



瀋陽公用發展股份有限公司

Shenyang Public Utility Holdings Company Limited

(a joint stock limited company incorporated in the People's Republic of China)

(Stock code: 747)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31ST DECEMBER 2005**

FINANCIAL HIGHLIGHTS

- The Company's share were listed in the main board of the Stock Exchange of Hong Kong Limited ("the Stock Exchange") in December 1999, and the Company raised net proceeds of approximately HKD700 million.
- Income of the Group in the Year was RMB91,221,000, representing a year on year increase of approximately 158.33%. Property business contracted during the Year, while education business remained stable and plots leasing business kept growing.
- Loss attributable to shareholders of the Company amounted to approximately RMB1,229,130,000, representing an increase of approximately 522.16%.
- The Board resolved that no dividend would be declared for the year ended 31st December 2005.

The board of directors (“the Board”) of Shenyang Public Utility Holdings Company Limited (“the Company”) is pleased to present the audited annual results of the Company for the year ended 31st December 2005, together with comparative figures for the corresponding period of 2004 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2005

	<i>Note</i>	2005 RMB'000	2004 RMB'000 (restated)
Turnover	5	91,221	35,312
Bank interest received		245	5,160
Cost of properties sold		(119,995)	(13,029)
Taxes on sales of properties		(4,265)	(1,617)
Staff costs		(12,442)	(15,563)
Depreciation and amortisation		(27,817)	(49,930)
Impairment loss on properties held for sale		(26,675)	(58,913)
Impairment loss on investment properties		(53,293)	–
Impairment loss on property and equipment		(114,429)	–
Impairment loss on goodwill		(609,372)	–
Loss on sales of property and equipment		(100,001)	(1,459)
Allowance for amount due from a former customer		(96,656)	–
Allowance for bad and doubtful debt		(136,398)	(3,636)
Other operating expenses		(35,730)	(76,993)
Share of results of a jointly controlled entity		–	17,487
Profit on disposal of a jointly controlled entity		–	2,821
Finance costs	7	(42,995)	(40,471)
Loss before taxation	8	(1,288,602)	(200,831)
Taxation	9	39,090	785
Loss for the year		(1,249,512)	(200,046)
Attributable to:			
Loss attributable to shareholders of the Company		(1,229,130)	(197,559)
Minority interests		(20,382)	(2,487)
		(1,249,512)	(200,046)
Loss per share	11		
– Basic		RMB1.20	RMB0.19
– Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

As at 31st December 2005

	<i>Note</i>	2005 RMB'000	2004 RMB'000 (restated)
Non-current assets			
Property and equipment		160,863	380,774
Investment properties		390,930	456,154
Prepaid lease payments on land use rights		91,880	94,444
Goodwill		–	609,372
Available-for-sale financial assets		20,000	–
Investment securities		–	20,000
		663,673	1,560,744
Current assets			
Properties held for sale		266,768	321,863
Inventories		361	2,099
Accounts receivable	<i>12</i>	674	12,465
Amount due from a former customer		–	97,056
Amount due from holding company		268,194	–
Prepaid lease payments on land use rights		2,564	2,564
Prepayments		102,561	108,250
Other receivables		188,937	611,894
Income tax receivable		2,059	2,044
Other current assets		5,720	620
Pledged bank deposits		71,598	180,399
Bank balances and cash		9,053	124,064
		918,489	1,463,318
Current liabilities			
Accounts payable	<i>13</i>	58,744	14,772
Bills payable		–	31,000
Investment cost payable		39,512	39,512
Other payables and accrued charges		350,502	143,756
Receipts in advance		232,048	285,850
Deferred income		33,895	15,401
Provision for potential liabilities		21,890	2,230
Bank loans – repayable within one year		338,290	537,858
		1,074,881	1,070,379
Net current (liabilities) assets		(156,392)	392,939
		507,281	1,953,683

