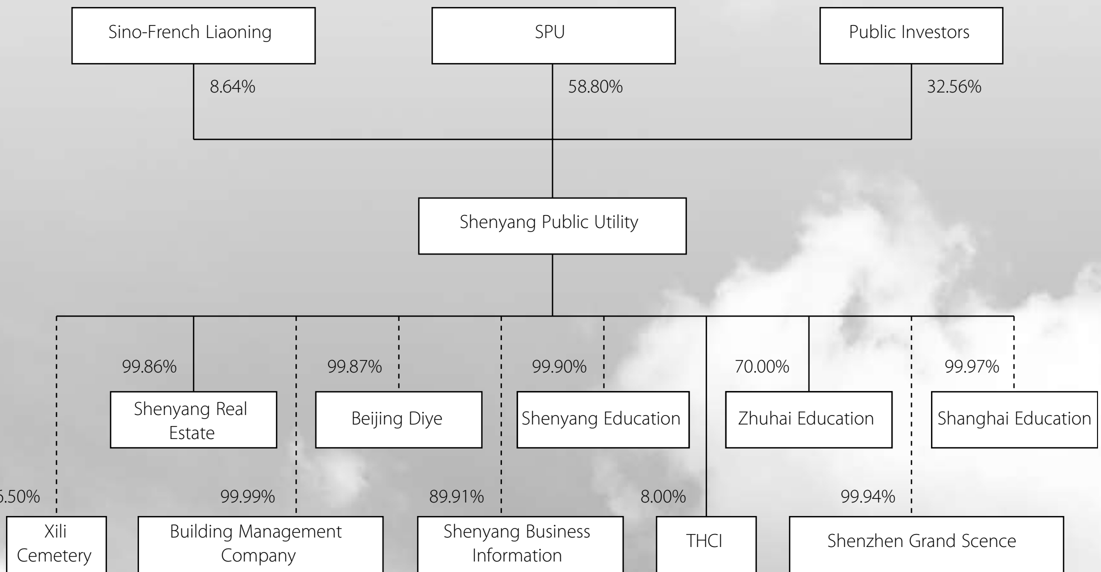
1. THE FORMATION AND PRINCIPAL BUSINESSES OF THE COMPANY

Shenyang Public Utility Holdings Company Limited ("Shenyang Public Utility" or the "Company") was established in Shenyang, the People's Republic of China (the "PRC") on 2nd July 1999 as a joint stock limited company by the promoter method of establishment, with Shenyang Public Utility Group Company Limited ("SPU") acting as the sole promoter.

In December 1999, the Company issued 420,400,000 H shares of par value of RMB1.00 each at an issue price of HK$1.70, to international investors by way of a placing and an offer to the public. On 16th December 1999, the Company's H shares were listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). At present, the registered capital of the Company is RMB1,020,400,000.

The Company and its subsidiaries (together "the Group") is a real estate developer, education business investor and cemetery developer. It is principally engaged in the development, sale and leasing of real estate, investment in and management of education and development and sale of cemetery.

2. EQUITY INTERESTS



Note 1: —— represents the interests directly held by the Company,
- - - represents the total interests directly and indirectly held by the Company;

Note 2:

Sino-French Liaoning: Sino-French Water Development (Liaoning) Company Limited, a strategic investor of the Company;

Shenyang Real Estate: Shenyang Development Real Estate Company Limited, in which the Company directly holds 99.86% equity interests, is a real estate developer in Shenyang;

Company Profile

Shenyang Education:	Shenyang Development Beida Education Science Park Company Limited, in which the Company directly holds 30.00% equity interests and Shenyang Real Estate directly holds 70.00% equity interests. It is an education investor in Shenyang in which the Company holds 99.90% equity interests in total;
Zhuhai Education:	Zhuhai Beida Education Science Park Company Limited, in which the Company directly holds 70.00% equity interests, is an education investor in Zhuhai;
Shanghai Education:	Shanghai Beida Jade Bird Education Investment Company Limited, in which the Company directly holds 80.00% equity interests and Shenyang Real Estate directly holds 20.00% equity interests. It is an education investor in Shanghai in which the Company holds 99.97% equity interests in total;
Beijing Diye:	Beijing Diye Real Estate Development Company Limited, in which Shenyang Real Estate directly holds 80.00% equity interests and Shenyang Education directly holds 20.00% equity interests. It is a real estate developer in Beijing in which the Company holds 99.87% equity interests in total;
Building Management Company:	Shenyang Pollon Finance Building Management Company Limited, in which the Company directly holds 92.50% equity interests and Shenyang Real Estate directly holds 7.50% equity interests. It is a real estate developer in Shenyang in which the Company holds 99.99% equity interests in total;
Shenyang Business Information:	Shenyang Beida Jade Bird Business Information System Company Limited, in which Shenyang Education directly holds 90.00% equity interests and the Company indirectly holds 89.91% equity interests, is an application software developer;
Shenzhen Grand Scence:	Shenzhen Grand Scence Investment Development Company Limited, in which the Company directly holds 50.00% equity interests, Shenyang Real Estate holds 25.00% equity interests and Shenyang Education holds 25.00% equity interests respectively, is an industrial investor in Shenzhen in which the Company holds 99.94% equity interests in total;
THCI:	Tsinghua Unisplendour Hi-Tech Venture Capital Inc., an investment company in which the Company directly holds 8.00% equity interests.

Note 3:

Other assets:	The Company has the following assets with a lower investment value or no longer belong to the Company, including:
Shenyang Property:	Shenyang Development Property Management Company Limited, in which the Company directly holds 1.00% equity interests and Shenyang Real Estate holds 99.00% equity interests. It is a property management company in Shenyang in which the Company holds 99.86% equity interests in total.
Jingmei Industrial:	Shenzhen Jingmei Industrial Development Company Limited, in which the Company directly holds 95% equity interests. (Jingmei Industrial has ceased to be subsidiary of the Company since 31st December 2007);
Xili Cemetery:	Shenzhen Xili Baoen Fu Di Cemetery Company Limited, in which Jingmei Industrial directly holds 70.00% equity interests. Jingmei Industrial is an industrial investor in Shenzhen (Xili Cemetery has ceased to be subsidiary of the Company since 31st December 2007);

Financial Highlights

1. RESULTS

For the year ended 31st December 2007, the Group recorded a total revenue and net consolidated loss of approximately RMB9,948,000 (2006: RMB18,067,000) and RMB112,319,000 (2006: loss of RMB80,611,000) respectively.

Continuing Operation

Approximately 71.5% of the total revenue of the Group, which amounted to approximately RMB7,116,000 (2006: RMB16,465,000), was derived from the continuing operation of the Group. The revenue from continuing operation for the year were derived from development, sale, rental and management of properties and education projects. The revenue from continuing operation for the year has decreased by approximately 56.8% over last year.

The finance costs for the year decreased by approximately 69.04% to RMB23,577,000 (2006: RMB34,149,000).

Discontinued Operation

The discontinued operation contributed a revenue of approximately RMB2,832,000 (2006: RMB1,602,000) to the Group for the year from 1st January to 31st December 2007. Net of the gain of approximately RMB198,436,000 resulted from the disposal of subsidiaries, the discontinued operation recorded a net loss of approximately RMB31,560,000 (2006: RMB17,333,000).

Main reasons for the deteriorated results are set out in the section headed "Directors' Statement" and "Management Discussion and Analysis".

2. SUMMARY OF CONSOLIDATED INCOME STATEMENT

The financial highlights of the Group, including both continued and discontinued operations, for the five years ended 31st December 2007 are set out as follows:

	2007 **RMB'000**	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Turnover	**7,116**	16,465	91,221	35,312	169,116
Other income	**576**	3,108	245	5,160	4,351
Total income	**7,692**	19,573	91,466	40,472	173,467
(Loss) profit from operations	**–**	–	–	–	13,569
Finance costs	**(23,577)**	(34,149)	(42,995)	(40,471)	(6,023)
Share of results of a jointly controlled entity	**–**	–	–	17,487	24,288
Profit on disposal of a subsidiary	**198,436**	–	–	2,821	–
Transfer of prepayment for purchase of land and profit on disposal of other current assets	**–**	19,575	–	–	–
(Loss) profit before taxation	**(55,170)**	(63,891)	(1,288,602)	(200,831)	31,834
Taxation	**613**	613	39,090	785	(14,380)
Loss for the year from discontinued operations	**(31,560)**	(17,333)	–	–	–
Profit (loss) after taxation	**112,319**	(80,611)	(1,249,512)	(200,046)	17,454
Minority interests	**(3,338)**	(3,906)	(20,382)	(2,487)	379
Profit (loss) attributable to shareholders	**115,657**	(76,705)	(1,229,130)	(197,559)	17,833
Earnings (loss) per share	**RMB 0.11**	RMB (0.08)	RMB (1.20)	RMB (0.19)	RMB 0.02

3. SUMMARY OF CONSOLIDATED BALANCE SHEET

RMB'000

	As at 31st December 2007	As at 31st December 2006	As at 31st December 2005	As at 31st December 2004	As at 31st December 2003
Property and equipment, investment properties and prepaid lease payments on land use rights	**488,937**	567,033	643,673	931,372	547,243
Interests in a jointly controlled entity	**–**	–	–	–	103,380
Goodwill	**–**	–	–	609,372	62,638
Deposits paid for acquisitions of subsidiaries	**–**	–	–	–	391,100
Investment securities	**–**	–	–	20,000	20,000
Available-for-sale financial assets	**20,000**	20,000	20,000	–	–
Long-term receivables	**–**	–	–	–	58,234
Current assets	**581,591**	752,813	918,489	1,463,318	1,558,573
Current liabilities	**564,201**	926,989	1,074,881	1,070,379	660,223
Net current assets (liabilities)	**17,390**	(174,176)	(156,392)	392,939	898,350
	526,327	412,857	507,281	1,953,683	2,080,945
Capital resources:					
Share capital	**1,020,400**	1,020,400	1,020,400	1,020,400	1,020,400
Reserves	**(550,985)**	(666,642)	(589,937)	639,193	837,180
Minority interests	**34,357**	35,931	39,837	60,219	110,709
Non-current liabilities	**22,555**	23,168	36,981	233,871	112,656
	526,327	412,857	507,281	1,953,683	2,080,945

Chairman and Executive Directors' Statement

Dear shareholders,

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

Due to the macro-economic control policy issued by the PRC central government in recent years, the Group's real estate development business was affected considerably. In addition, the demand from banks and litigations further increased the challenges on the Company. Given this situation, the Group made its great effort to settle the litigations with banks, speeded up the last stage improvement of existing projects, and maximized the use of existing assets. During the Year, the Group settled the legal action with Guangdong Development Bank Shenyang branch over the loan, accelerated the claim from Liaoning Hua Jin Hua Gong Group Company Limited over the assistance, and resolved the dispute with Shenyang Real Estate over the unpaid balance of construction payment, so as to provide a normal operating environment for the Group. During the Year, the Group continued to speed up the last stage improvement of construction and completion and inspection of uncompleted projects, and has made some progress.

During the Year, the Group strived to resume the trading in the H shares of the Company and engaged a financial adviser to accelerate the preparation of the resumption proposal.

Save for the negative impact of the PRC's macro-economic control policies and the demand from banks, we must admit, the main cause of the Group's present situation was the underperformance in our operating management and internal control system. All these require improvements in the near future.

Shenyang Public Utility Holdings Company Limited
An Mu Zong
Executive Directors

Shenyang, the PRC, 24th October 2008

Profiles of the Management Team

EXECUTIVE DIRECTORS:

Mr. Xu Er Hui, born in February 1966, is the chairman of the Company. Mr. Xu is also the chairman of Beijing Beida Education Investment Company Limited. Mr. Xu graduated from University of Marketing and Distribution Sciences (Japan). Mr. Xu has been an executive director of the Company since 11th October 2002, and resigned from his office as an executive director and chairman of the Company on 5th May 2007.

Mr. An Mu Zong, born in April 1964. Mr. An graduated from Beihang University (北京航空學院) in June 1987. He is the vice-president of the Company. Mr. An has extensive experience in the development of real estate project and corporate management. Mr. An has been an executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

Mr. Liu Chang Lin, born in May 1953. Mr. Liu graduated from Department of Chinese Language and Literature, Liaoning University (遼寧大學) in 1984. In 2002, He graduated from Northeastern University with master's degree, and obtained a master's degree in Business Administration of Honolulu University, USA in the same year. From May 1997 onwards, Mr. Liu has worked as the deputy head of the Shenyang Municipal Chamber of Commerce (瀋陽市經貿委), the deputy head of the Shenyang Municipal State-owned Assets Supervision and Administration Bureau (瀋陽市國有資產管理局), the deputy head of Shenyang Finance Bureau (瀋陽市財政局) and the deputy head of State-Owned Assets Supervision and Administration Commission (瀋陽市國資委). Mr. Liu has extensive experience in capital operations and finance management. Mr. Liu was appointed as an executive director of the Company on 28th November 2005, and resigned from his office as an executive director of the Company on 1st March 2007.

Mr. Wang Se, born in February 1960, is a senior economist and secretary to the board of directors of the Company. Mr. Wang graduated from Northeast Heavy Machinery Institute (中國東北重型機械學院) in the PRC in 1982 with a bachelor's degree in science and also obtained a master's degree in economics in 1992 from Liaoning University. From that date to the establishment of the Company, he served as the section head in Shenyang Construction Investment Company (瀋陽市建設投資公司). Mr. Wang has extensive experience in corporate reorganisation, assets management and investment. Mr. Wang was appointed as an executive director of the Company on 2nd July 1999, and resigned from his office as an executive director and secretary to the board of directors of the Company on 5th May 2007.

Mr. Wang Zai Xing, born in November 1970. Mr. Wang graduated from Beijing Forestry University (北京林業大學) in June 1993 with a bachelor's degree in statistics. Since March 1999, he has been a financial director and financial manager of Beijing Beida Jade Bird Company Limited ("Beida Jade Bird"). Mr. Wang has extensive experience in corporate reorganisation, asset appraisal and auditing. Mr. Wang has been an executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

NON-EXECUTIVE DIRECTORS:

Mr. Shi Jian Ming, born in September 1965. He has been appointed as the chief financial officer in Sino-French Holdings (Hong Kong) Limited since 2001. Mr. Shi Jian Ming was the senior auditor of PricewaterhouseCoopers, the chief accountant of 怡和安全護衛有限公司 and the assistant to chief financial officer of Jardine OneSolution (HK) Limited. Mr. Shi Jian Ming graduated from the University of Hong Kong with a bachelor's degree in Social Sciences and Queensland University of Technology, Australia, with Master of Commerce. He is also a member of the Hong Kong Institute of Certified Public Accountants. Mr. Shi had extensive experience in finance, investment management and financial business. Mr. Shi was the non-executive director of the Company on 20th September 2005. Mr. Shi passed away from illness during January, 2007.

Mr. Deng Yan Bin, born in August 1970, is an accountant. Mr. Deng graduated with a bachelor's degree in economics from Renmin University of China (中國人民大學) in March 1996, majoring in accounting. Mr. Deng works in the Company. He has extensive experience in finance management and investment management. Mr. Deng has been a non-executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

Mr. Lin Dong Hui, born in December 1967, is an economist. Mr. Lin graduated from the China Academy of Social Science (中國社會科學院) in September 1998 with a master's degree in investment management. During the period from 1995 to July 1999, he worked as deputy division head of Shenyang Construction Investment Company. During the period from 1999 to 2002, he worked as the head of the office for the board of directors of the Company. He is the head of the office for the president of the Company. Mr. Lin has been a non-executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

Mr. Wang Hui, born in May 1975. Mr. Wang graduated from Peking University (北京大學) in June 2001 with a master's degree in economics. Mr. Wang has worked in the Company since March 2002. Mr. Wang has a certain experience in corporate operation, reorganization, and mergers and acquisitions. Mr. Wang has been a non-executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

Dr. Michel P. Detay, born in June 1956. He has worked in the Suez Group since 1980. During the period from 1993 to 1996, he served as general manager for the headquarters of Lyonnaise des Eaux in western France. From 1996 to 1999 he was president and chief executive officer of Maynilad Water Services (a subsidiary of Suez Group in the Philippines). From 1999 to 2002 he was senior vice president, and managed the project development department of Ondeo Services (water services subsidiary of Suez Group). He is currently the executive vice president of Group in the Asia-Pacific Region. Dr. Detay was appointed as a non-executive director of the Company on 11th October 2002, and resigned from his office as a non-executive director of the Company on 22nd January 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS:

Mr. Choy Shu Kwan, Wilson, born in February 1955, is the managing director of the asset management department of CITIC Capital Markets Limited and the executive director of the CITIC Capital Active Partner Fund Limited. Mr. Choy graduated from the University of Western Ontario of Canada with a bachelor's degree (honours) in business administration in 1979. Mr. Choy also obtained an executive master's degree in business administration from the University of Western Ontario of Canada in 2001. From 1980 onwards, he had worked with Barclays Bank PLC of the UK, Bank of Boston of the US, Royal Bank of Canada, First Chicago Bank of the US and CITIC Ka Wah Bank. Mr. Choy has more than 20 years of extensive experience in financial business and investment management. Mr. Choy was appointed an independent non-executive director and a member of audit committee of the Company on 11th May 2001, and resigned from his office as an independent non-executive director of the Company on 8th June 2007.

Mr. Cui Yan, born in February 1965, is currently the general manager and deputy party secretary of Chang Bai Calculator Group Company. Mr. Cui graduated from Nanjing Aviation Institute in the PRC with a bachelor's degree in engineering in 1987. Since 1987, Mr. Cui had worked in Shenyang Aviation Engine Institute, Chang Bai Group Hong Kong Office, Chang Bai Group Import and Export Company, Chang Bai Calculator Company Limited and Chang Bai Calculator Group Company. Mr. Cui has extensive experience in aviation engine design and foreign economy and trade business as well as enterprise management. Mr. Cui was appointed an independent non-executive director and a member of audit committee of the Company on 15th November 2004, and resigned from his office as an independent non-executive director of the Company on 1st February 2007.