	<i>Note</i>	2005 <i>RMB'000</i>	2004 <i>RMB'000</i> (restated)
Capital and reserves			
Share capital		1,020,400	1,020,400
Reserves		(589,937)	639,193
Equity attributable to shareholders of the Company		430,463	1,659,593
Minority interests		39,837	60,219
Total equity		470,300	1,719,812
Non-current liabilities			
Bank loans – repayable after one year		13,200	171,000
Deferred taxation		23,781	62,871
		36,981	233,871
		507,281	1,953,683

CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the year ended 31st December 2005

Equity attributable to shareholders of the Company

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare reserve <i>RMB'000</i>	Retained profits (loss) <i>RMB'000</i>	Total <i>RMB'000</i>	Minority interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 1st January 2004, as previously reported	1,020,400	323,258	69,054	34,528	410,340	1,857,580	–	1,857,580
Effect of change in accounting policy (<i>note 3</i>)	–	–	–	–	(428)	(428)	110,709	110,281
At 1st January 2004, restated	1,020,400	323,258	69,054	34,528	409,912	1,857,152	110,709	1,967,861
Acquisition of subsidiaries	–	–	–	–	–	–	353	353
Capital contributions from minority shareholders	–	–	–	–	–	–	2,000	2,000
Disposal/deconsolidation of a subsidiary	–	–	–	–	–	–	(50,356)	(50,356)
Loss for the year, restated	–	–	–	–	(197,559)	(197,559)	(2,487)	(200,046)
At 31st December 2004 and 1st January 2005, restated	1,020,400	323,258	69,054	34,528	212,353	1,659,593	60,219	1,719,812
Loss for the year	–	–	–	–	(1,229,130)	(1,229,130)	(20,382)	(1,249,512)
At 31st December 2005	<u>1,020,400</u>	<u>323,258</u>	<u>69,054</u>	<u>34,528</u>	<u>(1,016,777)</u>	<u>430,463</u>	<u>39,837</u>	<u>470,300</u>

NOTES:

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 “Corporate Information” in this annual report.

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

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, investment and management of education projects and cemetery development business.

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 recorded loss attributable to shareholders of the Company of RMB1,229,130,000 for the year and had overdue bank loans totaling RMB29,000,000 as at 31st December 2005. In addition, some creditors have filed a claim to the court demanding the Group for repayment of amounts due to them.

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 and had overdue debts as at 31st December 2005, 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 HONG KONG FINANCIAL REPORT STANDARD/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group’s accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Business Combinations

In the current year, the Group has applied HKFRS 3, “Business combinations”, which is effective for business combinations for which the agreements date is on or after 1st January 2005.

Goodwill

In prior years, goodwill arising on acquisition was capitalized and amortized over its estimated useful life. The Group has applied the relevant transitional provisions of HKFRS 3. On 1st January 2005, the Group eliminated the related accumulated amortization of RMB34,786,000 as at 1st January 2005 with the cost of goodwill (see Note 19). The Group has discontinued amortizing such goodwill from 1st January 2005 and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisition after 1st January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortization of goodwill has been charged in the current year. Comparative figures for 2004 have not been stated (see Note 3 for the financial impact).

Financial Instruments

In the current year, the Group has applied HKAS 32 Financial instruments – disclosures and presentation” and HKAS 39 “Financial instruments: recognition and measurement”. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 does not have material effect on the Group’s presentation of financial instruments in current and prior accounting period. The principal effects resulting from the adoption of HKAS 39 are summarized below:

Classification and Measurement of Financial Assets and Financial Liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

As at 31st December 2004, the Group classified and measured its investments in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (“SSAP 24”). Under SSAP 24, investments in debt or equity securities are classified as “investment securities”, “other investments” or “held-to-maturity investments” as appropriate. “Investment securities” are carried at cost less impairment losses (if any) while “other investments” are measured at fair value, with unrealized gains or losses included in profit or loss. “Held-to-maturity” investments are carried at amortized cost less impairment losses (if any). From 1st January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as “financial assets at fair value through profit or loss”, “available-for-sale financial assets”, “loans and receivables”, or “held-to-maturity financial assets”. “Financial assets at fair value through profit or loss” and “available-for-sale financial assets” are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices 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 are measured at cost less impairment after initial recognition. “Loans and receivables” and “held-to-maturity financial assets” are measured at amortized cost using the effective interest method after initial recognition.