Mr. Cai Lian Jun, born in December 1950, is a senior accountant. Since 1992, Mr. Cai had worked in the Management Committee of Beijing DaXing Industrial Development Zone (北京市大興工業開發區管理委員會) and served as the party secretary, the head of management committee and general manager in Beijing DaXing Industrial Development Zone Operation General Corporation (北京市大興工業開發區經營總公司). He was the secretary of Industry Committee of Beijing Daxing District Committee (北京市大興區委工業工委書記) during the period from November 2001 to July 2004. Mr. Cai is currently on retirement. Mr. Cai has been a non-executive director of the Company since 28th November 2005, with a term expiring on 28th November 2008.

SUPERVISORS:

Mr. Yang Zhi An, born in January 1963, is a professor and tutor of doctoral students. Mr. Yang graduated from Liaoning University in 1986 with a bachelor's degree in economics. In July 1991, he obtained a master's degree of public finance from Liaoning University and in 1998 he obtained a doctor's degree of economics in corporate management from Liaoning University. In August 2002, he completed the post-doctoral research work in applied economics of Dongbei University of Finance and Economics. Mr. Yang has been working as deputy faculty head of the economic faculty of Liaoning University since November 1998. He has extensive experience in teaching and research of finance, taxation and corporate management. Mr. Yang was appointed as the supervisor of the Company on 11th October 2002, and resigned from his office as the supervisor of the Company on 6th March 2007.

Mr. Wang Xing Ye, born in June 1977. Mr. Wang graduated from Xi'an University of Technology (西安理工大學) with a bachelor's degree in economics in 1999. Mr. Wang is currently the manager of Listing Rules Compliance in Beijing Beida Jade Bird Universal Sci-Tech Company Limited. He has a certain experience in investment and financing, asset reorganization and business reorganization. Mr. Wang has been the supervisor of the Company since 28th November 2005, with a term expiring on 28th November 2008.

(For details of resignation of directors and supervisors, please refer to the announcement of the Company dated 6th October 2008)

Management Discussion and Analysis

1. SUMMARY OF THE RESULTS

(1) Summary of income statement

The Group's profits

RMB'000

	2007	2006	2005	2004	2003
Turnover	**7,116**	16,465	91,221	35,312	169,116
Profit (loss) after taxation	**112,319**	(80,611)	(1,249,512)	(200,046)	17,454
Profit (loss) attributable to shareholders	**115,657**	(76,705)	(1,229,130)	(197,559)	17,833
Earnings (loss) per share (RMB)	**RMB0.11**	RMB(0.08)	RMB(1.2)	RMB(0.19)	RMB0.02

(2) Analysis of segment results

	2007 Amount	2006 Amount	2005 Amount	2004 Amount	2003 Amount
Consolidated profit (loss) before Taxation	**112,801**	(80,599)	(1,288,602)	(200,831)	31,834
Of which:					
Property development	**(5,113)**	(24,477)	(301,109)	(76,040)	28,434
Education Investment	**(18,461)**	(19,666)	(307,451)	(14,148)	–
Shenhai Electricity and Heat	**–**	–	–	–	24,288
Discontinued operation – Cemetery development and lease	**(26,354)**	(14,298)	(35,047)	(38,546)	–

(3) Analysis of segment turnover

RMB'000

	2007 Turnover	% on total turnover	2006 Turnover	% on total turnover	2005 Turnover	% on total turnover	2004 Turnover	% on total turnover	2003 Turnover	% on total turnover
Total turnover	**9,948**	**100**	18,067	100	91,221	100	35,312	100	169,116	100
Of which:										
Property development	**3,905**	**39.25**	9,521	52.70	77,040	84.45	21,128	59.83	165,762	98.02
Education Investment	**3,211**	**32.28**	6,370	35.26	6,472	7.09	10,658	30.18	2,500	1.48
Other operations	**–**	**–**	574	3.17	6,783	7.44	3,032	8.59	854	0.50
Discontinued operation – Cemetery development and lease	**2,832**	**28.47**	1,602	8.87	926	1.02	494	1.40	–	–

2. ANALYSIS OF REAL ESTATE DEVELOPMENT BUSINESS

Summary of operating results

	2007	2006
Turnover (RMB'000)	**3,905**	9,521
Profit before taxation (RMB'000)	**(5,113)**	(24,477)

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, completion and inspection and sales of Building Management Company "Cosmo International Mansion" was the primary focus.

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.

3. ANALYSIS OF EDUCATION INVESTMENT BUSINESS

During the Year, the construction of new teaching and administrative staff dormitory and foreign teachers' apartment of Zhuhai Education has completed. The students of Zhuhai School amounted to approximately 600 at present. Zhuhai School has paid Zhuhai Education a rental fee amounting to RMB3,000,000 during the Year.

4. ANALYSIS OF CEMETERY DEVELOPMENT BUSINESS

Owing to the fact that the 95% equity interest in Shenzhen Jingmei held by the Company has been auctioned by the Railway Transport Intermediate Court of Shenyang in December 2007, Jingmei Industrial and Xili Cemetery ceased to be the subsidiaries of the Company with effect from 31st December 2007.

5. ANALYSIS OF THE GROUP'S ASSETS AND FINANCIAL POSITION

(1) Financial statistics of the Group

Items	Basis	As at 31st December 2007	As at 31st December 2006
Gearing ratio	Total liabilities/total assets x 100%	**53.80%**	70.92%
Current ratio	Current assets/current liabilities	**1.03**	0.81
Quick ratio	(Current assets – inventories – properties under development – properties held for sale)/current liabilities	**0.17**	0.28
Earnings (loss)/net assets ratio	Net profit/net assets x 100%	**22.96%**	(19.68%)
Sales profit margin	Net profit/sales x 100%	**1,625.31%**	(424.56%)
Debt equity ratio	Total liabilities/shareholders' equity x 100%	**116.47%**	243.82%

(2) Overall position of the Group's assets

During the Year, there was a decrease in the total assets of the Group when compared with that of the Previous Year. The total assets of the Group decreased to approximately RMB1,090,528,000 from approximately RMB1,339,846,000, representing a decrease of approximately RMB249,318,000 or 18.61%.

RMB'000

Items	As at 31st December 2007	As at 31st December 2006	Change in amounts
Total assets	**1,090,528**	1,339,846	(249,318)
Of which:			
Property and equipment	**146,795**	159,931	(13,136)
Investment properties	**255,390**	317,786	(62,396)
Prepaid lease payment on land use right	**86,752**	89,316	(2,564)
Available-for-sale financial assets	**20,000**	20,000	0.00
Current assets	**581,591**	752,813	(171,222)

(3) Current assets of the Group

During the Year, the current assets of the Group decreased by approximately RMB171,222,000 to RMB581,591,000 as compared with RMB752,813,000 in the Previous Year, representing a decrease of approximately 22.74%.

Items	**As at 31st December 2007**	As at 31st December 2006	RMB'000 Change in amounts
Current assets	**581,591**	752,813	(171,222)
Of which:			
Properties held for sale	**484,987**	495,715	(10,728)
Inventories	**341**	469	(128)
Account receivables	**–**	1,192	(1,192)
Other receivables and prepaid expenses	**37,517**	190,697	(153,180)
Amount due from parent Company	**54,268**	55,296	(1,028)
Bank balances and cash	**4,478**	9,444	(4,966)

(4) Bank borrowings of the Group

As at 31st December 2007, the Group's bank borrowings totalled RMB62,000,000 (2006: RMB181,344,000). Borrowings repayable within one year bear interest at 4.70% to 7.97% per annum.

	As at 31st December 2007 (RMB'000)	As at 31st December 2006 (RMB'000)
Bank borrowings repayable in the following periods		
Overdue	**–**	49,977
Within one year	**62,000**	131,367
	62,000	181,344

(5) Currency Risks

According to the "Quotations of the Exchange Rates for Converting Renminbi to Foreign Currencies by the Head Office of Designated Banks" periodically promulgated by the State Administration of Foreign Exchange of the PRC in 2007, the exchange rates of Renminbi to US dollar and to Hong Kong dollar were stable as a whole, and the exchange rate of the Hong Kong dollar to Renminbi experienced slight fluctuations during the Year. Accordingly, the Company has no currency risk.

(6) Land reserves

During the Year, the Group has two parcels of land in its reserves with a total area of 613,000 square metres as follows:

1. Portion of land at 10th Road in Shenyang Economic and Technological Development Zone with an area of approximately 484,000 square metres already paid up, in which the Group holds 99.9% interests;

2. A parcel of land in Guan Zhuang Xin Cun, Chaoyang District, Beijng with an area of approximately 129,000 square metres already paid up, in which the Group holds 99.89% interests.

(7) Contingent liabilities

Save as disclosed in note 42 to the financial statements, as at the balance sheet date, the Group did not have any other contingent liabilities.

(8) Analysis of equity and profits

	31st December 2007	31st December 2006	RMB'000 Change in amounts
Share capital	**1,020,400**	1,020,400	–
Share premium	**323,258**	323,258	–
Statutory surplus reserve	**103,582**	103,582	–
Accumulated losses	**(977,825)**	(1,093,482)	115,657

6. EMPLOYEES

As at 31st December 2007, the Group had 118 employees.

During the Year, the aggregate salaries and allowances and termination compensation paid to the employees amounted to RMB7,440,000 (2006: RMB7,686,000) and RMB245,000 (2006: 268,000). The Group has not established any share option scheme for any of its senior management or employees.

Report of the Directors

The board of directors of the Company is pleased to present its report together with the audited financial statements of the Group for the Year.

1. PRINCIPAL ACTIVITIES

The Company is an investment holding company. The Company is principally engaged in development, sales and leasing of real estate, investment and management of education projects, and development and leasing of cemetery through its subsidiaries.

The analysis of the Group's results by business segment for the Year is set out in note 9 to the Financial Statement on page 51 to 53.

2. SUBSIDIARIES

Shenyang Real Estate, a limited liability company with registered capital of RMB250,000,000, was incorporated at No.1-4, 20A, Central Street, Shenyang Economic and Technological Development Zone, the PRC in June 2000. Its principal operations are located in the PRC. The Company holds 99.86% equity interests in it. During the Year, no debt securities were issued by it.

Beijing Diye, a limited liability company with registered capital of RMB30,000,000, was incorporated at No.6 Guan Zhuang, Jianguo Road, Chaoyang District, Beijng, the PRC in July 2001. Its principal operations are located in the PRC. Shenyang Real Estate holds 80.00% equity interests in it and Shenyang Education holds 20.00% equity interests in it. During the Year, no debt securities were issued by it.

Building Management Company, a limited liability company with registered capital of RMB50,000,000, was incorporated at No.1, Xiaodong Road, Dadong District, Shenyang, the PRC in July 2002. Its principal operations are located in the PRC. The Company holds 92.50% equity interests in it and Shenyang Real Estate holds 7.50% equity interests in it. During the Year, no debt securities were issued by it.

Shenyang Education, a limited liability company with registered capital of RMB50,000,000, was incorporated at No. 1-4, Zhong Yang Da Street A20, Shenyang Economic and Technological Development Zone, Shenyang, the PRC in September 2002. Its principal operations are located in the PRC. The Company holds 30.00% equity interests in it and Shenyang Real Estate holds the remaining 70.00% equity interests in it. During the Year, no debt securities were issued by it.

Zhuhai Education, a limited liability company with registered capital of RMB20,000,000, was incorporated at Zhuhai Beida Education Science Park, Qi'ao Island, Zhuhai, the PRC in May 2001. Its principal operations are located in the PRC. The Company holds 70.00% equity interests in it. During the Year, no debt securities were issued by it.

Shanghai Education, a limited liability company with registered capital of RMB100,000,000, was incorporated at No. 48, Xinxi Road, Zhu Jia Jiao Town, Qingpu District, Shanghai, the PRC in October 2002. Its principal operations are located in the PRC. The Company holds 80.00% equity interests in it and Shenyang Real Estate holds 20.00% equity interests in it. During the Year, no debt securities were issued by it.

Shenyang Business Information, a limited liability company with registered capital of RMB10,000,000, was incorporated in No. 9, 6A, Wencui Road, Heping District, Shenyang, the PRC in July 2000. Its principal operations are located in the PRC. Shenyang Education holds 90.00% equity interests in it. During the Year, no debt securities were issued by it.

Jingmei Industrial, a limited liability company with registered capital of RMB10,000,000, was incorporated at No. 3, First Floor, Building No. 2, Jingmei New Village, Futian District, Shenzhen, the PRC on 30th August 1994. Its principal operations are located in the PRC. The Company holds 95.00% equity interests in it. During the Year, no debt securities were issued by it. Owing to the fact that the 95.00% equity interest in Shenzhen Jingmei held by the Company has been auctioned by the Railway Transport Intermediate Court of Shenyang in December 2007, Jingmei Industrial ceased to be a subsidiary of the Company with effect from 31st December 2007.

Xili Cemetery, a limited liability company with registered capital of RMB5,000,000, was incorporated at First Floor, Building No. 2, Jingmei New Village, Futian District, Shenzhen, the PRC on 29th April 2001. Its principal operations are located in the PRC. Jingmei Industrial holds 70.00% equity interests in it. During the Year, no debt securities were issued by it. Owing to the fact that the 95.00% equity interest in Shenzhen Jingmei held by the Company has been auctioned by the Railway Transport Intermediate Court of Shenyang in December 2007, Xili Cemetery ceased to be a subsidiary of the Company with effect from 31st December 2007.

Shenzhen Grand Scence, a limited liability company with registered capital of RMB100,000,000 (actual capital: RMB50,000,000), was incorporated at First Floor, Building No. 2, Jingmei New Village, No. 6003, Bei Huan Avenue, Futian District, Shenzhen, the PRC in May 2004. Its principal operations are located in the PRC. The Company holds 50.00% equity interests in it, Shenyang Real Estate holds 25.00% equity interests in it and Shenyang Education holds 25.00% equity interests in it. During the Year, no debt securities were issued by it.

3. OTHER INVESTMENTS

The Company made an investment in THCI in May 2000. Its registered capital is RMB250,000,000. The Company invested RMB20,000,000 and holds 8.00% equity interests in THCI. During the Year, no debt securities were issued by THCI.

4. HOLDING COMPANY

The controlling shareholder of the Company is SPU, which was established on 26th November 1998. Currently, its registered capital is RMB2,113,060,000. Through its direct controlled companies, namely, Shenyang Urban Infrastructure Facility Construction Investment Development Company Limited ("Shenyang Urban Construction") and Shenyang State-owned Assets Management Company Limited ("Shenyang Asset"), Shenyang Municipal Government held 50.00% equity interests in SPU (Shenyang Urban Construction and Shenyang Asset held 42.23% and 7.77% equity interests respectively). Beijing Beida Hi-Tech Industry Investment Company Limited ("Beida Hi-Tech") held the remaining 50.00% equity interests.

5. RESULTS, FINANCIAL POSITION AND ANALYSIS OF RESULTS

The Group's results for the Year are set out in the consolidated income statement on page 31.

The Group's financial position for the Year is set out in the consolidated balance sheet on page 32. The Group's cash flow for the Year is set out in the consolidated cash flow statement on pages 36 to 37. Analysis of the results of the Group for the Year is set out in the Management Discussion and Analysis section on pages 10 to 14.

6. INTERIM DIVIDEND

The board of directors of the Company resolved that no interim dividend was declared for the year 2007.

7. FINAL DIVIDEND

The board of directors of the Company resolved that no final dividend would be declared for the year of 2007. Such resolution is subject to approval at the 2007 Annual General Meeting of the Company.

8. RESERVES

Details of the reserves of the Group and the movements therein during the Year are set out in the consolidated statement of changes in equity on page 35.

9. PROPERTIES UNDER DEVELOPMENT AND PROPERTIES HELD FOR SALE

As at 31st December 2007, the Group held the following properties under development and properties held for sale:

Name of Plots/ Properties	Address of Land/ Properties	Area of Land/ Properties ('000 sq.m.)	Intended Usage	Current Position	Group's Interests
Properties held for sale					
Phase two project of "Water-Flowers City" in Shenyang	No. 36, Huaihe Street, Huanggu District, Shenyang	/29.6	Commercial and residential	On pre-sale	99.86%
6th-25th Floor of "Cosmo International Mansion" in Shenyang	No. 1, Xiaodong Road, Dadong District, Shenyang	/18.9 /1.0	Hotel apartments	On pre-sale Held for sale	99.99%
"Scenic Bay" in Beijing	Hui Village, Guang Zhuang, Chaoyang District, Beijing	129/	Commercial and residential	Held for construction	99.87%

10. DONATION

During the Year, the Group did not make any donations to charities or other purposes.

11. PROPERTY AND EQUIPMENT

Details of the movements in property and equipment of the Group during the Year are set out in note 18 to the Financial Statements on page 61.

12. SHARE CAPITAL

During the Year, the share capital structure of the Company was as follows:

Types of shares	Number of shares	Percentage
State shares	600,000,000	58.80%
H shares	420,400,000	41.20%
Total	1,020,400,000	100%

There was no change in the share capital structure of the Company during the Year.

13. TAXATION

Details of taxation of the Group are set out in note 14 to the Financial Statements on page 58.

(1) The Group was subject to an enterprise income tax rates from 15% to 33% during the Year.

(2) No tax reduction and exemption was enjoyed by holders of the listed securities of the Company for their holding of such securities.

14. STAFF QUARTERS

Pursuant to the "Housing Reserves Management Ordinance" stipulated by the PRC government and the document (Shenfangweihuifa (2000) No. 3) issued by Shenyang Municipal Government on 28th December 2000, the basis of contribution for the housing reserves was the monthly income of the staff, of which the ratio of contribution by the Company was 8% from 1st June 2005 onwards.

15. MEDICAL INSURANCE

Pursuant to "the Decision of Establishing the Basic Medical Insurance System for Urban Staff and Workers" promulgated by State Council of the PRC and the document (Shen Zheng Fa (2001) No.5) issued by Shenyang Municipal Government on 30th July 2001, the basis of contribution for the basic medical insurance was the last monthly income of the staff, of which the ratio of contribution by the company was 8% from 1st October 2002 onwards.

16. DISTRIBUTABLE RESERVES

As at 31st December 2007, accumulated losses after appropriation available to be carried forward for distribution to shareholders in future years amounted to RMB977,825 (2006: RMB1,093,825).

17. FIVE-YEAR FINANCIAL HIGHLIGHTS

Highlights of the results and assets and liabilities of the Group during the Year and the past years are set out on pages 04 and 05.

18. MAJOR CUSTOMERS AND SUPPLIERS

Among the operation results in the Year, the Group's sales to its five largest customers accounted for approximately 75.24% of the Group's total sales, of which sales to the largest customer accounted for approximately 42.16% of the Group's total sales for the Year. Since the sales of the Year are mainly derived from properties leasing, cemetery leasing and property management, there is no purchase for operations occurred during the Year.

Save as the connected transactions disclosed, none of the directors, their associates or any shareholder (who to the knowledge of the directors, owns 5.00% or more of the share capital of the Company) had an interest in the above-mentioned five largest customers or five largest suppliers.

19. DIRECTORS AND SUPERVISORS

Directors and supervisors of the Company during the Year were as follows:

Directors: Mr. Xu Er Hui (resigned in May 2007), Mr. An Mu Zong, Mr. Liu Chang Lin (resigned in March 2007), Mr. Wang Se (resigned in May 2007), Mr. Wang Zai Xing, Mr. Shi Jian Ming (died in January 2007), Mr. Deng Yan Bin, Mr. Lin Dong Hui, Mr. Wang Hui, Dr. Michel P. Detay (resigned in January 2007), Mr. Cai Lian Jun, Mr. Choy Shu Kwan, Wilson (resigned in June 2007), and Mr. Cui Yan (resigned in February 2007). Mr. Choy Shu Kwan, Wilson, Mr. Cui Yan and Mr. Cai Lian Jun are independent non-executive directors.

Supervisors: Mr. Yang Zhi An (resigned in March 2007), Mr. Wang Xing Ye.

20. DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

The Company entered into service contracts with the 3rd directors and supervisors on 28th November 2005. Each existing director and supervisor shall act in accordance with his duty as required by the service contract. In the event of a breach of any provision of the service contract, the Company may immediately terminate the appointment of the director or supervisor by way of written notice. Except for the director and the supervisors who have resigned, all service contracts for the existing directors and supervisors will expire on 28th November 2008. None of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

21. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S HOLDING OF SHARES IN THE COMPANY

As at 31st December 2007, none of the Company's directors or supervisors or chief executives had any interests and/or short position in any shares, underlying shares or debentures in the Company or any of its associated corporations (within the meaning of Part XV in the Securities and Futures Ordinance ("SFO"), Chapter 571 of the Laws of Hong Kong) or entered into any transaction thereof which are: (1) required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO; or (2) required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, nor was any interest generated from sales of such shares, underlying shares or debentures in the Company or any of its associated corporations.

22. DIRECTORS' AND SUPERVISORS' RIGHT TO PURCHASE SHARES

During the Year, neither the Company nor its fellow subsidiaries or holding company made any arrangements for directors, supervisors, chief executive officer or their spouses or their children under 18 years old, to acquire benefits by means of the acquisition of the shares, securities or equity interests of the Company or associated corporations.

23. REMUNERATION OF DIRECTORS AND SUPERVISORS

Each of the directors of the Company received an annual salary of RMB30,000. The service contracts with the directors have not mentioned any adjustment to the annual salary of the directors. The executive directors may be entitled to certain cash bonuses according to the profitability of the Company upon the board of directors' approval (in which case the interested directors will abstain from voting) and are entitled to the welfare benefits provided under the relevant PRC laws and regulations. Each supervisor of the supervisory committee received an annual salary of RMB15,000. During the Year, the total emoluments paid or payable to the directors and supervisors amounted to 203,000 (2006: RMB405,000). None of the directors received any cash bonuses on the basis of the profits of the Company or other additional benefits.

24. DIRECTORS' AND SUPERVISORS' INTERESTS IN BUSINESS CONTRACTS

During the Year or as at the end of the Year, the director Mr. Xu Er Hui is also the vice presidents of Beida Jade Bird, which is the ultimate controlling shareholder of Beida High-Tech. Except for the above, no other contracts of significance in relation to the Company's business to which the Company, any of its subsidiaries or its holding company was a party and in which any director or supervisor had a material interest, whether directly or indirectly, were entered into.

25. CHANGE IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

As at 31st December 2007, 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 bodies 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	SPU	600,000,000 state shares (unlisted shares)	58.80%
2	Shenyang Urban Construction (note 1)	600,000,000 state shares	58.80%
3	Beida Hi-Tech (note 2)	600,000,000 state shares	58.80%
4	Jade Bird Huaguang (note 3)	600,000,000 state shares	58.80%
5	HKSCC Nominees Limited (note 4)	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. Jade Bird Huaguang is a joint stock limited company established in the PRC. It holds 57.69% equity interests in Beida Hi-Tech and owns 50.00% equity interests in SPU through Beida Hi-Tech. Pursuant to section 316 of the SFO, Jade Bird Huaguang is regarded as holding interests in the underlying shares of the Company held by SPU.

4. As notified by HKSCC Nominees Limited, as at 31st December 2005, 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 Year, 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.

26. MATERIAL CONTRACTS

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"). (Details please refer to paragraph (4) in section 31 "Significant Events" in Report of the Directors)

27. CONNECTED TRANSACTIONS

During the Year, the connected transactions of the Group were as follows:

Pursuant to the Lease Contract entered into between Zhuhai Education and Zhuhai School, Zhuhai Education leased the properties of Zhuhai Education Park to Zhuhai School. During the Year, Zhuhai Education received rent amounting to RMB3,000,000 (2006: RMB4,000,000).

Approval of independent shareholders has been obtained and a waiver has been granted by the Stock Exchange in respect of the connected transaction mentioned above. Such approval and waiver, however, have expired in 2006 and the Company will obtain the approval from the independent Shareholders and the waiver for the transaction mentioned above from the Stock Exchange as soon as possible.

28. PURCHASE, SALE OR REDEMPTION OF SHARES

During the Year, the Group did not purchase, sell or redeem any of the Company's shares.

29. SHARE OPTIONS

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

30. SIGNIFICANT EVENTS

(1) Suspension of Trading

On 15th December 2004, the Company applied to the Stock Exchange for suspension of trading according to the Listing Rules due to the Company's litigation with Shenzhen Development Bank Dalian Branch in December 2004. As at 31st December 2007, the trading of the Company's shares has not resumed. In July 2007, the Stock Exchange informed the Company that the Company would enter the second stage of delisting.

(2) Litigation with Liao Ning Hua Jin Hua Gong Group Company Limited

Details please refer to the section headed "Material Litigation".

(3) Litigation with Guangdong Development Bank Shenyang Branch

Details please refer to the section headed "Material Litigation".

(4) Litigation over the unpaid balance of construction payment of Shenyang Real Estate

Details please refer to the section headed "Material Litigation".

(5) The Company recovered 80% equity interest of Beijing Diye

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 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.

31. BANK BORROWINGS

As at 31st December 2007, the total amount of the Group's bank borrowings was RMB62,000,000 (2005: RMB181,344,000). The bank borrowings were used as the Group's working capital. As at the balance sheet date of this year, the Group had an outstanding bank loan of RMB200,000,000 (Guangdong Development Bank loan).

32. TRUST DEPOSITS

There were no deposits managed by trustees for the Year.

33. RETIREMENT SCHEME

Details of the retirement scheme and the amount of contributions to the retirement scheme are set out in note 13 to the Financial Statements on page 58.

34. PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association and the laws of the PRC which would require the Company to offer new shares to its existing shareholders on a pro rata basis.

35. LOANS TO SENIOR MANAGEMENT

During the Year, the Group did not give any loan or other kinds of financial assistance to its senior management.

36. WORK OF THE AUDIT COMMITTEE

As at October 2008, the Audit Committee only comprises of an independent non-executive director, namely Mr. Cai Lian Jun. Mr. Cai Lian Jun has reviewed the financial statements and the connected transactions of the Company.

37. CODE OF BEST PRACTICE

Due to the suspension of trading and litigations, the Company has not complied with the Code of Best Practice as set out in the Listing Rules during the Year.

38. MATERIAL LITIGATION

(1) The Claim from Beida Jade Bird against the Company

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 over 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 RMB 101,000,000 to Beida Jade Bird. The unpaid balance of the claim of Beida Jade Bird and the interest thereof amount to approximately RMB82,000,000.

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)***

(2) Litigation with Guangdong Development Bank Shenyang branch

On 27th December 2005, Guangdong Development Bank Shenyang branch ("Guangdong Development Bank") commenced legal action for the RMB29,000,000 loan dispute in the Intermediate People's Court of Shenyang against the Company and SPU, Hua Jin, Beida Jade Bird and Liaoning Huajin Tongda Chemicals Co. Ltd. ("Huajin Tongda"), as the guarantors of the RMB29,000,000 loan. Guangdong Development Bank then commenced legal action for the RMB171,000,000 loan dispute in the Higher People's Court of Liaoning Province against the Company and Hua Jin, SPU, Beida Jade Bird and Huajin Tongda, as the guarantors of the RMB171,000,000 loan.

On 18th February 2006, the Intermediate People's Court of Shenyang issued the Civil Judgement (2006) Shen Zhong Min (3) He Chu Zi No.34《判決書》(2006) 瀋中民三合初字第34號, pursuant to which the Company and the guarantors were liable to repay the loan and interest thereof of RMB29,000,000.

On 6th April 2006, RMB70,000,000 and RMB80,000,000 were sequestrated from the accounts of the Company and Hua Jin respectively by Guangdong Development Bank. As such, the unpaid balances of the RMB29,000,000 loan and the RMB171,000,000 loan were RMB19,000,000 and RMB30,896,000 respectively.

During the litigation, Guangdong Development Bank applied to the Higher People's Court of Liaoning to withdraw the claim for the RMB171,000,000 loan. In May 2006, the Higher People's Court of Liaoning issued the (2006) Liao Min San Chu Zi No.31, Civil Execution Order, (2006)遼民三初字第31號《民事裁定書》to approve the withdrawal of the claim from Guangdong Development Bank.

On 12th May 2006, Guangdong Development Bank commenced legal action against the Company, Hua Jin, SPU, Beida Jade Bird and Huajin Tongda for the unpaid balance of RMB30,896,000 of the RMB171,000,000 loan in Intermediate People's Court of Shenyang.

On 31st January 2007, the Intermediate People's Court of Shenyang issued the Civil Judgement (2006) Shen Zhong Min (3) He Chu Zi No.234《判決書》(2006) 瀋中民三合初字第234號, pursuant to which the Company and the guarantors were liable to repay the unpaid balance at RMB30,896,000 and the interest thereof to Guangdong Development Bank.

In August 2007, RMB56,462,000 was sequestrated from the account of Hua Jin by the Intermediate People's Court of Shenyang in settlement of the unpaid balance of RMB19,000,000 of the RMB29,000,000 loan, and RMB30,896,000 of the RMB171,000,000 loan respectively, and the interest thereof. As a result, Guangdong Development Bank has fully recovered the loans from the Company and the guarantors. ***(Details please refer to the Company' announcement dated 26th September, 2008)***

(3) The claim of RMB80,000,000 assistance from Hua Jin in respect of Guangdong Development Bank litigation

Since RMB80,000,000 was sequestrated from the account of Hua Jin in settlement of the loan of the Company due to Guangdong Development Bank (details please refer to previous section), Hua Jin then commenced legal action in the Higher People's Court of Liaoning Province against the Company, SPU and Beida Jade Bird.

The parties reached a settlement after negotiation. On 19th June 2006, the Higher People's Court of Liaoning Province issued the Civil Mediation Agreement (2006) Liao Min San Chu Zi No.43 民事調解書(2006)遼民三初字第43號, pursuant to which the Company was liable to pay off the plaintiff Hua Jin's claim of RMB80,000,000 together with interest thereof before 25 November 2006, and each of SPU and Beida Jade Bird would assume the guarantee liabilities for one-third of the amount.

Owing to the fact that the Company did not implement the repayment within the designated period, the Railway Transport Intermediate Court of Shenyang (瀋陽鐵路運輸法院) held an auction in December 2007 in which the Company's 95% equity interest in Jingmei Industrial was disposed of. Part of the proceeds from such auction in the sum of RMB83,540,000 was applied to settle Hua Jin's RMB80,000,000 claim together with the interest thereof, acceptance fee and enforcement fee. In March 2008, the Railway Transport Intermediate Court of Shenyang (瀋陽鐵路運輸法院) issued the Civil Execution Order (2007) Shen Tie Zhi Zi No.3-1 民事裁定書(2007)鐵瀋執指字第3-1號 and confirmed the conclusion of Hua Jin's claim. ***(Details please refer to the Company' announcement dated 26th September, 2008)***

(4) The claim of RMB56,462,000 assistance from Hua Jin in respect of Guangdong Development Bank litigation

Since RMB56,461,630 was sequestrated from the account of Hua Jin in settlement of the loan of the Company due to Guangdong Development Bank (Details please refer to section (2)), in September 2007, Hua Jin made a claim against the Company, SPU and Beida Jade Bird, the guarantors, for the sum it paid. Under the mediation of the Higher People's Court of Liaoning Province, Hua Jin reached a settlement with the Company, Building Management Company, SPU, Beida Jade Bird and Mingyude, and 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 sequestrated 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)***

(5) The litigation commenced by No.6 Construction Work Company of No.4 Works Bureau of China Construction against Shenyang Real Estate for the unpaid balance of construction payment

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 in 14th February 2007, pursuant to which Shenyang Real Estate was liable to pay RMB2,000,000 and RMB3,865,000 to China Construction before 14th February 2007 and 10th April 2007 respectively, and Shanghai Hanhua Property Management Company Limited jointly guaranteed the payment as the guarantor.

Owing to the fact that the Shenyang Real Estate did not implement the repayment within the designated period, Shanghai Hanhua discharged the liability of guarantee and paid the unpaid balance of construction payment of approximately RMB 5,865,000 to China Construction on 15th May 2007.

Since Shenyang Real Estate failed to pay the assistance to Shanghai Hanhua within the designated period, Shanghai Hanhua Property Management Company Limited then applied to the Intermediate People's Court of Shenyang 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)房初字第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 RMB5,866,000. 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)瀋法執字第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, and 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.

(6) The litigation commenced by Shenyang Tianbei Construction Installation Work Company against Shenyang Real Estate for the unpaid balance of construction payment

In September 2006, Shenyang Tianbei Construction Installation Work Company ("Tianbei Construction") commenced legal action in Intermediate People's Court of Shenyang 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) Shen Zhong Min (2) Fang Chu Zi No.190 民事調解書(2006)瀋中民(2)方初字第190號on 9th July 2007, pursuant to which (1) Shenyang Real Estate was liable to pay RMB4,130,000 to Tianbei Construction before 28th June 2007, Shanghai Hanhua jointly guaranteed the payment, (2) Shenyang Real Estate was liable to pay RMB12,870,000 to Tianbei Construction before 6th July 2007, Mingyude jointly guaranteed the payment.

Owing to the fact that the Shenyang Real Estate did not implement the repayment within the designated period, Shanghai Hanhua and Mingyude discharged the liabilities of guarantee and paid RMB 4,130,000 and RMB 12,870,000 to Tianbei Construction in July 2007 respectively. Up to August 2008, the Company has repaid the said assistance and interest thereof to Shanghai Hanhua and Mingyude.

39. AUDITORS

Ho and Ho & Company ("Ho and Ho") have resigned as auditor of the Company and its subsidiaries with effect from 25 August 2008. On 30th August 2008, the Board of the Company held a Board meeting and decided to appoint Lo & Kwong C.P.A. Co. Ltd. ("Lo & Kwong C.P.A.") as auditor of the Company and its subsidiaries with effect from 1 September 2008 to fill the casual vacancy following the resignation of Ho and Ho as auditor of the Company, and to hold office until the conclusion of the next annual general meeting of the Company. The Company will propose a resolution at the forthcoming annual general meeting to re-appoint Lo & Kwong C.P.A. as the international auditor of the Company and its subsidiaries.

The Group's accounts for the year 2005, 2006, 2007 and 2008 prepared in accordance with HKGAAP and accounting standards issued by the Hong Kong Institute of Certified Public Accountants will be audited by Lo & Kwong C.P.A.. At the forthcoming annual general meeting, a resolution will be proposed to reappoint Lo & Kwong C.P.A. as the Group's international auditors. ***(Details please refer to the Company' announcement dated 3rd September, 2008)***

40. PUBLICATION OF INFORMATION ON THE WEB-SITE OF THE STOCK EXCHANGE

Financial and other relevant information of the Company in accordance with the paragraph 45(1)-45(3) of Appendix 16 to Listing Rules will be available for publication on the web-site of the Stock Exchange in due course.

41. MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

During the Year, 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 purchase and sales of the Company's securities by the directors and supervisors of the Company. The Company has also issued enquiry in writing with each director and supervisor as to whether he has fully observed or has been in breach of the Code. Each director or supervisor replied to the Company in writing and confirmed that he has fully observed the Code and no violation of the Code has occurred.

42. 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 prior period, the number of independent non-executive directors is less that 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' announcement dated 6th October 2008)***

43. PUBLIC FLOAT

As far as the public information available to the Company is concerned and to the best of knowledge of the directors and supervisors, at least 25.00% of the Company's issued share capital were held by members of the public as at 24th October 2008 (being the latest practicable date prior to the printing of this annual report for the purpose of ascertaining the relevant information contained).

By order of the Board
An Mu Zong
Executive Directors

Shenyang, the PRC, 24th October 2008

Independent Auditor's Report

TO THE SHAREHOLDERS OF
Shenyang Public Utility Holdings Company Limited
(incorporated in the People's Republic of China with limited liability)

We were engaged to audit the consolidated financial statements of Shenyang Public Utility Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on page 31 to 91, which comprise the consolidated balance sheet as at 31st December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Company's directors are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making reasonable accounting estimates in different circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

However, because of the matters described in the paragraphs of the basis for disclaimer of opinion, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. As disclosed in note 24(b) to the consolidated financial statements, the Group's subsidiary, Beijing Diye Real Estate Development Company Limited ("Beijing Diye"), had a held-for-sale property under development project in Beijing with a carrying value of RMB407,148,000 as at 31st December 2007. The land use right of the land used for such property development project must be obtained by way of public tender as a result of the change in the related land policy. If the Group ultimately succeeded in winning the tender of the land and completing the development, the recoverable amount of such project shall depend on the realizable value of the completed property in the future. If the Group did not participate in the public tender or it failed to obtain the land use right of the land in the tender, the recoverable amount of such project shall depend on the amount invested by the Group and such amount should be confirmed by the relevant authorities of the People's Republic of China ("PRC"). Based on our on-site investigation, no buildings were erected on the land nor had it been put on a public tender up to the date of this report. Due to insufficient evidence, we were not able to confirm whether the Group could successfully recover the development cost invested in such project in full, and whether impairment provision should be made in respect of the development cost of RMB407,148,000 paid.