On 1st January 2005, the Group classified and measured its debt in accordance with the transitional provisions of HKAS 39. Accordingly, the Group's investments in securities as at 1st January 2005 amounting to approximately RMB20,000,000 has been reclassified to available-for-sale investments.

Financial assets and financial liabilities other than debt and equity securities

From 1st January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. "Other financial liabilities" are carried at amortized cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions of HKAS 39 and the change does not have material affect on the Group's preparation and presentation of the results for the current year.

Owner-occupied Leasehold Interest in Land

In previous years, owner-occupied leasehold land and buildings were included in property and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortized over the lease term on a straight-line basis. This change in accounting policies has been applied retrospectively.

Investment Properties

In the current year, the Group has, for the first time, applied HKAS 40 "Investment Property". The Group has elected to use the cost model to account for its investment properties. In previous years, properties for rental were classified as land and buildings and stated at cost less accumulated depreciation and impairment loss, under properties and equipment. This change in accounting policies has been applied retrospectively.

The effect of the change in the accounting policies described above on the results for the current and prior years are as follows:

	2005 RMB'000	2004 RMB'000
Non-amortization of goodwill	(32,209)	—
Amortization of land use rights	2,564	2,564
(Decrease) Increase in loss for the year	(29,645)	2,564

The cumulative effects of the application of the new HKFRSs as at 31st December 2004 and 1st January 2005 are summarized below:

	As at 31st December 2004 <i>RMB'000</i> (as originally stated)	Retrospective Changes <i>RMB'000</i>			As at 31st December 2004 <i>RMB'000</i> (restated)	Prospective Application of Changes <i>RMB'000</i> HKAS 39	As at 1st January 2005 <i>RMB'000</i> (restated)
		HKAS 1	HKAS 17	HKAS 40			
Balance sheet items							
Property and equipment	936,928	–	(100,000)	(456,154)	380,774	–	380,774
Investment properties	–	–	–	456,154	456,154	–	456,154
Prepaid lease payments of land use rights	–	–	97,008	–	97,008	–	97,008
Available-for-sale financial assets	–	–	–	–	–	20,000	20,000
Investment in securities	20,000	–	–	–	20,000	(20,000)	–
	<u>936,928</u>	<u>–</u>	<u>(100,000)</u>	<u>(456,154)</u>	<u>380,774</u>	<u>–</u>	<u>380,774</u>
Total effect on assets	936,928	–	(2,992)	–	953,936	–	953,936
	<u>936,928</u>	<u>–</u>	<u>(2,992)</u>	<u>–</u>	<u>953,936</u>	<u>–</u>	<u>953,936</u>
Retained profit	215,345	–	(2,992)	–	212,353	–	212,353
Minority interests	–	60,219	–	–	60,219	–	60,219
	<u>–</u>	<u>60,219</u>	<u>–</u>	<u>–</u>	<u>60,219</u>	<u>–</u>	<u>60,219</u>
Total effect on equity	215,345	60,219	(2,992)	–	272,572	–	272,572
	<u>215,345</u>	<u>60,219</u>	<u>(2,992)</u>	<u>–</u>	<u>272,572</u>	<u>–</u>	<u>272,572</u>
Minority interests	60,219	(60,219)	–	–	–	–	–
	<u>60,219</u>	<u>(60,219)</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

The financial effects on the Group's equity of the application of the new HKFRSs on 1st January 2004 are summarized below:

	As originally stated <i>RMB'000</i>	Retrospective Changes <i>RMB'000</i>		Restated <i>RMB'000</i>
		HKAS 1	HKAS 17	
Retained profit	410,340	–	(428)	409,912
Minority interests	–	110,709	–	110,709
	<u>–</u>	<u>110,709</u>	<u>–</u>	<u>110,709</u>
Total effect on equity	410,340	110,709	(428)	520,621
	<u>410,340</u>	<u>110,709</u>	<u>(428)</u>	<u>520,621</u>
Minority interests	110,709	(110,709)	–	–
	<u>110,709</u>	<u>(110,709)</u>	<u>–</u>	<u>–</u>

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective for the year. The directors of the Company anticipate the application of these new standards or interpretations will have no impact or any material impact on the Group's financial statements:

HKAS 1 (Amendment)	Capital disclosure ¹
HKAS 1 (Revised)	Presentation of financial statements ²
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures ³
HKAS 21 (Amendment)	Net investment in a foreign operation ³
HKAS 23 (Revised)	Borrowing costs ²
HKAS 27 (Revised)	Consolidated and separate financial statements ⁴
HKAS 32 & 1 (Amendment)	Puttable financial instruments and obligations arising on liquidation ²
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions ³
HKAS 39 (Amendment)	Fair Value Option ³
HKAS 39 & HKFRS 4 (Amendment)	Financial guarantee contracts ³
HKFRS 2 (Amendment)	Share-based Payment – vesting conditions and cancellations ²
HKFRS 3 (Revised)	Business Combinations ⁴
HKFRS 6	Exploration for and evaluation of mineral resources ³
HKFRS 7	Financial instruments – Disclosures ¹
HKFRS 8	Operating segments ²
HK(IRFRIC)-Int 4	Determining whether an arrangement contains a lease ³
HK(IRFRIC)-Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds ³
HK(IRFRIC)-Int 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment ⁵
HK(IRFRIC)-Int 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ⁶
HK(IRFRIC)-Int 8	Scope of HKFRS 2 ⁷
HK(IRFRIC)-Int 9	Reassessments of embedded derivatives ⁸
HK(IRFRIC)-Int 10	Interim financial reporting and impairment ⁹
HK(IRFRIC)-Int 11	HKFRS 2 – Group and treasury share transactions ¹⁰
HK(IRFRIC)-Int 12	Service concession arrangements ¹¹
HK(IRFRIC)-Int 13	Customer loyalty programmes ¹²
HK(IRFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ¹¹

¹ Effective for annual periods beginning on or after 1st January 2007.

² Effective for annual periods beginning on or after 1st January 2009.

³ Effective for annual periods beginning on or after 1st January 2006.

⁴ Effective for annual periods beginning on or after 1st July 2009.

⁵ Effective for annual periods beginning on or after 1st December 2005.

⁶ Effective for annual periods beginning on or after 1st March 2006.

⁷ Effective for annual periods beginning on or after 1st May 2006.

⁸ Effective for annual periods beginning on or after 1st June 2006.

⁹ Effective for annual periods beginning on or after 1st November 2006.

¹⁰ Effective for annual periods beginning on or after 1st March 2007.

¹¹ Effective for annual periods beginning on or after 1st January 2008.

¹² 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.

Business Combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which are recognized and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

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 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 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 recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profits, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that 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.

Deferred tax liabilities are recognised for taxable temporary differences arising on 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.

5. TURNOVER

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

	2005 RMB'000	2004 RMB'000
Development, sale, rental and management of properties	77,040	21,128
Education projects	6,472	10,658
Cemetery development (<i>note</i>)	926	494
Others	6,783	3,032
	<u>91,221</u>	<u>35,312</u>

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 lessee 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.

6. SEGMENT INFORMATION

Business Segments

For management purposes, the Group is currently organised into three (2004: 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.