2. As disclosed in note 39 to the consolidated financial statements, the Group pledged 80% equity interests of Beijing Diye to a creditor as a security for repayment of the debt of approximately RMB45,030,000 on 1st June 2007. We acknowledged, in the process of company register checking, that Shenyang Development Real Estate Company Limited ("Shenyang Real Estate"), which originally held 80% equity interests of Beijing Diye, has been changed to that creditor. According to the "Agreement of Compensation and Pledge of Equity Interests"《代償及股權質押協議》dated 1st June 2007 signed with that creditor offered by the Group, as Beijing Diye is a non-listed company and the corresponding PRC's industry and commerce departments do not accept the application for pledge of equity interests from non-listed company, the equity interests of Beijing Diye were first transferred to that creditor under mutual agreement. After the Group has fully repaid the related debts and interests, that creditor will transfer the equity interests of Beijing Diye back to the Group unconditionally. The equity interests of Beijing Diye have been transferred back to the Group in August 2008. As at the balance sheet date, the Group still regarded Beijing Diye as the Group's subsidiary and the assets and liabilities on 31st December 2007 and the year's operating results of Beijing Diye have been included in these consolidated financial statements. We were unable to obtain adequate information and were unable to carry out relevant procedures to satisfied ourseleves that whether the Group has the ownership of Beijing Diye and control or material influence over Beijing Diye's operating and financial policies as at the balance sheet date, and whether the assets and liabilities and operating results of Beijing Diye should end being consolidated into the Group's consolidated financial statements. Also, we cannot confirm whether the Group has incurred unrecorded liabilities, financial burdens and contingent liabilities due to the above.

3. As disclosed in note 18(c) and 20 to the consolidated financial statements, the Group had a building and its corresponding leasehold land with carrying value of RMB121,333,000 and RMB89,316,000 respectively as of 31st December 2007. We were unable to obtain the corresponding real estate title certificates of the building and the land use right certificate of a portion of the land with carrying value of RMB72,574,000 to ensure the ownership of the abovementioned assets at the balance sheet date.

4. As disclosed in note 43 to the consolidated financial statements, the Group had contingent liabilities in respect of the involvement in a number of litigations in the PRC. Since we were unable to carry out the necessary audit procedures to assure the completeness of the litigation claims and other liabilities should be incurred, we were unable to satisfy ourselves as to whether or not the litigations and total liabilities up to the date of this report were fairly stated.

Any adjustment to the abovementioned figures could have a consequential and significant effect on the Group's net asset value as at 31st December 2007 and its operating loss for the year then ended.

MATERIAL FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in the consolidated financial statements concerning the adoption of the going concern basis in preparing such consolidated financial statements. As set out in note 2 to the consolidated financial statements, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful implementation of certain financing and share capital restructuring plans and the debt restructuring result reached with the creditors including, among other things, the successful recovery in full of the development cost invested in the property development project in Beijing. We consider that appropriate disclosures have been made in such consolidated financial statements concerning the relevant material uncertainty, but the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are so extreme, we have disclaimed our opinion on material uncertainty relating to the going concern basis.

The consolidated financial statements of the Group do not include any adjustment that would be necessary if the Group failed to operate as a going concern. Had the going concern basis not been used, adjustments would have to be made to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY CONSOLIDATED FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph and the material uncertainty relating to going concern basis paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the financial position of the Group as at 31st December 2007 and of its loss on continuous operations and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Lo and Kwong C.P.A. Company Limited
Certified Public Accountants

Lo Wah Wai
Practising Certificate Number: P02693

Hong Kong
24th October 2008

Consolidated Income Statement

For the year ended 31st December 2007

	Note	**2007 RMB'000**	2006 RMB'000 (restated)
Continuous operations			
Turnover	8	**7,116**	16,465
Bank interests received		**21**	2,971
Other income		**555**	137
Cost of properties sold		**(3,889)**	(7,328)
Taxes on sales of properties		**(436)**	(1,126)
Staff costs		**(5,545)**	(6,681)
Depreciation and amortisation		**(19,083)**	(24,005)
Loss on disposal of property and equipment		**–**	(408)
Loss on sales of investment properties		**–**	(6,978)
Allowance for bad and doubtful debt		**(94)**	(10,127)
Other operating expenses		**(10,238)**	(12,237)
Prepayments of land purchase transferred and profit on sales of other current assets		**–**	19,575
Finance costs	10	**(23,577)**	(34,149)
Loss before taxation	11	**(55,170)**	(63,891)
Taxation	14	**613**	613
Loss for the year on continuous operations		**(54,557)**	(63,278)
Discontinued operations			
Profit (loss) for the year on discontinued operations	15	**166,876**	(17,333)
Profit (loss) for the year on continuous and discontinued operations		**112,319**	(80,611)
Attributable to:			
Shareholders of the Company		**115,657**	(76,705)
Minority interests		**(3,338)**	(3,906)
		112,319	(80,611)
Earning (loss) per share	17		
– Basic			
Arising from continuous operations		**(RMB0.05)**	(RMB0.06)
Arising from discontinued operations		**RMB0.16**	(RMB0.02)
Arising from continuous and discontinued operations		**RMB0.11**	(RMB0.08)
– Diluted		**N/A**	N/A

Consolidated Balance Sheet

As at 31st December 2007

	Note	**2007 RMB'000**	2006 RMB'000 (restated)
Non-current assets			
Property and equipment	18	**146,795**	159,931
Investment properties	19	**255,390**	317,786
Prepaid lease payments on land use rights	20	**86,752**	89,316
Goodwill	22	**–**	–
Available-for-sale financial assets	23	**20,000**	20,000
		508,937	587,033
Current assets			
Properties held for sale	24	**484,987**	495,715
Inventories	25	**341**	469
Accounts receivable	26	**–**	1,192
Amount due from a former customer	27	**–**	–
Amount due from parent company	28	**54,268**	55,296
Prepaid lease payments on land use rights	20	**2,564**	2,564
Prepayments		**3,039**	2,518
Other receivables	29	**31,914**	185,615
Bank balances and cash		**4,478**	9,444
		581,591	752,813
Current liabilities			
Accounts payable	31	**43,080**	58,249
Other payables and accrued charges		**411,821**	540,283
Receipts in advance	32	**44,089**	65,356
Tax payables		**1,168**	1,159
Deferred income		**–**	62,096
Provision for potential liabilities	33	**2,043**	18,502
Bank loans – repayable within one year	34	**62,000**	181,344
		564,201	926,989
Net current assets (liabilities)		**17,390**	(174,176)
Total assets less current liabilities		**526,327**	412,857

Consolidated Balance Sheet

	Note	**2007 RMB'000**	2006 RMB'000
Capital and reserves			
Share capital	35	**1,020,400**	1,020,400
Reserves		**(550,985)**	(666,642)
Equity attributable to shareholders of the Company		**469,415**	353,758
Minority interests		**34,357**	35,931
Total equity		**503,772**	389,689
Non-current liabilities			
Deferred taxation	37	**22,555**	23,168
		526,327	412,857

The consolidated financial statements on pages 38 to 93 were approved and authorized for issuing by the Board of Directors on 24th October 2008 and are signed on its behalf by:

An Mu Zong	**Wang Zai Xing**
DIRECTOR	*DIRECTOR*

Balance Sheet

As at 31st December 2007

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property and equipment	18	**531**	653
Investments in subsidiaries	21	**598,622**	626,646
Available-for-sale financial assets	23	**20,000**	20,000
		619,153	647,299
Current assets			
Amount due from parent Company	28	**58,224**	59,264
Amounts due from subsidiaries		**745,505**	833,635
Other receivables	29	**44,660**	69,351
Other current assets	30	**1,000**	1,000
Bank balances and cash		**3,264**	2,226
		852,653	965,476
Current liabilities			
Investment cost payable		**–**	39,512
Other payables and accrued charges		**142,760**	177,796
Amounts due to subsidiaries		**272,324**	275,697
Bank loans - repayable within one year	34	**–**	49,975
		415,084	542,980
Net current assets		**437,569**	422,496
		1,056,722	1,069,795
Capital and reserves			
Share capital	35	**1,020,400**	1,020,400
Reserves	36	**36,322**	49,395
		1,056,722	1,069,795

An Mu Zong *DIRECTOR*	**Wang Zai Xing** *DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31st December 2007

	Equity attributable to shareholders of the Company							
	Share capital RMB'000	**Share premium** RMB'000	**Statutory surplus reserve** RMB'000	**Statutory public welfare reserve** RMB'000	**Retained loss** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total equity** RMB'000
At 1st January 2006	1,020,400	323,258	69,054	34,528	(1,016,777)	430,463	39,837	470,300
Transfer	–	–	34,528	(34,528)	–	–	–	–
Loss for the year	–	–	–	–	(76,705)	(76,705)	(3,906)	(80,611)
At 31st December 2006 and 1st January 2007	1,020,400	323,258	103,582	–	(1,093,482)	353,758	35,931	389,689
Profit (loss) for the year	–	–	–	–	115,657	115,657	(3,338)	112,319
Disposal of subsidiaries	–	–	–	–	–	–	1,764	1,764
At 31st December 2007	1,020,400	323,258	103,582	–	(977,825)	469,415	34,357	503,772

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.

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 an operating loss for the year, no appropriation was made.

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.

The Company is not required to make appropriation since 2006 onwards according to PRC relevant financial regulations. The amount of appropriation which had been made in prior years was transferred to statutory surplus reserve.

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 did not have reserve available for distribution as at 31st December 2007 and 31st December 2006.

Pursuant to the relevant PRC regulations, the retained profits of school operations are non-distributable. As such, the retained profits of the Group's subsidiaries, Shenyang Beida Jade Bird School ("Jade Bird School") and Shenyang Beida Jade Bird Foreign Language Training School ("Shenyang Training School") shall not be used for dividend distribution. As at 31st December 2007, Shenyang Training School has been written off and Jade Bird School did not have any retained profits.

Consolidated Cash Flow Statement

For the year ended 31st December 2007

	Note	**2007 RMB'000**	2006 RMB'000
Operating activities			
Loss before taxation of continuous operations		**(55,170)**	(63,891)
Profit (loss) before taxation of discontinued operations		**167,971**	(16,708)
		112,801	(80,599)
Adjustments for:			
Prepayments of land purchase transferred and gain on sale of other current assets		**–**	(19,575)
Bank interest received		**(21)**	(2,982)
Depreciation on property and equipment		**8,307**	9,585
Depreciation on investment properties		**10,293**	13,902
Amortisation of prepaid lease payments on land use rights		**2,564**	2,564
Finance costs		**23,577**	36,570
Loss on disposal of property and equipment		**–**	595
Loss on disposal of investment properties		**–**	6,978
Profit on disposal of subsidiaries	38	**(198,436)**	–
Provision for bad and doubtful debt		**–**	10,127
Operating cash flows before movements in working capital		**(40,915)**	(22,835)
Decrease (increase) in properties held for sale		**10,728**	(228,947)
Decrease (increase) in inventories		**128**	(108)
Decrease (increase) in accounts receivable		**1,192**	(573)
Decrease (increase) in prepayments		**(521)**	100,043
Decrease in accounts payable		**(11,932)**	(495)
Increase in other payables and accrued charges		**55,539**	112,940
Decrease in provision for potential liabilities		**(16,459)**	(3,388)
Decrease in receipts in advance		**(19,525)**	(166,692)
Increase in deferred income		**50,434**	28,201
Cash generated from (used in) operations		**28,669**	(181,854)
PRC Enterprise Income Tax (paid) returned		**(130)**	2,568
Net cash generated from (used in) operating activities		**28,539**	(179,286)

Consolidated Cash Flow Statement

	Note	2007 RMB'000	2006 RMB'000
Investing activities			
Bank interest received		**21**	2,982
Decrease in other current assets		**–**	5,720
Disposal of subsidiaries (Net cash and cash equivalents)	38	**(6,490)**	–
Purchase of property and equipment		**(7,730)**	(9,545)
Purchase of investment properties		**(107)**	(6,729)
Decrease in amount due from parent company		**1,028**	212,898
Decrease (increase) in other receivables		**149,393**	(6,750)
Decrease in pledged bank deposits		**–**	71,598
Proceeds from disposal of property and equipment		**–**	297
Proceeds from disposal of investment properties		**–**	58,993
Decrease in investment costs payable		**–**	(39,512)
Net cash generated from investing activities		**136,115**	289,952
Financing activities			
New bank loans raised		**–**	65,000
Repayment of bank loans borrowed		**(118,554)**	(235,146)
Interests payment		**(23,577)**	(16,970)
(Decrease) increase in other payables		**(27,489)**	76,841
Net cash used in financing activities		**(169,620)**	(110,275)
(Decrease) increase in cash and cash equivalents		**(4,966)**	391
Cash and cash equivalents at the beginning of the year		**9,444**	9,053
Cash and cash equivalents at the end of the year, analysis of Bank balances and cash		**4,478**	9,444

Notes to the Consolidated Financial Statements

For the year ended 31st December 2007

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 addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Company Information" in this annual report.

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

These consolidated financial statements are presented in Renminbi ("RMB"). RMB is the functional currency of the Company and all of its subsidiaries.

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 and investment and management of education projects.

The Company's H shares are listed on The Stock Exchange of Hong Kong Limited. As requested by the Company, trading in the shares of the Company in the Stock Exchange of Hong Kong Limited was suspended since 15th December 2004 until further notice.

2. ADOPTION OF GOING CONCERN BASIS

The Group suffered an operating loss of RMB54,557,000 on continuous operatings for the year ended 31st December 2007. 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, notwithstanding that the Group had recorded a significant amount of loss for the year on continuous operations and had overdue debts as at 31st December 2007, 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. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORT STANDARD

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations (hereinafter collectively referred to as "new HKFRSs") that are effective for accounting periods beginning on 1st January 2007. The application of those new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustments are required.

The Group has not early applied the following new standards, amendments or interpretations that have been issued but are not yet effective as at 1st January 2007. The directors of the Company anticipate the application of these new standards, amendments or interpretations will have no material impact on the Group's results and financial position.

HKAS 1 (Revised)	Presentation of financial statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and separate financial statements[2]
HKAS 32 & 1 (Amendment)	Puttable financial instruments and obligations arising on liquidation[1]
HKFRS 2 (Amendment)	Share-based Payment – vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating segments[1]
HK(IRFRIC) – Int 11	HKFRS 2 – Group and treasury share transactions[3]
HK(IRFRIC) – Int 12	Service concession arrangements[4]
HK(IRFRIC) – Int 13	Customer loyalty programmes[5]
HK(IRFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1st January 2009.
2 Effective for annual periods beginning on or after 1st July 2009.
3 Effective for annual periods beginning on or after 1st March 2007.
4 Effective for annual periods beginning on or after 1st January 2008.
5 Effective for annual periods beginning on or after 1st July 2008.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments which are measured at fair values.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

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. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

Where necessary, adjustment will be made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by other members of the Group.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a subsidiary, with an agreement dated on or after 1st January 2005, represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

With respect to goodwill previously capitalized, the Group has discontinued amortizing such goodwill from 1st January 2005 onwards. A cash-generating unit to which goodwill is tested for impairment annually, and whenever there is an indication that the unit may be impaired (see the accounting policies below).

Goodwill arising on an acquisition of a subsidiary, with an agreement dated before 1st January 2005, represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business. The bases are as follows:

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 consolidated income statement on a straight-line basis over the relevant lease terms. The unrecognized portion is classified as deferred income in the consolidated balance sheet.

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

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

Tuitional fee is recognized over the tuition period in the consolidated income statement on a straight-line basis.

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property and Equipment

Property and equipment including buildings held for use in the production or supply of goods and services or for administrative purposes, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write off the cost of items of property and equipment other than construction in progress 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:

Building	2–10%
Leasehold improvement	20%
Furniture, fixtures and office equipment	8–16%
Motor vehicles	8–16%

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property and Equipment *(Continued)*

An item of properties and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

Construction in progress represents property and equipment under development or installment is stated at cost less any identified impairment losses. Upon completion of construction, the relevant costs are transferred to appropriate category of property and equipment when they are ready for use.

No depreciation or amortization is provided on construction in progress until the asset is completed and put into use.

Investment Properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

Depreciation is provided on investment properties over their estimated useful lives and residual value, using the straight-line method at the rate of 2-10% per annum.

An item of investment properties is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognized.

Land Use Rights

Land use rights are stated at cost less accumulated amortization and accumulated impairment losses. The cost of land use rights is amortized on a straight-line basis over the period of the land use rights or the term of the respective enterprise to which the land use rights are granted, whichever is the shorter.

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.

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.

Inventories

Inventories comprise consumable supplies and spare parts held for consumption and usage and are stated at the lower of cost and net realizable value. Cost is determined on the weighted average basis.

Consumable supplies and spare parts are charged to income statement upon consumption and usage.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial Instruments

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial Assets

The Group's financial assets are classified into one of the following four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Financial Assets at fair value through profit or loss

There are two categories of financial assets at fair value through profit or loss, including the financial assets held for trading and financial assets designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and Receivables

Loans and receivables are non-derivative instruments with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including accounts receivable, amount due from a former customer, amount due from parent company, other receivables and bank balances) are carried at amortized cost using the effective interest method, less any identified impairment losses. (See accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognized in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognized in equity is removed from equity and recognised in profit or loss. (See accounting policy on impairment loss on financial assets below)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured as cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. (See accounting policy on impairment loss on financial assets below)

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

Financial Assets *(Continued)*

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For certain categories of financial asset, such as accounts receivable and assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of accounts receivable and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When accounts receivable and other receivable are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial Instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity investment instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity investment instrument.

An equity investment instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Interest expenses are recognized on an effective interest basis.

Other financial liabilities

Other financial liabilities including account payables, other payables, receipts in advance, estimated liabilities and bank loans are subsequently measured at amortised cost, using the effective interest rate method.

Equity investments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in consolidated income statement.

Financial liabilities are derecognised from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in consolidated income statement.

Impairment (other than goodwill (see the accounting policies in respect to goodwill above))

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

When reverses an impairment loss, the carrying amount of the asset can be increased to its revised recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under other standard, in which case the reversal of the impairment loss is treated as a revaluation increase.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing 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 capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the period in which they are incurred.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising in the settlement of monetary items, and in the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising in a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognized in equity in the consolidated financial statements. Exchange differences arising in the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising in the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognized as a separate component of equity (the exchange reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

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 the former 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of tax profits, 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 recognised to the extent that it is probable that entire taxable profits will offset against deductible temporary differences. Such assets and liabilities are not recognised if the temporary difference arises from 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising in investments in subsidiaries, 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.

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.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes, state-managed retirement benefit schemes and mandatory provident fund are charged from profit or loss as an expense as they fall due.

Provision

Provision are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation and amortization of property and equipment and investment properties

The net carrying amount of the Group's property and equipment (excluding construction under development) and investment properties as at 31st December 2007 was approximately RMB146,795,000 and RMB255,390,000 respectively. The Group depreciates and amortizes the property and equipment and investment properties on a straight line basis at 2% to 20% each year over the estimated useful life between 5 and 50 years after including its estimated remaining value, commencing from the date the property and equipment and investment properties is placed into use. The estimated useful life represents the number of years which the Group places the property and equipment and investment properties into production, reflecting the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property and equipment and investment properties.

Impairment of property and equipment and investment properties

The impairment loss for property and equipment and investment properties are recognised for the amounts by which the carrying amounts exceeds its recoverable amount, in accordance with the Group's accounting policy. The recoverable amounts have been determined based on fair value less costs to sell, which is based on the best information available to reflect the amount that obtainable at each of the balance sheet date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs to disposal.

Impairment of held-for-sell properties

Impairment loss of held-for-sell properties are recognised for the amounts by which the carrying amounts exceeds its realizable value, in accordance with the Group's accounting policy. The realizable value are determined based primarily on the latest invoice prices and current market conditions.

Allowances for bad and doubtful debts

The Group performs ongoing credit evaluations of its customers and adjust credit limits based on payment history and the customer's current credit-worthiness, as determined by the review of their current credit information. The Group continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has been identified. Credit losses have historically been within the Group's expectations and the Group will continue to monitor the collections from customers and maintain an appropriate level of estimated credit losses.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of bank borrowings (note 34), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The Group actively and regularly reviews and manages its capital structure to ensure optimal capital structure and shareholders' returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group currently does not adopt any formal dividend policy.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include accounts receivable, amount due from a former customer, amount due from parent company, other receivables, bank balances, accounts payable, other payables, receipts in advance, estimated liabilities and bank loans. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain deposits of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest Rate Risk

The Group's interest rate risk relates primarily to bank savings and variable-rate borrowings. (See note 33 for details of these borrowings.) It is the Group's policy to keep its borrowings at floating rate of interests so as to minimize the interest rate risk.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The Group's interest rate risk is mainly concentrated on the interest rate fluctuation risk arising from the Group's borrowings.

The sensitivity analyses below have been determined based on the exposure to interest rate risk for derivative instruments and nonderivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year and assuming the variation of interest rates existed for the whole year. A 100 basis point increase or decrease in interest rates of the Peoples' Bank of China is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates for the period ended the next balance date. The analysis was performed according to the same basis for the year ended 31st December 2006.

If interest rates had been 100 basis points higher/lower while all other variables were held constant, the Group's loss after tax as at 31st December 2007 and the accumulative loss as at 31st December 2007 would be increased or decreased by approximately RMB502,000 (2006: increased or decreased by approximately RMB855,000).

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December 2007 in relation to each class of recognized financial assets is the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet. In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual accounts receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity Risk

As the Group suffered a loss on RMB54,557,000 on continuous operatings for the year ended 31st December 2007, the management has carefully considered the present policy applied by the Group on liquidity. As detailedly stated in note 2, the management believes the Group will perform financial duties in the future.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay, was as follows:

	Weighted average effective interest rate	**Undiscounted cash flows within 1 year RMB'000**	**Carrying amounts at 31st December 2007 RMB'000**
2007			
Non-derivative financial liabilities			
Accounts payable		**43,080**	**43,080**
Other payables		**411,821**	**411,821**
Receipt in advance		**44,089**	**44,089**
Provision for potential liabilities		**2,043**	**2,043**
Bank borrowings due within one year	**8.10%**	**62,000**	**62,000**
		563,033	**563,033**

	Weighted average effective interest rate	Undiscounted cash flows within 1 year RMB'000	Carrying amounts at 31st December 2006 RMB'000
2006			
Non-derivative financial liabilities			
Accounts payable		58,249	58,249
Other payables		540,283	540,283
Receipt in advance		65,256	65,256
Provision for potential liabilities		18,502	18,502
Bank borrowings due within one year	7.05%	181,344	181,344
		863,634	863,634

8. 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, the Group's turnover for the year arising from continuous and discontinued operations is stated below:

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Continuous operations		
Development, sale, rental and management of properties	**3,905**	9,521
Education projects	**3,211**	6,370
Others	**–**	574
	7,116	16,465
Discontinued operations (Note 15)		
Cemetery development (Note)	**2,832**	1,602
	9,948	18,067

Note: 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 leasee when the legally binding contract is signed. Such rental income is recognised on a straight-line basis in the income statement over the relevant lease terms. The rental income received but not yet recognised to consolidated balance sheet is classified as deferred income in the balance sheet.

9. SEGMENT INFORMATION

Business Segments

For management purposes, the Group is currently organised into three (2006: three) operating divisions: property development, education projects and cemetery development. 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

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

The Group disposed cemetery development business in the year (See Note 15 for details).

9. SEGMENT INFORMATION *(Continued)*

Business Segments *(Continued)*

Segment information about these businesses is presented below:

(a) For the year ended 31st December 2007/as at 31st December 2007:

	Continuous operations				Discontinued operations	
	Property development RMB'000	Education projects RMB'000	Other business RMB'000	Sub-total RMB'000	Cemetery developments RMB'000	Total RMB'000
Consolidated Income Statement						
Turnover	3,905	3,211	–	7,116	2,832	9,948
Segment results	(5,113)	(18,461)	–	(23,574)	(26,354)	(49,928)
Interest income				21	–	21
Unallocated corporate expenses				(8,040)	–	(8,040)
Finance costs				(23,577)	(4,111)	(27,688)
Profit on disposal of subsidiaries				–	198,436	198,436
Profit before taxation				(55,170)	167,971	112,801
Taxation				613	(1,095)	(482)
Profit for the year				(54,557)	166,876	112,319
Consolidated Balance Sheet						
Segment assets	482,546	405,356	193	888,095	–	888,095
Amount due from parent company				54,268	–	54,268
Unallocated corporate assets				148,165	–	148,165
Total assets				1,090,528	–	1,090,528
Segment liabilities	173,865	116,731	2,590	293,186	–	293,186
Unallocated corporate liabilities				293,580	–	293,580
Total liabilities				586,756	–	586,756
Other Information						
Additions to properties and equipment, and investment properties						
– segment	49	5,771	–	5,820	1,910	7,730
– corporate				–		–
Depreciation and amortization						
– segment	386	18,567	–	18,953	2,081	21,034
– corporate				126		126
Loss on disposal of property and equipment, and investment properties						
– segment	–	–	–	–	–	–
– corporate				–		–
Allowances for bad and doubtful debts						
– segment	–	94	–	94	–	94
– corporate				–		–

9. SEGMENT INFORMATION *(Continued)*

Business Segments *(Continued)*

(b) For the year ended 31st December 2006/as at 31st December 2006:

	Continuous operations				Discontinued operations	
	Property development RMB'000	**Education projects** RMB'000	**Other business** RMB'000	**Sub-total** RMB'000	**Cemetery developments** RMB'000	**Total** RMB'000
Consolidated Income Statement						
Turnover	9,521	6,370	574	16,465	1,602	18,067
Segment results	(24,477)	(19,666)	(172)	(44,315)	(14,298)	(58,613)
Interests income				2,971	11	2,982
Unallocated corporate profit				11,602	–	11,602
Finance costs				(34,149)	(2,421)	(36,570)
Loss before taxation				(63,891)	(16,708)	(80,599)
Taxation				613	(625)	(12)
Loss for the year				(63,278)	(17,333)	(80,611)
Consolidated Balance Sheet						
Segment assets	649,992	422,793	193	1,072,978	81,462	1,154,440
Amounts due from parent company				55,296	–	55,296
Unallocated corporate assets				126,563	3,547	130,110
Total assets				1,254,837	85,009	1,339,846
Segment liabilities	178,593	120,509	2,990	302,092	109,921	412,013
Unallocated corporate liabilities				517,840	20,304	538,144
Total liabilities				819,932	130,225	950,157
Other Information						
Additions to properties and equipment, and investment properties						
– segment	1	16,089	–	16,090	184	16,274
– corporate				–		–
Depreciation and amortization						
– segment	2,316	20,203	11	22,631	2,046	24,696
– corporate				1,355		1,355
Loss on disposal of property and equipment, and investment properties						
– segment	5,442	1,653	–	4,095	45	7,140
– corporate				433		433
Allowances for bad and doubtful debts						
– segment	10,064	–	–	10,064	–	10,064
– corporate				63		63

For the year ended 31st December 2007 and 2006, all of the Group's businesses were taken place in the PRC. All of the Group's turnover and operating results were originated in the PRC. In addition, all of the Group's assets were located in the PRC, accordingly no geographical segment information is presented.

10. FINANCE COSTS

					THE GROUP	
	Continuous operations		Discontinued operations		Total	
	2007	2006	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Interest on bank borrowings wholly repayable within five years	**23,577**	34,149	**4,111**	2,421	**27,688**	36,570

11. LOSS BEFORE TAXATION

					THE GROUP	
	Continuous operations		Discontinued operations		Total	
	2007	2006	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Loss before taxation is arrived at after charging:						
Directors', Supervisors' and Senior Managements' remuneration (note 12)	**203**	405	**–**	–	**203**	405
Staff salaries, allowances and bonuses	**4,208**	5,498	**1,956**	853	**6,164**	6,351
Contributions to retirement and other benefits schemes	**1,134**	1,183	**184**	15	**1,318**	1,198
	5,545	6,681	**2,140**	1,273	**7,685**	7,954
Inventory cost recognised as expense	**–**	256	**–**	–	**–**	256
Auditor's remuneration	**1,100**	1,100	**–**	–	**1,100**	1,100
Depreciation of property and equipment	**7,466**	8,748	**841**	837	**8,307**	9,585
Depreciation of investment properties	**9,053**	12,693	**1,240**	1,209	**10,293**	13,902
Amortisation for prepaid lease payment for land use right	**2,564**	2,564	**–**	–	**2,564**	2,564

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENTS' REMUNERATION

(a) Directors' and Supervisors' Remuneration

The remuneration paid or payable to directors and supervisors were as follows:

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Fees:		
Executive Directors	**45**	150
Non-executive Directors	**–**	150
Independent non-executive Directors	**135**	60
Supervisors	**23**	45
	203	–
Other remunerations:		
Salary allowances and benefits in kind	**–**	–
Contributions to retirement benefits schemes	**–**	–
	–	–
	203	405

The remunerations of each of the Directors and supervisors were disclosed as below:

For the year ended 31st December 2007

		Other remunerations			
Name	**Fees**	**Salary allowances and benefits in kind**	**Contributions to retirement benefits schemes**	**Total remuneration**	**Note**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	
Executive Directors:					
Xu Er Hui	–	–	–	–	Resigned on 5th May 2007
Wang Se	45	–	–	45	Resigned on 5th May 2007
An Mu Zong	–	–	–	–	
Liu Chang Lin	–	–	–	–	Resigned on 1st March 2007
Wang Zai Xing	–	–	–	–	
	45	–	–	45	

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENTS' REMUNERATION *(Continued)*

(a) Directors' and Supervisors' Remuneration *(Continued)*

For the year ended 31st December 2007 *(Continued)*

Name	Fees	Other remunerations: Salary allowances and benefits in kind	Other remunerations: Contributions to retirement benefits schemes	Total remuneration	Note
	RMB'000	RMB'000	RMB'000	RMB'000	
Non-executive Directors:					
Dr. Michel P. Detay	–	–	–	–	Resigned on 22nd January 2007
Deng Yan Bin	–	–	–	–	
Lin Dong Hu	–	–	–	–	
Wang Hui	–	–	–	–	
Shi Jian Hing	–	–	–	–	Passed away in January 2007
	–	–	–	–	
Independent Non-executive Director:					
Choy Shu Kwan	45	–	–	45	Resigned on 8th June 2007
Cui Yan	45	–	–	45	Resigned on 1st February 2007
Cai Lian Jun	45	–	–	45	
	135	–	–	135	
Supervisors:					
Yang Zhi An	23	–	–	23	Resigned on 6th March 2007
Wang Xing Ye	–	–	–	–	
	23	–	–	23	
Total in 2007	203	–	–	203	

12. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENTS' REMUNERATION *(Continued)*

(a) Directors' and Supervisors' Remuneration *(Continued)*

For the year ended 31st December 2006

Name	Fees	Other remunerations: Salary allowances and benefits in kind	Other remunerations: Contributions to retirement benefits schemes	Total remuneration	Note
	RMB'000	RMB'000	RMB'000	RMB'000	
Executive Directors:					
Xu Er Hui	30	–	–	30	Resigned on 5th May 2007
Wang Se	30	–	–	30	Resigned on 5th May 2007
An Mu Zong	30	–	–	30	
Liu Chang Lin	30	–	–	30	Resigned on 1st March 2007
Wang Zai Xing	30	–	–	30	Appointed on 28th November 2005
	150	–	–	150	
Non-executive Directors:					
Dr. Michel P. Detay	30	–	–	30	Resigned on 22nd January 2007
Deng Yan Bin	30	–	–	30	
Lin Dong Hu	30	–	–	30	
Wang Hui	30	–	–	30	
Shi Jian Ming	30	–	–	30	Retired away in January 2007
	150	–	–	150	
Independent Non-executive Director:					
Choy Shu Kwan	30	–	–	30	Resigned on 8th June 2007
Cui Yan	–	–	–	–	Resigned on 1st February 2007
Cai Lian Jun	30	–	–	30	
	60	–	–	60	
Supervisors:					
Yang Zhi An	15	–	–	15	Resigned on 6th March 2007
Wang Xing Ye	15	–	–	15	
Wan Li Na	15	–	–	15	Resigned on 3rd December 2006
	45	–	–	45	
Total in 2006	405	–	–	405	

No directors and supervisors waived or agreed to waive any remunerations for the years ended 31st December 2007 and 2006. No remuneration has been paid by the Group to the directors or supervisors as an inducement to join the Group or as compensation for loss of office.

(b) Senior Managements' Remuneration

For the year ended 31st December 2007, all of the five highest paid individuals of the Group were directors and their remuneration had been include in above. The emoluments of each of the directors and supervisors who received emoluments were below RMB940,000 (equivalent to HK$1,000,000). For the year ended 31st December 2007, there is no remuneration for the Group's senior management.

13. RETIREMENT BENEFITS SCHEMES

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% (2006: 25.5%). The only obligation of the Group with respect to the retirement benefits schemes is to make such specified contributions.

14. TAXATION

	Continuous operations		Discontinued operations		THE GROUP Total	
	2007	2006	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000	**RMB'000**	RMB'000
The taxation comprises of:						
The Company and subsidiaries						
– PRC enterprise income tax	**–**	–	**(1,095)**	(625)	**(1,095)**	(625)
– Deferred taxation (note 34)	**613**	613	**–**	–	**613**	613
	613	613	**(1,095)**	(625)	**(482)**	(12)

No provision for Hong Kong profits tax has been made as the Group's income neither arises in, nor is derived from Hong Kong for each of the two years ended 31st December 2007 and 31st December 2006.

The taxation rates applicable to the Group in the PRC is 15% – 33% (2006: 15% – 33%).

During the 5th Session of the 10th National People's Congress, which was concluded on 16th March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and has become effective on 1st January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The income tax rate adopted by the Company and its subsidiaries has been changed from 15% – 33% to 15% – 25% with effect from 1st January 2008.

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

	2007	2006
	RMB'000	RMB'000
Profit (loss) before taxation		
– Continuous operations	**(55,170)**	(63,891)
– Discontinued operations	**167,971**	(16,708)
	112,801	(80,599)
Income tax at the applicable tax rates	**38,814**	(24,873)
Tax effect of expenses not deductible for tax purpose	**61,417**	17,357
Tax effect of unrecognized tax losses	**(99,749)**	7,528
Taxation expenses	**482**	12

15. DISCONTINUED OPERATIONS

On 29th December 2007, the Railway Transport Intermediate Court of Shenyang held an auction in which Shenzhen Jingmei Industrial Development Limited ("Shenzhen Jingmei") held by the Group and Xili Cemetery, the Group's subsidiary operating cemetery development business were disposed of at the auction price of RMB110,000,000. The proceedings were used to repay the loans owing to Liaoning Hua Jin Hua Gong Group Company Limited ("Hua Jin Company"). These were regarded as discontinued operations and the consolidated income statement was therefore restated.

Below is the profit and loss analysis of the discontinued operations:

	From 1st January 2007 to 29th December 2007 RMB'000	From 1st January 2006 to 31st December 2006 RMB'000
Operating loss of cemetery development business	**(31,560)**	(17,333)
Profit from disposal of cemetery development business (note 35)	**198,436**	–
	166,876	(17,333)
Attributable to:		
Equity holders of the Company	**166,876**	(17,333)
Minority interests	**–**	–
	166,876	(17,333)

The cemetery development business has been included into the consolidated income statement as the results on 1st January 2007 to 29th December 2007 as follow:

	Note	**From 1st January 2007 to 29th December 2007 RMB'000**	From 1st January 2006 to 31st December 2006 RMB'000
Turnover	8	**2,832**	1,602
Bank interests received		**–**	11
Staff costs		**(2,140)**	(1,273)
Depreciation and amorization		**(2,081)**	(2,046)
Loss on disposal of property and equipment		**–**	(187)
Other operating expenses		**(24,965)**	(12,394)
Finance costs	10	**(4,111)**	(2,421)
Loss before taxation	11	**(30,465)**	(16,708)
Taxation	14	**(1,095)**	(625)
Loss for the period/year		**(31,560)**	(17,333)

15. DISCONTINUED OPERATIONS *(Continued)*

The auction of cemetery development business has not incurred taxation expenses or compensated loss.