Segment information about these businesses is presented below:

(a) For the year ended 31st December 2005/as at 31st December 2005:

	Property development RMB'000	Education projects RMB'000	Cemetery development RMB'000	Other business RMB'000	Total RMB'000
Consolidated Income Statement					
Turnover	<u>77,040</u>	<u>6,472</u>	<u>926</u>	<u>6,783</u>	<u>91,221</u>
Segment results	<u>(301,109)</u>	<u>(307,451)</u>	<u>(35,047)</u>	<u>(5,190)</u>	<u>(648,797)</u>
Interest income					245
Unallocated corporate expenses					(597,055)
Finance costs					<u>(42,995)</u>
Loss before taxation					(1,288,602)
Taxation					<u>39,090</u>
Loss for the year					<u>(1,249,512)</u>
Consolidated Balance Sheet					
Segment assets	586,538	423,703	82,912	3,349	1,096,502
Amount due from holding company					268,194
Unallocated corporate assets					<u>217,466</u>
Total assets					<u>1,582,162</u>
Segment liabilities	223,785	96,403	75,416	2,630	398,234
Unallocated corporate liabilities					<u>713,628</u>
Total liabilities					<u>1,111,862</u>

(a) For the year ended 31st December 2005/as at 31st December 2005:

	Property development RMB'000	Education projects RMB'000	Cemetery development RMB'000	Other business RMB'000	Total RMB'000
Other Information					
Additions to property and equipment, and investment properties					
– segment	48	8,924	630	–	9,602
– corporate					–
Depreciation and amortisation					
– segment	2,247	19,873	3,149	11	25,280
– corporate					2,537
(Profit) loss on disposal of property and equipment, and investment properties					
– segment	(107)	100,074	–	–	99,967
– corporate					34
Impairment loss					
– segment	–	–	114,429	–	114,429
– corporate					–
Allowances for bad and doubtful debts					
– segment	110,968	12,888	124	13,556	137,536
– corporate					95,518

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

	Property development <i>RMB'000</i>	Education projects <i>RMB'000</i>	Cemetery development <i>RMB'000</i>	Other business <i>RMB'000</i>	Total <i>RMB'000</i>
Consolidation Income Statement					
Turnover	<u>21,128</u>	<u>10,658</u>	<u>494</u>	<u>3,032</u>	<u>35,312</u>
Segment results	<u>(76,040)</u>	<u>(14,148)</u>	<u>(38,546)</u>	<u>(4,061)</u>	<u>(132,795)</u>
Interests income					5,160
Unallocated corporate expenses					(53,033)
Finance costs					(40,471)
Share of results of jointly controlled entity					17,487
Profit on disposal of a jointly controlled entity					<u>2,821</u>
Loss before taxation					(200,831)
Taxation					<u>785</u>
Loss for the year					<u>(200,046)</u>
Consolidated Balance Sheet					
Segment assets	831,652	1,036,505	626,883	21,289	2,516,329
Unallocated corporate assets					<u>507,733</u>
Total assets					<u>3,024,062</u>
Segment liabilities	268,129	267,636	51,285	9,927	596,977
Unallocated corporate liabilities					<u>707,273</u>
Total liabilities					<u>1,304,250</u>

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

	Property development <i>RMB'000</i>	Education projects <i>RMB'000</i>	Cemetery development <i>RMB'000</i>	Other business <i>RMB'000</i>	Total <i>RMB'000</i>
Other Information					
Additions to property and equipment, and investment properties					
– segment	75,971	261,895	7,790	42	345,698
– corporate					551
Depreciation and amortisation					
– segment	2,859	14,471	30,371	425	48,126
– corporate					1,804
Loss on disposal of properties and equipment, and investment properties					
– segment	98	48	–	1,094	1,240
– corporate					219
Impairment loss					
– segment	58,913	–	–	–	58,913
– corporate					–
Allowances (reversal) for bad and doubtful debts					
– segment	372	8	127	(114)	393
– corporate					3,243

For the year ended 31st December 2005 and 2004, 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.

7. FINANCE COSTS

	2005 <i>RMB'000</i>	2004 <i>RMB'000</i>
Interest on bank borrowings wholly repayable within five years	44,520	44,032
Less: amount capitalized in construction in progress	(1,525)	(3,561)
	<u>42,995</u>	<u>40,471</u>

The borrowing costs capitalized for the year was calculated by applying a capitalisation rate of 6.138% (2004: 5.31%) per annum on bank loans borrowed and used for the construction in progress for education projects.

8. LOSS BEFORE TAXATION

	2005 RMB'000	2004 RMB'000
Loss before taxation is arrived at after charging:		
Directors' and Supervisors' remuneration	1,225	1,899
Staff salaries, allowances and bonuses	9,257	11,573
Contributions to retirement and other benefits schemes	1,960	2,091
	<u>12,442</u>	<u>15,563</u>
Inventory cost recognised as expense	5,899	2,835
Auditor's remuneration	1,260	900
Depreciation of property and equipment	13,322	7,008
Depreciation of investment properties	11,931	8,149
Amortisation for prepaid lease payment for land use right	2,564	2,564
Amortisation for goodwill	–	32,209
Share of taxation of a jointly controlled entity	–	3,801
Minimum lease payments made in respect of rented premises	670	615

9. TAXATION

	2005 RMB'000	2004 RMB'000
The taxation comprises of:		
The Company and subsidiaries		
– PRC enterprise income tax	–	–
– Deferred taxation	39,090	785
	<u>39,090</u>	<u>785</u>

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 years ended 31st December 2005 and 2004.

The taxation rates applicable to the Group in the PRC is 15% – 33% (2004: 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 loss per the consolidated income statement as follows:

	2005 RMB'000	2004 <i>RMB'000</i>
Loss before taxation	(1,288,602)	(200,831)
Income tax at the applicable tax rates	(413,485)	(74,276)
Tax effect of expenses not deductible for tax purpose	205,097	29,349
Tax effect of unrecognized tax losses	169,298	44,142
Tax credit	(39,090)	(785)

10. DIVIDENDS

No dividend was paid or proposed during the year ended 31st December 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

11. LOSS PER SHARE

The calculation of loss per share for the year is based on the loss attributable to shareholders of the Company for the year of RMB1,229,130,000 (2004: RMB197,559,000) and the number of 1,020,400,000 shares (2004: 1,020,400,000 shares) in issue during the year.

No diluted Loss per share are presented as the Company has no dilutive potential shares outstanding in both years.

12. 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 trade receivables at the balance sheet date is set out as follows:

	2005 RMB'000	2004 <i>RMB'000</i>
0 – 30 days	551	3,651
31 – 60 days	228	–
61 – 365 days	1,134	7,194
1 – 2 years	10,161	836
Over 2 years	1,133	1,407
	13,207	13,088
Allowances for bad and doubtful debts	(12,533)	(623)
Net amount of trade receivables	674	12,465

The management considered the book value of the trade receivables approximates to their fair value.

13. ACCOUNTS PAYABLE

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

	2005 RMB'000	2004 RMB'000
0 – 90 days	–	7,908
91 – 180 days	–	1,020
181 – 365 days	43,972	1,338
1 – 2 years	10,266	4,099
Over 2 years	4,506	407
	58,744	14,772

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

MANAGEMENT DISCUSSION AND ANALYSIS

Since 2004, due to the macro-economic control policy of the PRC central government, adjustment to the policies of land administration and real estate credit loan, the Group's real estate development and education investment business were affected considerably, some of the real estate projects and education investment projects proceeded slowly or reported unsatisfactory profits.

Progress of the Group's property development and education investment projects was delayed for the Year. Escalating cost of property development, mounting difficulty in obtaining project finance and slowdown in sales collection rate were causes of suspension of projects and fund shortage for the property development projects, thus resulting in a significant decrease in economic benefits and incurring a significant loss for the Year.