The carrying amount of Shenzhen Jingmei and Xili Cemetery's assets and liabilities on the auction date has been disclosed in note 36.

16. DIVIDENDS

No dividend was paid or proposed, nor has any dividend been proposed since the balance sheet date (2006: Nil).

17. EARNING (LOSS) PER SHARE

Arising from continuous and discontinued operations

Earning (loss) per share arising from continuous and discontinued operations was calculated based on the profit attributable to shareholders of the Company of RMB115,657,000 (2006: loss of RMB76,705,000), and 1,020,400,000 shares issued in the year (2006: 1,020,400,000 shares).

Arising from continuous operations

Loss is calculated as follows:

	2007 RMB'000	2006 RMB'000
Profit (loss) attributable to shareholders of the Company	**115,657**	(76,705)
Less: Profit (loss) for the year of discontinued operations	**166,876**	(17,333)
Loss per share calculated from continuous operations	**(51,219)**	(59,372)

Loss per share arising from continuous operations is calculated from the 1,020,400,000 shares issued this year (2006: 1,020,400,000 shares).

Arising from discontinued operations

Profit per share arising from discontinued operations calculated based on the profit for the year of RMB166,876,000 (2006: loss of RMB17,333,000), and 1,020,400,000 shares issued in the year (2006: 1,020,400,000 shares).

As the Company has not constituted diluted potential shares in both years, diluted loss per share is not disclosed.

18. PROPERTY AND EQUIPMENT

	Buildings	Leasehold improvement	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 2006	265,690	5,962	22,148	5,374	996	300,170
Transferred from construction in progress	36	–	–	–	(36)	–
Additions	–	–	196	136	9,213	9,545
Disposals/write-off	–	(5,962)	(1,765)	(993)	–	(8,659)
At 31st December 2006 and 1st January 2007	265,726	–	20,579	4.578	10,173	301,056
Transferred from construction in progress	2,336	–	114	–	(2,450)	–
Additions	1,760	–	125	–	5,845	7,730
Disposal of subsidiaries (Note 38)	(14,460)	–	(825)	(1,297)	–	(16,582)
At 31st December 2007	255,362	–	19,993	3,281	13,568	292,204
Accumulated depreciation						
At 1st January 2006	8,191	4,570	9,836	2,281	–	24,878
Provided for the year	7,106	1,192	652	635	–	9,585
Eliminated on disposals/write off	–	(5,762)	(1,544)	(461)	–	(7,767)
At 31st December 2006 and 1st January 2007	15,297	–	8,944	2,455	–	26,696
Provided for the year	7,404	–	616	287	–	8,307
Eliminated on disposal of subsidiaries (Note 38)	(3,101)	–	(460)	(462)	–	(4,023)
At 31st December 2007	19,600	–	9,100	2,280	–	30,980
Impairment losses						
At 1st January 2006, 1st January 2007 and 31st December 2007	114,429	–	–	–	–	114,429
Net book value						
At 31st December 2007	121,333	–	10,893	1,001	13,568	146,795
At 31st December 2006	136,000	–	11,635	2,123	10,173	159,931

18. PROPERTY AND EQUIPMENT *(Continued)*

	Leasehold improvement RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
THE COMPANY				
Cost				
At 1st January 2006	5,962	1,959	1,370	9,291
Additions	–	–	–	–
Disposals/write-off	(5,962)	(687)	(1,370)	(8,019)
At 31st December 2006, 1st January and 31st December 2007	–	1,272	–	1,272
Accumulated depreciation				
At 1st January 2006	4,570	1,447	669	6,686
Provided for the year	1,191	93	88	1,372
Eliminated on disposals	(5,761)	(921)	(757)	(7,439)
At 31st December 2006 and 1st January 2007	–	619	–	619
Provided for the year	–	122	–	122
At 31st December 2007	–	741	–	741
Net book value				
At 31st December 2007	–	531	–	531
At 31st December 2006	–	653	–	653

(a) The depreciation of the property and equipment is provided for based on the estimated useful lives and residual value, using the straight-line method and the following annual discount rates:

Buildings	2–10%
Leasehold improvement	20%
Furniture, fixture and office equipment	8–16%
Motor Vehicles	8–16%

(b) As at the balance sheet date, all of the Group's 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.

(c) As at 31 December 2007, the Group failed to obtain the Real Estate Title Certificates of the building, and the book value was approximately RMB121,333,000 (2006: RMB135,987,000). The management does not believe the value of the buildings will be impaired for being lack of the Real Estate Title Certificates.

19. INVESTMENT PROPERTIES

	THE GROUP RMB'000
Costs	
At 1st January 2006	466,994
Additions	6,729
Disposals	(77,684)
At 31st December 2006 and 1st January 2007	396,039
Additions	107
Disposal of subsidiaries (Note 38)	(56,686)
At 31st December 2007	339,460
Accumulated depreciation	
At 1st January 2006	22,771
Provided for the year	13,902
Eliminated on disposal	(6,106)
At 31st December 2006 and 1st January 2007	30,567
Provided for the year	10,293
Eliminated on disposal of subsidiaries (Note 38)	(4,476)
At 31st December 2007	36,384
Impairment loss	
At 1st January 2006	53,293
Eliminated on disposal	(5,607)
At 31st December 2006, 1st January 2007 and 31st December 2007	47,686
Book value	
At 31st December 2007	255,390
At 31st December 2006	317,786

19. INVESTMENT PROPERTIES *(Continued)*

Investment properties represent land and buildings located in the PRC under medium terms and held for leasing.

At the balance sheet date, properties classified by their nature were as follows:

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Campus	**255,390**	264,341
Cemetery	**–**	53,445
	255,390	317,786

The investment properties was valued by an independent professional valuer, Dudley Surveyors Limited, on 31 December 2007 based on open market basis, of which fair value was RMB297,000,000.

20. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Prepaid lease payments on land use rights of leasehold land in the PRC held under medium terms	**89,316**	91,880
Analysed for reporting purposes as:		
Non-current assets	**86,752**	89,316
Current assets	**2,564**	2,564
	89,316	91,880

The above amount was the prepaid lease payment for a piece of land located in Shenyang PRC used for education project purpose. In respect of a portion of the land with book value of RMB72,574,000 (2006: RMB74,599,000), the land use right certificate has not been obtained as at the balance sheet date.

21. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2007	2006
	RMB'000	RMB'000
Unlisted investments, at cost less accumulated impairment losses	**598,622**	626,646

Particulars of the Company's subsidiaries, as at 31st December 2007 are as follows:

Name of subsidiary	**Paid-up registered capital** RMB'000	**Percentage of effective equity interests held by the Company** **Directly**	**Indirectly**	**Principal activities**
瀋陽發展房產開發有限公司 Shenyang Development Real Estate Company Limited	250,000	99.86%	–	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

21. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of subsidiary	Paid-up registered capital RMB'000	Percentage of effective equity interests held by the Company Directly	Indirectly	Principal activities
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	–	70%	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%	50%	Not yet commence business

21(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.

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

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

21(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.

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

21(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.

22. GOODWILL

	THE GROUP RMB'000
Costs	
At 1st January 2006, 31st December 2006 and 1st January 2007	609,372
Disposal of subsidiaries	(549,996)
At 31st December 2007	59,376
Impairment	
At 1st January 2006, 31st December 2006 and 1st January 2007	609,372
Reversal on disposal of subsidiaries	(549,996)
At 31st December 2007	59,376
Book value	
At 31st December 2007	–
At 31st December 2006	–

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	THE GROUP		THE COMPANY	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Unlisted equity securities, at cost	**20,000**	20,000	**20,000**	20,000

The amount represents investment in Tsinghua Unisplendour Hi-Tech Venture Capital, Inc. ("Tsinghua Unisplendour"). The Group had 8% (2006: 8%) equity interests in Tsinghua Unisplenour. Tsinghua Unisplenour is an unlisted company established in the PRC and is engaged in investment in technology projects. The above investment is an unlisted equity securities issued by private companies. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

24. PROPERTIES HELD FOR SALE

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Properties under development		
At cost	**407,148**	405,014
Completed properties		
At cost	**143,727**	163,448
Less: Impairement loss	**(65,888)**	(72,747)
Realisable value	**77,839**	90,701
	484,987	495,715

(a) The Group's properties held for sale were all located in PRC and under medium-term leases (lease periods of 20 years or more but less than 50 years).

(b) Included in properties under development was development cost of a property development project in Beijing of RMB407,148,000 (2006: RMB405,014,000). The development right for the land was acquired from the Municipal Government of Zhaoyang District of Beijing in previous years.

Relevant land policies in the PRC have been revised in recent years, so the land use right of the land must be obtained through public tendering procedures. Having not obtained the land use right of the land, the Group must participate in the public tendering procedures no matter whether the Group plans to continue developing or transfer the land. The Group has registered in the tendering for the use right of the land. Pursuant to the opinion of the Group's lawyer, if the highest price in the tender is offered by the Group, the Group will obtain the land use right after paying the land premium. On the other hand, if the land is obtained by others, the Group can recover the paid land development costs, related expenses and a certain proportion of the profits in accordance with relevant regulations. The amount the Group can recover depends on the price of tender and the final cost confirmed by relevant authorities.

(c) Included in the completed properties was a project of "Jinmao Tower" located in Shenyang, the PRC with the book value of RMB23,257,000 (2006: RMB36,302,000). The properties have been started to pre-sales in 2003. Due to the delay in the construction, the properties were unable to hand-over to the customers on schedule. Consequently, some of the customers demanded for refund of deposits paid.

During the year, some customers have occupied the units they purchased. But since the Group has not completed the procedures of obtaining Real Estates Title certificate for purchasers as of the balance date of the financial statements, the sales amount of RMB14,325,000 (2006: RMB14,721,000) received was not recognized as income but stated as receipts in advance under current liabilities (note 32) .

24. PROPERTIES HELD FOR SALE *(Continued)*

(d) Included in the completed properties was a project of "Water-Flowers City" located in Shenyang, the PRC with the book value of RMB54,582,000 (2006: RMB54,299,000). The properties have been started to pre-sales in 2003. Up to 31 December 2005, all the units were subscribed. Due to the delay in the construction, the properties were unable to hand-over to the customers on schedule. Consequently, some of the customers demanded for refund of deposits paid.

During the year, some customers have occupied the units they purchased. But since the Group has not completed the procedures of obtaining Real Estates Title certificate for purchasers as of the balance date of the financial statements, the sales amount of RMB29,622,000 (2006: approximately RMB30,579,000) received was not recognized as income but stated as receipts in advance under current liabilities (Note 32) .

As at 18th September 2008, the Group has obtained confirmation letter from Shenyang Building Ownership Certificate Registration Office, which allowed the buyers of the project housing "Water-Flowers City" to have ownership registered. The receipts in advance of "Water-Flowers City" is estimated to be transferred sale of housing in the coming future.

25. INVENTORIES

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Consumables and spare parts, at cost	**341**	469

26. ACCOUNTS RECEIVABLE

The sale was recognized by the Group on accrual basis. The Group allows an average credit period of 30 days to the customers and the management will examine the credit period on a regular basis.

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

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
0 – 30 days	**–**	–
31 – 60 days	**–**	–
61 – 365 days	**–**	1,171
1 – 2 years	**–**	1,420
Over 2 years	**12,518**	11,189
	12,518	13,780
Allowances for bad and doubtful debts	**(12,518)**	(12,588)
Net amount of accounts receivable	**–**	1,192

26. ACCOUNTS RECEIVABLE *(Continued)*

The management considered the book value of the accounts receivable approximates to their fair value.

Accounts receivable that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The aging analysis of the accounts receivable that are not considered to be impaired is as follows:

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Neither past nor impaired	**–**	–
Less than 60 days past due	**–**	–
More than 60 days but less than 365 days past due	**–**	1,171
More than 1 year but less than 2 years past due	**–**	21
More than 2 years past due	**–**	–
Net receivables	**–**	1,192

Movement in allowance of receivables impairment is as follows:

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Balance at beginning of the year	**12,588**	11,620
Reversal during disposing subsidiary	**(70)**	–
Recognised impairment loss	**–**	968
Balance at end of the year	**12,518**	12,588

The allowance for bad and doubtful debts is individually impaired. Allowance is made for debtors who are either been placed under liquidation or in severe financial difficulties.

27. AMOUNT DUE FROM A FORMER CUSTOMER

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Shenyang Water General Corporation ("SWGC")	**96,656**	96,656
Less: impairment loss	**(96,656)**	(96,656)
	–	–

SWGC was a sole customer of water and was a subsidiary of SPU when the Group was engaged in production and sale of urban purified water business before July 2002. The amount due from SWGC was the remaining balance of the purchase of water. According to the agreement entered with SWGC, the amount is required to be settled fully by the end of 2005. However, up to the date of approval of these financial statements, SWGC settled RMB400,000 only. The Directors consider that recovery of the amount is remote, therefore, have made a bad debt provision for the balance in full.

The amount is unsecured and interest free.

28. AMOUNT DUE FROM PARENT COMPANY

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
SPU	**54,268**	55,296	**58,224**	59,264

Maximum amounts outstanding during the year are RMB55,296,000 and RMB590,264,000 for the Group and the Company respectively.

The amount is unsecured, non-interest bearing and repayable on demand.

The directors considered the book value of the amount due from parent company approximates to its fair value.

29. OTHER RECEIVABLES

THE GROUP AND THE COMPANY

Other receivables are amounts unsecured, interest free and payable on demand.

The management believes that book value of other receivables approximates to their fair value.

30. OTHER CURRENT ASSETS

	THE COMPANY	
	2007	2006
	RMB'000	RMB'000
Shares of non-listed companies in PRC		
Shenyang Shinning Festival Real Estate Development Company Limited ("Shinning Festival Real Estate")	**8,000**	8,000
Less: payables	**(7,000)**	(7,000)
	1,000	1,000

31. ACCOUNTS PAYABLE

An age analysis of accounts payable at the balance sheet date is set out as follows:

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
0-90 days	**–**	–
91-180 days	**–**	–
181-365 days	**–**	–
1-2 years	**–**	–
Over 2 years	**43,080**	58,249
	43,080	58,249

The management believes that book value of accounts payable approximates to their fair value.

32. RECEIPTS IN ADVANCE

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Sales of properties (Note 23(c) and 23(d))	**43,947**	45,300
Deposits for leasing of tombs sets and niches	**–**	17,515
Others	**142**	2,541
	44,089	65,356

33. PROVISION FOR POTENTIAL LIABILITIES

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Default payments for sales of properties	**2,043**	2,448
Loss arising from litigation (Note)	**–**	16,054
	2,043	18,502

Note: The amount was payable by Shenzhen Jingmei which was involved in a dispute on construction contract before it was acquired by the Group. In 2002, the Court judged that Shenzhen Jingmei and another party shall make a compensation amounted to RMB16,054,000 jointly. Shenzhen Jingmei and the party had appealed to higher Court in respect of the judgement, and the former had made full provision for the dispute.

The above litigation loss was released as Shenzhen Jingmei's equity interests were transferred this year.

34. BANK LOANS

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Short-term loans	**62,000**	131,367	**–**	49,975
Long-term loans	**–**	49,977	**–**	–
	62,000	181,344	**–**	48,050

The maturity profile of bank loans is as follows:

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Overdue	**–**	50,717	**–**	29,000
Within one year	**62,000**	130,627	**–**	20,975
The portion classified as current liabilities	**62,000**	181,344	**–**	49,975

(a) On 31 December 2005, the outstanding due bank loan of the Group was RMB29,000,000. The creditor bank Shenyang Sub-Branch of Guangdong Development Bank made a claim to the court to recover due loans.

On 6 March 2006, Shenyang Sub-Branch of Guangdong Development Bank made a claim to the Court to recover another outstanding loan due in 2006 amounting to RMB171,000,000. Two loans amount to RMB200,000,000 ("Guangdong Development Bank Loans"). Guangdong Development Bank Loans were pledged by time deposits of the Group amounting to RMB8,700,000, and were secured by Beijing Beida Jade Bird Company Limited ("Beida Jade Bird"), SPUG and Huajin Company and its group company Liaoning Huajin Tongda Chemicals Co. Ltd.

By August 2007, Guangdong Development Bank Loans and interest accrued in a total of RMB210,540,000 were fully settled (effective interest rate was approximately 9.87%), among which, the guarantor Huajin Company paid RMB136,460,000 on behalf of the Group.

(b) All the bank loans are stated in RMB and subject to fixed interest rate. Fixed interest rate ranges from 4.698% to 7.965% per annum.

The management of the Group considers that book value of bank loans approximates to their fair value.

34. BANK LOANS *(Continued)*

(c) Details of bank loans as at balance sheet date are as follows:

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Secured	**62,000**	83,067	**–**	–
Unpledged and unsecured	**–**	98,277	**–**	49,975
	62,000	181,344	**–**	49,975

Details of above-mentioned secured loans are as follows:

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
SPUG	**42,000**	48,540	**–**	–
Beijing Beida Jade Bird Company Limited ("Beida Jade Bird")	**20,000**	34,527	**–**	–
	62,000	83,067	**–**	–

35. SHARE CAPITAL

	THE COMPANY	
	2007	2006
	RMB'000	RMB'000
Registered, issued and fully paid:		
600,000,000 A 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, State-owned shares and H shares issued by the Company rank pari passu in all respects with each other pursuant to the Company Constitution.

36. 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 2006	323,258	65,800	32,900	(339,984)	81,974
Loss for the year	–	–	–	(32,579)	(32,579)
At 31st December 2006 and at 1st January 2007	323,258	65,800	32,900	(372,563)	49,395
Loss for the year	–	–	–	(13,073)	(13,073)
At 31st December 2007	323,258	65,800	32,900	(385,636)	36,322

(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.

(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.

37. DEFERRED TAXATION

The following are the major deferred tax liabilities recognized and the movements thereon during the current and previous years:

	THE GROUP RMB'000
At 1st January 2006	23,781
Written back to income statement for the year	(613)
As at 31st December 2006 and 1st January 2007	23,168
Written back to income statement for the year	(613)
As at 31st December 2007	22,555

The Group's deferred tax were related to the differences between the fair value of assets acquired and the corresponding tax bases arising from the acquisition of the subsidiaries.