As banks had tightened up their policy on credit loans to the property sector and the Group's liquidity position for the Year was relatively tense, the Group's financing ability were affected significantly. Since the loan litigation with Shenzhen Development Bank Dalian branch in 2004, the Group's financing activities has been under great pressure. The liquidity problem in turn affected the Group's business operation. As a result, the real estate projects under development were unable to carry out the last stage improvement of construction and completion and inspection due to the fund shortage; the land development projects that were already contracted were unable to develop within the designated period due to the fund shortage and relevant authorities of local government decided to take back the land of some projects.

Facing such difficulties, the Group will strive to settle the litigations and maximize the use of existing assets as soon as possible, so as to provide a normal operating environment for the Company.

Analysis of Real Estate Development Business

Phase one of the project "Water-Flowers City" in Shenyang has been completed for residence and pre-sale of phase two has completed. During the Year, the last stage improvement of construction and completion and inspection was the Group's main focus.

The project “Cosmo International Mansion” in Shenyang is the reconstruction of an incomplete project, with gross floor area of approximately 30,000 square metres. The decoration and ornament works for the mansion and its podium have basically been completed. During the Year, the improvement of construction like fire system, and completion and inspection was the Group’s main focus.

Affected by the policy adjustments regarding suspension of the application, approval and construction of all real estate development projects in Beijing, the project of “Scenic Bay” in Beijing has not yet officially commenced construction during the Year, but has obtained approval for land requisition from the relevant government authorities, and the subsequent work is under planning.

Analysis of Education Investment Business

The phase one of Shenyang Education Park, a project invested by Shenyang Education with a site area of 128,600 square metres, has basically been completed in August 2004 and the teacher dormitory has been put into use. In 2005, Shenyang School carried out lots of last stage improvement of construction. No. 2 student dormitory and education center have been put into use. In 2005, students at school amounted to approximately 300.

The third batch of students admitted by Zhuhai School commenced school smoothly on 1st September 2005, constituting a total of 770 students at present. During the Year, Zhuhai School was assessed as a District Level School by Education Bureau of Xiangzhou District, Zhuhai. Under the Lease Contract entered into between Zhuhai Education and Zhuhai School, Zhuhai School has paid Zhuhai Education a rental fee amounting to RMB4,000,000 during the Year.

During the Year, Shanghai Municipal Government has made adjustment to the land use of substantial projects and the land proposed for use by Shanghai Education is within the adjustment plan. As such, there is no actual progress for the project construction of Shanghai Education Park. Shanghai Education is currently under negotiation with Shanghai Municipal Government with a view to resolve such issue.

Analysis of System Integration Business

Shenyang Business Information’s operating income and loss for the Year amounted to RMB6,783,000 and RMB5,185,000 respectively.

Analysis of Cemetery Development Business

During the Year, Xili Cemetery realized a rental income of RMB829,000.

FINANCIAL REVIEW

Operating Revenue

Income of the Group was RMB91,221,000, representing a year on year increase of approximately 158.33%.

Income from property business in the Year increased by RMB55,912,000 over the previous year. It is principally because of the recognition of the sales proceeds of those properties held for sale that the occupation arrangement was made and real estate title certificate was obtained;

Education projects' income mainly comprises the rental income of Zhuhai Education Park of RMB4,000,000;

305 plots were leased during the Year, representing an increase of 26 plots over the previous year; the business recorded a sales income of RMB829,000.

Profits

Loss attributable to shareholders of the Company amounted to RMB1,229,130,000, representing an increase of 522.16% over the previous year.

The Company recorded significant loss in the Year. It is principally because of assets impairment, of which properties impairment was approximately RMB195 million, goodwill impairment of Shenzhen Jingmei was approximately RMB609 million, and allowances for bad and doubtful debts were RMB233 million.

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 RMB1,582,162,000 from approximately RMB3,024,062,000, representing a decrease of approximately RMB1,441,900,000 or 47.68%.