As at 31st December 2007, the Group has estimated unused tax losses of RMB392,985,000 (2006: RMB392,967,000) available for offsetting future profits. No tax losses have been recognized as deferred tax assets due to the unpredictability of future profit streams. These unused tax losses will be expired by 2012.

38. DISPOSAL OF SUBSIDIARIES

The Group disposed its all equity interests in Shenzhen Jingmei and Xili Cemetery at a total consideration of RMB110,000,000 on 29th December 2007.

The net assets of these subsidiaries on the disposal date are as follows:

	Shenzhen Jingmei and Xili Cemetery RMB'000
Net value of disposed assets:	
Property and equipment	12,559
Investment properties	52,210
Other receivables	4,308
Bank balances and cash	6,490
Accounts payable	(3,237)
Other payables and accrual expenses	(46,512)
Receipts in advance	(1,742)
Tax payable	(956)
Deferred income	(112,530)
Bank borrowings	(790)
	(90,200)
Minority interests	1,764
Earning on disposal	198,436
Total consideration	110,000
Payment manner:	
Other payables	110,000
Net amount of cash flows arising from disposal	
Disposed bank balances and cash	6,490

39. PLEDGE OF ASSETS

The Group signed "Agreement of Compensation and Plegde of Equity Interests" with a creditor Beijing Mingyude Business and Trade Company Limited ("Mingyude"), under which the Group pledged 80% equity interests of Beijing Diye to Mingyude as a security of the debt of RMB12,870,000. As Beijing Diye is a non-listed company and in present the state industry and commerce department does not accept the application for pledge of equity interests from non-listed company, the equity interests of Beijing Diye were first transferred to Mingyude under mutual agreement. After the Group has fully repaid the related debts and interests, Mingyude will transfer the equity interests of Beijing Diye back to the Group unconditionally. Also, according to the agreement on 10th October 2007, both parties agreed the above Beijing Diye's equity interests to be the security of the Group's another debt of RMB32,160,000 owing to Mingyude. If the Group cannot perform the perform its obligations within one month from 30th June 2008 ("the payment date"), Mingyude can exercise the right of pledge to sell Beijing Diye's equity interests.

The details of Beijing Diye's assets and liabilities as at 31st December 2007 are as follows:

	As at 31st December 2007
Assets	
Property and equipment	**534**
Properties for investment	**407,148**
Other receivables	**10,486**
Bank balances and cash	**31**
	418,199
Liabilities	
Accounts payable	**20**
Other payables	**41,123**
Internal amount due to the Group's companies	**407,213**
	448,356

The operating condition of Beijing Diye on 31st December 2007 is as follows:

	From 1st June 2007 to 31st December 2007
Turnover	**–**
Other operating income	**65**
Operating expenses	**(274)**
Management expenses	**(1,938)**
	(2,147)

The principal and interests owing to Mingyude by the Group were fully paid on 31st July 2008.

40. CAPITAL COMMITMENTS

As 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**	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Acquisition of properties and equipments/construction costs	**–**	3,490	**–**	–

41. OPERATION LEASE COMMITMENTS

As a lessor

During the year, the rental income received by the Group from leasing schoolhouse and related equipments and department stores was analyzed as follows:

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Schoolhouse and equipment (Note)	**3,000**	4,000

Note: Pursuant to the agreement in respect of leasing schoolhouse and related equipments between the Group and the lessee Zhuhai Beida Subsidiary Experiment School ("Zhuhai School"), Zhuhai School owed to the Group the rent amounting to RMB3,000,000 (2006: RMB4,000,000).

As at the balance sheet date, the Group has entered into agreements with tenants to lease schoolhouse and related equipments. The lease period was from January 2003 to December 2013. Rents have been determined, until December 2008, and the subsequent rents would be otherwise negotiated by the parties.

As at the balance sheet date, the contracted and irrevocable minimum rents (excluding the rents for leasing schoolhouse and equipments) are as follows:

	THE GROUP	
	2007	2006
	RMB'000	RMB'000
Within one year	**3,000**	3,000
Two to five years	**–**	3,000
Over five years	**–**	–
	3,000	6,000

42. CONTINGENT LIABILITIES

Pursuant to the sales and purchase agreement for the acquisition of equity interests in Shenzhen Jingmei and Xili Cemetery (collectively refers as "Cemetery Companies" below) dated 31st December 2003, all liabilities not relating to the operations of cemetery business would be transferred out of the Cemetery Companies and undertaken up by the former shareholder of Cemetery Companies (the "Former Shareholder"). During 2004, the Company entered into an agreement with the Former Shareholder that 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 has 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.

The above contingent liabilities were released as Shenzhen Jingmei's and Xili Cemetery's equity interests were transferred this year.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS

(a) The RMB200,000,000 loan dispute between the Company and Shenzhen Development Bank

On 6th December 2004, the Company received a writ of summons from the Higher People's Court of Liaoning Province in relation to the RMB200,000,000 loan advanced by Dalian Branch of Shenzhen Development Bank to the Company. Liaoning Hua Jin Hua Gong Group Company Limited ("Hua Jin Hua Gong") was the guarantor of the RMB200,000,000 loan. In the course of the legal action, Beijing Beida Jade Bird Company Limited ("Beida Jade Bird"), being the associates of the Company's substantial shareholder, Beijing Diye Real Estate Development Company Limited ("Beijing Diye") and Shenyang Pollon Finance Building Management Company Limited ("Shenyang Pollon") provided another guarantee to Hua Jin Hua Gong. The Company has repaid RMB25,000,000 before the Civil Mediation Agreement issued by the Higher People's Court of Liaoning Province becoming effective.

After the Civil Mediation Agreement becoming effective on 16th February 2005, the Company has repaid an additional RMB20,000,000 to Shenzhen Development Bank. On 22nd February 2005, Hua Jin Hua Gong paid RMB8,000,000 to Shenzhen Development Bank for the Company. On 26th April 2005, the Higher People's Court of Liaoning Province sequestrated RMB153,380,000 from the account of Hua Jin Hua Gong in settlement of the loan.

As a result, the loan and interest due to Dalian Branch of Shenzhen Development Bank had been fully settled pursuant to the Civil Mediation Agreement.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS

(Continued)

(b) The subsequent claim from Hua Jin Hua Gong who acted as guarantor and paid the sum of RMB161,380,000 to Shenzhen Development Bank for the Company

Hua Jin Hua Gong then commenced legal action against the Company, Beida Jade Bird, Beijing Diye and Shenyang Pollon for a total sum of RMB161,380,000 it had paid for the Company as guarantor and the interest accrued.

On 12th December 2005, the Higher People's Court of Liaoning Province issued the Civil Judgement (2005) Liao Min San Chu Zi No.26 民事判決書(2005)遼民三初字第26號, pursuant to which SPU was liable to repay the sum of RMB161,380,000 together with interest and other fees arising from the legal action in the total sum of RMB1,624,000 to Hua Jin Hua Gong within 10 days from the effective date of the Judgement. Beijing Diye and Beida Jade Bird undertook to repay the above-mentioned amounts for SPU ; Shenyang Pollon also undertook to repay the above-mentioned amounts for SPU, but they reserved the right to recover the loss from SPU after the assumption of liability as guarantors by Beijing Diye and Beida Jade Bird and compensation responsibility by Shenyang Pollon , respectively.

On 16th July 2007, the Higher People's Court of Liaoning Province issued the Civil Execution Order (2006) Liao Zhi Er Zi No.53 民事裁定書(2006)遼執二字第53號, pursuant to which RMB55,000 from SPU, RMB195,000 from Beijing Diye and the sale proceeds of Beida Jade Bird and Shenyang Pollon's property from appraisal and auction were enforcedly sequestrated by the Court to settle Hua Jin Hua Gong's claim (after deduction of the preferred creditors). The amount received by Hua Jin Hua Gong covered the claim of RMB161,380,000, the interest in the sum of RMB22,000,000 and other fees arising from the legal action in the sum of RMB3,389,000.

As a result, the judgment debt payable to Hua Jin Hua Gong has been fully settled.

Pursuant to the Letter of Confirmation issued by Beijing Diye Real Estate Development Company Limited, the assistance of RMB195,000 due to Beijing Diye has been offset by its debt owed to the Company, whereby Beijing Diye has agreed not to claim against the Company for the above assistance.

Pursuant to a settlement agreement signed between the Company and Shenyang Pollon Finance Building Management Company Limited, the assistance of approximately RMB33,000,000 due to Shenyang Pollon, being the proceeds of assets from the said auction, will be offset by its debt owed to the Company, whereby Shenyang Pollon Finance Building Management Company Limited has agreed not to claim against the Company for the above assistance in judicial or other ways.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS

(Continued)

(c) Further legal action from Beida Jade Bird against the Company, Shenyang Public Utility Group Company Limited ("SPUG") and Shenzhen Jingmei Industrial Development Limited ("Shenzhen Jingmei")

In the course of the legal action initiated by Hua Jin Hua Gong for the sum of RMB161,380,000, SPUG and Shenzhen Jingmei provided another guarantee of not more than RMB91,910,000 to Beida Jade Bird. As mentioned above, the sale proceeds of Beida Jade Bird's assets from an auction were applied to settle Hua Jin Hua Gong's claim. On 14th May 2007, Beida Jade Bird commenced legal action against SPUG and Shenzhen Jingmei for its payment to Hua Jin Hua Gong. On 13th June 2007, Beijing Intermediate People's Court issued the Civil Judgement (2007) Yi Zhong Min Chu Zi No.1843 民事判決書(2007)一中民初字第1843號 and handed down judgment, under which SPUG and Shenzhen Jingmei were liable to pay off the claim of Beida Jade Bird together with the relevant interest. Up to 31st August 2008, SPU has repaid approximately RMB101,340,000 to Beida Jade Bird. The unpaid balance of the claim of Beijing Jade Bird and the interest amount to approximately RMB82,000,000.

According to the letter of undertaking issued by Beida Jade Bird on 17th September 2008, Beida Jade Bird undertook that it would not require Shenyang Public Utility to make repayment in cash within 24 months from 17th September 2008.

According to the letter of undertaking issued by Shenyang Public Utility Group Company Limited on 18th September 2008, Shenyang Public Utility Group Company Limited undertook that it would not require SPU to make repayment in cash within 24 months from 18th September 2008 if Shenyang Public Utility Group Company Limited repaid corresponding debts on behalf of SPU.

(d) The two loan disputes between the Company and Shenyang Branch of Guangdong Development Bank ("Guangdong Development Bank") and subsequent lawsuits with Hua Jin Hua Gong

(i) The dispute on the loan of RMB29,000,000 between the Company and Guangdong Development Bank

On 26th December 2005, Guangdong Development Bank commenced a legal action in respect of the dispute on the loan of RMB29,000,000 against the Company (as the borrower) and Hua Jin Hua Gong, SPU, Beida Jade Bird and Liaoning Huajin Tongda Chemicals Co., Ltd. ("Huajin Tongda") (as the guarantors).

On 18th February 2006, Shenyang Intermediate People's Court issued the Civil Judgement (2006) Shen Zhong Min (3) He Chu Zi No.34 (《判決書》(2006)瀋中民三合初字第34號), pursuant to which, (1) the Company was liable to repay the principal of RMB29,000,000 within 10 days from the date of judgement; (2) the Company was liable to pay the interest of the loan amounting to RMB180,000; (3) Guangdong Development Bank lawfully enjoyed priority in compensation in respect of the two time deposits of the Company amounting to RMB10,302,700 which were the pledge of the pledge guarantee set by the Company for the allowance of RMB10,303,000; (4) SPUG, Hua Jin Hua Gong, Huajin Tongda and Beida Jade Bird were entitled to recover the amount from the Company after they jointly undertook joint responsibility and joint repayment responsibility for the repayment obligation mentioned in (1) and (2); and (5) the Company also undertook to pay the legal fee of RMB155,000 and a property custody fee of RMB146,000.

On 6th April 2006, Guangdong Development Bank sequestrated RMB70,000,000 and RMB80,000,000 from the accounts of the Company and Hua Jin Hua Gong respectively. Among above-mentioned amount, RMB10,300,000 was used to repay the principal of the loan of RMB20,000,000, and the balance was used to repay another loan of RMB171,000,000. Thus the outstanding amount of the loan of RMB29,000,000 was RMB18,700,000.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS
(Continued)

(d) The two loan disputes between the Company and Shenyang Branch of Guangdong Development Bank ("Guangdong Development Bank") and subsequent lawsuits with Hua Jin Hua Gong *(Continued)*

(i) The dispute on the loan of RMB29,000,000 between the Company and Guangdong Development Bank *(Continued)*

In August 2007, Shenyang Intermediate People's Court sequestrated RMB56,462,000 from the account of Hua Jin Hua Gong to settle the outstanding principal and interest of the loan of RMB29,000,000.

As a result, the principal and interest of the loan of RMB29,000,000 has been fully recovered by Guangdong Development Bank.

(ii) The loan dispute of RMB171,000,000 between the Company and Guangdong Development Bank

In January 2006, Guangdong Development Bank commenced another legal action for the dispute on the loan of RMB171,000,000 in the Higher People's Court of Liaoning Province against the Company (as borrower) and Hua Jin Hua Gong, SPU, Beida Jade Bird and Liaoning Huajin Tongda Chemicals Co. Ltd. ("**Huajin Tongda**") (as guarantors).

During the litigation, Guangdong Development Bank applied to the Higher People's Court of Liaoning Province to withdraw the claim. The Higher People's Court of Liaoning Province issued the (2006) Liao Min San Chu Zi No.31, *Civil Execution Order* (2006)遼民三初字第31號《民事裁定書》to approve the withdrawal of the claim from Guangdong Development Bank.

According to the (2006) Shen Zhong Min Er Fong Chu Zi No 190 Civil Judgement (瀋中民二房初字190號《民事裁定書》) issued by the Intermediate People's Court in Shenyang, during the litigation Guangdong Development Bank sequestrated pledged fixed deposit and interest income totaling RMB63,389,000 owned by the Company on 6th April 2006 for repayment of bank loan and accrued interest, that is principal amount RMB60,192,000 and interest amount RMB3,197,000. Also, Guangzhou Development Bank sequestrated the amount of saving account owned by Hua Jin Huo Gong totaling RMB80,000,000 for repayment of bank loan principal and accrued interest RMB60,729,000 and RMB88,000 respectively. On 12th April 2006, Guangzhou Development Bank sequestrated the remaining position of the above mentioned saving account balance RMB19,183,000 for repayment of loan principal. As a result, the unpaid principal portion owned by the Company was RMB30,896,000

On 12th May 2006, Guangdong Development Bank commenced legal action against the Company, Hua Jin Hua Gong, SPU, Beida Jade Bird and Huajin Tongda for the outstanding amount of RMB30,896,000 in Shenyang Intermediate People's Court.

On 31st January 2007, Shenyang Intermediate People's Court issued the Civil Judgement (2006) Shen Zhong Min (3) He Chu Zi No.234 (2006)瀋中民三合初字第234號《民事判決書》, pursuant to which (1) the Company was liable to repay the outstanding amount of RMB30,896,000 and the interest of RMB2,221,000 to Guangdong Development Bank within 10 days from the date of judgment; (2) Beida Jade Bird and SPU were jointly liable to pay off the amount payable; (3) Huajin Tongda and Hua Jin Hua Gong jointly guaranteed the repayment of the outstanding amount mentioned in (1) but only limited to RMB50,000,000 and RMB51,300,000 respectively; and (4) the Company, Hua Jin Hua Gong, SPU, Beida Jade Bird and Huajin Tongda undertook to pay the legal expense of RMB164,000 and the custody fee of RMB161,000.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS *(Continued)*

(d) The two loan disputes between the Company and Shenyang Branch of Guangdong Development Bank ("Guangdong Development Bank") and subsequent lawsuits with Hua Jin Hua Gong *(Continued)*

(ii) The loan dispute of RMB171,000,000 between the Company and Guangdong Development Bank *(Continued)*

In August 2007, Shenyang Intermediate People's Court sequestrated RMB56,462,000 from the account of Hua Jin Hua Gong to settle the outstanding amount of RMB30,896,000 and all the principal and interest of the loan.

As a result, Guangdong Development Bank has recovered all the principal and interest of the loan of RMB171,000,000.

(e) The claim for RMB80,000,000 from Hua Jin Hua Gong after the loan disputes between the Company and Guangdong Development Bank

RMB80,000,000 was sequestrated from the account of Hua Jin Hua Gong in settlement of the RMB171,000,000 loan for the Company. On 12th April 2006, Hua Jin Hua Gong made a claim against the Company, SPU and Beida Jade Bird to recover the sum of RMB80,000,000.

Higher People's Court of Liaoning Province issued the Civil Mediation Agreement (2006) Liao Min San Chu Zi No.43 民事調解書(2006)遼民三初字第43號 in respect of the settlement.

In June 2006, Hua Jin Hua Gong entered into a compromise agreement with the Company, SPU and Beida Jade Bird, pursuant to which (1) the Company was liable to pay off RMB80,000,000 and the interest incurred before 25th November 2006; (2) in the event that the Company was unable to pay off the sum, each of SPUG and Beida Jade Bird would pay one-third of the outstanding balance and the Company shall repay the remaining one-third; and the Company was liable to pay the legal expense of RMB410,000 and the custody fee of RMB401,000.

Owing to the fact that the Company, SPU and Beida Jade Bird did not implement the repayment voluntarily, the Railway Transport Intermediate Court of Shenyang (瀋陽鐵路運輸法院) held an judicial sale on 29th December 2007, through which the 95% equity interest in Shenzhen Jingmei held by the Company was disposed of. Subsequently the total sum of the principal, interest, legal expense and execution fee amounting to RMB83,540,000 was repaid to Hua Jin to fully settle the amount of RMB80,000,000 and the interest owed to Hua Jin .

On 10th March 2008, the Railway Transport Intermediate Court of Shenyang (瀋陽鐵路運輸法院) issued the Civil Execution Order (2007) Shen Tie Zhi Zi No.3-1 民事裁定書(2007)瀋鐵執指字第3-1號 and confirmed the completion of execution and the conclusion of the lawsuit.

RMB56,462,000 was sequestrated from the account of Hua Jin respectively in settlement of the RMB29,000,000 loan and the RMB171,000,000 loan payable by the Company. In September 2007, Hua Jin commenced a legal action against the Company, SPU and Beida Jade Bird to recover the sum of RMB56,462,000.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS

(Continued)

(e) The claim for RMB80,000,000 from Hua Jin Hua Gong after the loan disputes between the Company and Guangdong Development Bank *(Continued)*

On 17th October 2007, Hua Jin reached a settlement with the Company, SPU, Beida Jade Bird, Shenyang Pollon and Beijing Mingyude Business and Trade Company Limited ("Beijing Mingyude") in respect of the dispute about guarantee recourse. 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 relating to this settlement, pursuant to which (1) the sum of RMB56,462,000 as an assistant amount for fulfilling its guarantee responsibility and the remaining interest incurred from the date of making assistant payment to the date of actual repayment calculated at then prevailing loan interest rate for circulating fund issued by the People's Bank of China are payable by the Company to Hua Jin; (2) Hua Jin agrees the Company to repay the aggregate debt of RMB56,460,000. The Company was liable to repay RMB32,160,000 before 30th November 2007 and to repay RMB24,300,000 before 25th December 2007; (3) Beida Jade Bird and SPUG continue to jointly guaranteed the debt of RMB56,460,000 payable by the Company to Hua Jin, and in the event that Hua Jin was unable to recover the sum, each of the Beida Jade Bird and SPU would pay one-third of the outstanding amount; (4) Mingyude guaranteed the debt of RMB32,160,000 payable by the Company, and pledged the time deposit certificate of RMB32,000,000 as a guarantee; Shenyang Pollon guaranteed the debt of 24,300,000 payable by the Company; (5) If the Company did not implemented the repayment on time and Mingyude and Shenyang Pollon did not fulfilled the guarantee responsibility on the agreed term, the Company shall be liable to repay the plaintiff Hua Jin based on the aggregate debt of RMB56,462,000; (6) after above-mentioned guarantors fulfilled the guarantee responsibility, they are entitled to recover the debt from the Company at the amount they made repayment on behalf of the Company; (7) each of Hua Jin and the Company was liable to pay for the legal fee of RMB162,000 and a custody fee of RMB5,000.

In November 2007, Mingyude repaid RMB32,160,000 to Hua Jin Hua Gong for the Company.

In August 2008, the Company repaid RMB32,160,000 and the interest to Mingyude.

(f) The claim for RMB56,462,000 by Hua Jin after the loan disputes between the Company and Guangdong Development Bank

On 20th June 2008, Shenyang Pollon signed the Agreement of Settlement of Debts by Properties with Hua Jin Hua Gong, the Company, Beida Jade Bird and SPUG, pursuant to which RMB24,300,000 worth of 69 residential units of Cosmo International Mansion owned by Shenyang Pollon were sequestrated to settle Hua Jin Hua Gong's claim. The transfer of ownership of Cosmo International Mansion to Hua Jin Hua Gong is still ongoing.

According to the Agreement signed by the Company and Shenyang Pollon, Shenyang Pollon and the Company agreed unanimously to settle the debts by eliminating debts by properties in respect of the situation that Shenyang Pollon repaid the debt of 24,300,000 to Hua Jin Hua Gong for the Company by settlement of debts by properties, and Shenyang Pollon guaranteed not to recover the above amounts through law or other ways compulsorily.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS
(Continued)

(g) According to the information provided by the Company, there are 2 cases of material lawsuits involved with a subsidiary of the Company, Shenyang Development Real Estate Development Company Limited ("Shenyang Development") occurred within PRC mainland from the suspension date to the date of issuing the legal opinion, which include:

(i) The dispute in relation to a construction contract amongst Shenyang Development, No.6 Construction Work Company of No.4 Works Bureau of China Construction ("China Construction) and the guarantor Shanghai Hanhua Property Management Company Limited ("Shanghai Hanhua")

After the mediation of Shenyang Intermediate People's Court, all parties involved had voluntarily reached a mediation agreement pursuant to which, Shenyang Intermediate People's Court issued the Civil Mediation of (2006) Liao Zhong Min (2) Fang Chu Zi No.129 and the Civil Execution Order of (2006) Shen Zhong Min (2) Fang Chu Zi No.129 to confirm the main contents of the mediation agreement are as follows: (1) both parties have agreed that Shenyang Development shall pay the construction cost and interest totaling RMB5,831,000.16 by two instalments; (2) the legal fee and custody fee shall be borne by Shenyang Development and China Construction equally; and if the guarantor shall not implement the repayment on time, Shenyang Development shall pay all the litigation fees; (3) a sum of RMB2,000,000 shall be paid to China Construction before 14th February 2007; and a sum of RMB3,831,000 and litigation fee shall be paid to China Construction before 10th April 2007. If the guarantor failed to make the repayment on time, Shenyang Development shall pay half of the interest forgone by China Construction; (4) the guarantor Shanghai Hanhua guaranteed the payment of the above amount by Shenyang Development to China Construction. If Shenyang Development fails to make payment as per the term provided in Clause 2 of the agreement, the guarantor shall make the payment accordingly. If the guarantor fails to perform its responsibility after the due date, China Construction may apply for compulsory execution of the guarantee pursuant to a Civil Mediation Agreement delivered by the Court in accordance with the law; (5) the three parties of the agreement have agreed that, if the guarantor shall obtain all the title of debts requested by China Construction towards Shenyang Development in the litigation, and the right of custody over the assets of Shenyang Development involved in the litigation; (6) after performance of its responsibility, the guarantor shall have the right of recourse against Shenyang Development in accordance with Article 31 of the Law of Guarantee of the People's Republic of China and shall have the right to apply for compulsory execution of the Civil Mediation issued by the Court in accordance with the applicable law.

The guarantor Shanghai Hanhua shall perform its responsibility by making all payments on behalf of Shenyang Development.

The litigation was handled and mediated by the Intermediate People's Court of Shenyang and all parties involved had reached a reconciliation agreement voluntarily, pursuant to which, the Court issued a Civil Mediation Agreement《民事調解書》(2006) Liao Zhong Min Er Fang Chu Zi No.190 as follows, inter alias: (1) both parties agreed that the Company shall pay to Shenyang Tianbei the construction fee and interest totaling RMB17,000,000 by two instalments. The legal fee, custody fee and audit fee totaling RMB281,000 shall be borne by Shenyang Development and Shenyang Tianbei equally in the amount of RMB140,000. Shenyang Development shall pay such amount to Shenyang Tianbei on or before 20th July 2007. Shenyang Tianbei and Shenyang Development have no other dispute over the petition by Shenyang Tianbei; (2) Shenyang Development shall pay RMB4,130,000 and RMB12,870,000 to Shenyang Tianbei on or before 28th June 2007 and 6th July 2007 respectively; (3) Shanghai Hanhua, the Guarantor, has agreed to assume the responsibility of Shenyang Development to pay RMB4,130,000 to Shenyang Tianbei pursuant to Article 2 of the agreement, and Beijing Mingyude, the Guarantor, has agreed to assume the responsibility of Shenyang Development to pay RMB12,870,000 to Shenyang Tianbei pursuant to Article 2 of the agreement. If Shenyang Development fails to make payment on or before the due dates as stated in Article 2 of the agreement, the Guarantors shall assume the payment responsibility from the due dates as stated in Article 2 of the agreement for two years;

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS *(Continued)*

(g) According to the information provided by the Company, there are 2 cases of material lawsuits involved with a subsidiary of the Company, Shenyang Development Real Estate Development Company Limited ("Shenyang Development") occurred within PRC mainland from the suspension date to the date of issuing the legal opinion, which include: *(Continued)*

(ii) The dispute of a construction contract amongst Shenyang Development and Shenyang Tianbei Construction Installation work Company ("Shenyang Tianbei"), Shanghai Hanhua (the Guarantor), Beijing Mingyude Business and Trade Company Limited ("Beijing Mingyude")

(4) Shenyang Tianbei has agreed to return all project files and relevant information for completion examination of the projects involved in the litigation, as well as to deliver vacant possession all 6 residential units and one shop in "Shui Xie Hua Du" (水榭花都) currently occupied by it to Shenyang Development within 3 days upon receipt of RMB4,130,000 as provided in Article 2 of the agreement; (5) Shenyang Tianbei has agreed to issue receipt and tax vouchers to Shenyang Development within 15 days upon receipt of RMB12,870,000 as required in Article 2 of the agreement. Shenyang Tianbei shall also assign a designated person to assist Shenyang Development to complete the registration and examination of the projects with the related authorities (the registrars). Shenyang Tianbei has agreed to submit its consent to the Court for the release of the confiscated and frozen assets of Shenyang Development and assist Shenyang Development to finish the relief of the assets; (6) if Shenyang Tianbei fails to perform its responsibilities as provided in Article 4 and 5 of the agreement in time, Shenyang Development may apply to the competent court for compulsory performance of the responsibilities of Shenyang Tianbei as provided in Article 4 and 5 in the agreement; (7) the four parties to the agreement have agreed that, after the execution of the agreement, if the Guarantors have paid all of the debts as stated in Article 2 of the agreement on behalf of Shenyang Development, the Guarantors shall have the right of recourse against Shenyang Development in an amount equal to the debts repaid to Shenyang Tianbei and obtain the custodian rights of Shenyang Tianbei over the assets of Shenyang Development; and (8) after performance of their responsibilities, the Guarantors shall have the right of recourse against Shenyang Development in accordance with Article 31 of the Law of Guarantee of the People's Republic of China and shall have the right to apply for compulsory execution of the Civil Mediation issued by the Court in respect to the litigation in accordance with the applicable law.

The Guarantors, Shanghai Hanhua and Beijing Mingyude, had performed their responsibilities as provided in the above civil mediation agreement by making payments of RMB4,130,000 and RMB12,870,000 respectively on behalf of Shenyang Development.

According to a Confirmation Letter《確認函》issued by Shanghai Hanhua, the RMB4,130,000 paid by Shanghai Hanhua for Shenyang Development has been settled. Shanghai Hanhua will not invoke a claim against Shenyang Development to pay the claim in cash.

According to the Engagement letter of Settlement Business by China Merchants Bank (招商銀行結算業務委託書) (NO0013645688) and the entrustment payment notice provided by the Company, the Company had paid RMB46,799,000 to Beijing Mingyude in July 2008 by way of entrustment payment, RMB13,567,000 of which was for the RMB12,870,000 that Beijing Mingyude had paid for the Company as a guarantor and the interest accrued.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS

(Continued)

(g) According to the information provided by the Company, there are 2 cases of material lawsuits involved with a subsidiary of the Company, Shenyang Development Real Estate Development Company Limited ("Shenyang Development") occurred within PRC mainland from the suspension date to the date of issuing the legal opinion, which include: *(Continued)*

(iii) The petition for execution of right of recourse by Shanghai Hanhua, the execution applicant, against Shenyang Development, the enforcee

As Shanghai Hanhua has performed its guarantee responsibility by repaying to Shenyang Development pursuant to Civil Mediation Agreement (2006) Liao Zhong Min (2) Fang Chu Zi No.129, Shanghai Hanhua applied to the Intermediate People's Court of Shenyang for compulsory execution of Civil Mediation Agreement (2006) Liao Zhong Min (2) Fang Chu Zi No.129. Both parties had reached a settlement agreement to settle all the debts by transferring the entire equity interest in Shenyang Development Beida Education Science Park Company Limited held by Shenyang Development, the enforce, at a value of RMB5,866,000. In this respect, the parties had executed a Share Settlement Agreement.

On 19th November 2007, Shanghai Hanhua, the execution applicant, applied to the Intermediate People's Court of Shenyang for the closure of the litigation. The Intermediate People's Court of Shenyang issued a Civil Order (Execution) (2007) Shen Fa Zhi Ji No.577 on 15th January 2008, which approved the Share Settlement Agreement between the parties allowed the transfer of equity interest. The execution of the Civil Mediation Agreement of Intermediate People's Court of Shenyang (2006) Liao Zhong Min (2) Fang Chu Ji No.129 was completed.

(h) The following equity interests of the Group were disposed of in 2008 respectively. Particulars of its assets and liabilities, as at 31st December 2007 are as follows:

(i) Education project business – Shenyang Education and Science Park

	RMB'000
Assets	
Property and equipment	121,603
Prepaid lease payments for land use rights	89,316
Available-for-Sale financial assets	23,128
Other receivables	228
Internal amount due to the Group's companies	8,340
Bank balances and cash	1
	242,616
Liabilities	
Accounts payable	
Other payables and accrual expenses	38,938
Internal amount due to the Group's companies	274,921
Bank borrowings	42,000
	355,859

The purchase considering of Shenyang Education and Science Park was approximately RMB256,640,000.

43. LITIGATIONS/SEQUESTRATION OF ASSETS/POST BALANCE SHEET EVENTS

(Continued)

(h) The following equity interests of the Group were disposed of in 2008 respectively. Particulars of its assets and liabilities, as at 31st December 2007 are as follows:

(Continued)

(ii) Property development business – Shengyang Development Property Management Company Limited

	RMB'000
Assets	
Property and equipment	142
Other receivables	8
Internal amount due to the Group's companies	9,034
Bank balances and cash	2,291
	11,475
Liabilities	
Other payables and accrual expenses	1,464
Internal amount due to the Group's companies	11,748
	13,212

At March 2008, 60% equity interests of Shengyang Development Property Management Company Limited had been sold out. The purchase considering of Shenyang Development Real Estate Company Limited was approximately RMB600,000.

(i) The following subsidiary of the Group was deregistered in 2008. Particulars of its assets and liabilities, as at 31st December 2007 are as follows:

Education project business – Shengyang Beida Jade Bird Business Information System Company Limited

	RMB'000
Assets	
Property and equipment	91
Inventories	100
Prepayment	1,500
Internal amount due to the Group's companies	1,498
Bank balances and cash	16
	3,205
Liabilities	
Accounts payables	2,315
Other payables and accrual expenses	580
Internal amount due to the Group's companies	310
	3,205

44. CONNECTED TRANSACTIONS

Connected parties include the Group's subsidiaries, holding companies and its subsidiaries, other state-owned enterprise and its subsidiaries that directly or indirectly controlled by the PRC Government, other companies that our company may control or impose substantial influence on its financial and operational decisions, and entities and companies that are controlled and affected by the key management and family members of our company, our Group or its holding companies.

The identified connected parties of the Group are as follows:

Name of company	Relationships with the Company
SPU	The parent company of the Company
Beida Hi-Tech	A shareholder of SPU
Weifang Beida Jade Bird Huaguang Technology Company Limited ("Jade Bird Huaguang")	The holding company of Beida Hi-Tech
Beida Jade Bird	A shareholder of Jade Bird Huaguang
Beijing Tianqiao Beida Jade Bird Technology Company Limited ("Beijing Tianqiao")	A shareholder of Jade Bird Huaguang
Beijing Beida Education Investment Company Limited ("Beida Education Investment")	A subsidiary of Beida Jade Bird
Zhuhai School	A branch of Beida Education Investment
珠海科教	A subsidiary of Beida Education Investment
北京特利投資管理有限公司	A subsidiary of Beida Jade Bird
深圳市桑夏計算機與人工智能開發有限公司（「深圳桑夏」）	A subsidiary of Beida Jade Bird
Huajin Company	Other state-owned enterprise
Beijing Peking University Resource Group Co., Ltd. ("Peking University Resource")	Other state-owned enterprise

44. CONNECTED TRANSACTIONS *(Continued)*

Apart from the guarantees provided by certain connected parties for bank borrowings of the Group as stated in Note 34, principal connected party transactions in the ordinary course of business between the Group and connected parties are as follows:

(a) During the year, the Group received rental income of RMB3,000,000 (2006: RMB4,000,000) from Zhuhai School for leasing of campus with related equipment. The lease period was from January 2003 to December 2013. Rents have been determined until December 2008, and the subsequent rents would be otherwise negotiated by the parties.

(b) As at balance sheet date, the balances of connected parties are as follows:

Name of connected party	**2007 RMB'000**	2006 RMB'000
Amount due from the parent company		
SPU	**54,268**	55,296
Other receivables		
深圳桑夏	**2,125**	2,125
北京特利	**22,880**	24,030
Other payables and accrual expenses		
Beida Jade Bird	**126,924**	66,088
北京特利	**23,729**	109,130
Huajin Company	**78,155**	72,455
Beijing Tianqiao	**5,400**	5,400
Zhuhai School	**20,328**	23,577

(c) Compensation for the key management

	2007 RMB'000	2006 RMB'000
Short term benefits	**226**	–
End-of-service benefits for employees	**–**	–
	226	–

Remuneration of directors and the key management is determined by the Administrative Resources and the Remuneration Committee based on personal performance and market trend.

45. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries, as at 31st December 2007 are as follows:

Name of subsidiary	Class of shares held	Paid-up registered capital RMB'000	Percentage of effective equity interest held by the Company Directly	Indirectly	Principal activities
Shenyang Development Real Estate	Ordinary share	250,000	99.86%	–	Development and sale of properties
Pollon Finance	Ordinary share	50,000	92.5%	7.5%	Development and sale of properties
Beijing Diye	Ordinary share	30,000	–	100%	Development and sale of properties
Shenyang Development Property Management Company Limited	Ordinary share	500	1%	99%	Provision of property management services
Shenyang Education Science Park	Ordinary share	50,000	30%	70%	Development and sale of properties, investment and management of education projects
Shanghai Beida Jade Bird Education Investment Company Limited	Ordinary share	100,000	80%	20%	Closed
Zhuhai Beida Education Science Park Company Limited	Ordinary share	20,000	70%	–	investment and management of education projects
Jade Bird School	Paid-in capital	–	–	100%	Closed
Shenyang Beida Jade Bird Business Information System Company Limited	Ordinary share	10,000	–	90%	Closed
Shenzhen Grand Scene Investment Development Company Limited	Ordinary share	50,000	50%	50%	Not yet commence business

(a) The above list only includes the information about principal subsidiaries which are considered by the directors of the Company to be able to affect results or assets of the Group. In the opinion of the directors, to present the information about all the subsidiaries would be too redundant.

(b) Except that Jade Bird School and Foreign Language School are non-incorporated subsidiaries in PRC, all of other subsidiaries of the Group are companies with limited liabilities incorporated in PRC. All the subsidiaries are operated in PRC.

(c) None of the subsidiaries owned any debt securities that were intermittently effective as at balance sheet date or any time during the year.

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