Current assets of the Group

During the Year, the current assets of the Group decreased by approximately RMB544,829,000 to RMB918,489,000 as compared with RMB1,463,318,000 in the Previous Year, representing a decrease of approximately 37.23%.

Bank borrowings of the Group

As at 31st December 2005, the Group's bank borrowings totalled RMB351,490,000 (2004: RMB708,858,000). The abovementioned borrowings bear interest at 5.3% or 6.3% per annum.

EMPLOYEES

As at 31st December 2005, the Group had 153 employees. During the Year, the aggregate salaries and allowances and termination compensation paid to the employees amounted to RMB12,244,600 (2004: RMB15,563,000) and RMB197,400. The Group has not established any share option scheme for any of its senior management or employees.

EXTRACTS OF INDEPENDENT AUDITOR'S REPORT

Basis for Disclaimer of Opinion

1. 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 RMB136,295,000 as at 31st December 2005. 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 realisable 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 RMB136,295,000 paid.
2. The Group had a building and its corresponding leasehold land with carrying value of RMB143,057,000 and RMB94,444,000 respectively as of 31st December 2005. We were unable to obtain the corresponding real estate title certificates and the land use right certificate of a portion of the land with carrying value of RMB76,624,000 to ensure the ownership of the abovementioned assets at the balance sheet date.
3. 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, 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 2005 and its 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. 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 Company 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 2005 and of its loss 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.

FINAL DIVIDEND

The Board resolved not to declare any final dividend in 2005. Such resolution is subject to approval at the 2005 Annual General Meeting of the Company.

SIGNIFICANT EVENTS

(1) Suspension of Trading

On 15th December 2004, the Company applied to the Stock Exchange for suspension of trade in accordance with the Listing Rules due to overdue of large-cap loans. Currently, the Company is actively submitting an application for listing resumption and the relevant information to the Stock Exchange (Details are set out in "Report of the Directors – Material Litigations").

(2) The Management Committee of Shenyang Economic and Technological Development Zone took back the state-owned land use rights from Shenyang Education

Due to the liquidity problem, the Group failed to develop the residential project of Shenyang Education within the designated period. On 12th October 2005, the Management Committee ("Management Committee") of Shenyang Economic and Technological Development Zone issued The Decision of Taking Back the State-Owned Land Use Rights (Shen Kai Wei Fa (2005) No. 271) 《關於收回國有土地使用權的決定》(瀋陽委發(2005) 271號) and proposed to cancel Contract for Assignment of the Right to the Use of State-Owned Land entered between the Economic Technology Branch Office Of The Bureau of Planning and Land Resources of Shenyang (瀋陽市規劃和國土資源局經濟技術分局) and Shenyang Education and take back the state-owned land use rights freely (excluding the area occupied by Shenyang School) The Group strived to protect the Group's interest and actively negotiate with the Management Committee to seek a resolution.

Litigations

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 sequestered 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.

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 RMB1,624,330 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 sequestered 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 RMB3,388,730.

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.

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 RMB179,916; (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 RMB29,000,000; (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 RMB155,010 and a property custody fee of RMB145,520.

On 6th April 2006, Guangdong Development Bank sequestered 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.

In August 2007, Shenyang Intermediate People's Court sequestered RMB56,461,629.47 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 dispute on the loan 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.

Pursuant to [Civil Mediation Agreement (2006) Shen Zhong Min Er Fang Chu Zi No. 190] 民事調解書(2006)瀋中民二房初字第190號 issued by Shenyang Intermediate People's Court of Liaoning Province, during the litigation, Guang Dong Development Bank repaid the principal and interest of the loan by the principal and interest of the pledged deposits of the Company which amounted to RMB63,388,933.46, in which RMB60,192,066.43 was repaid for the principal of the loan, RMB31,89,439.82 and RMB7,428.21 were used for the repayment of interest and compound interest respectively on 6th April 2006, and Guang Dong Development Bank recovered RMB60,729,523.51 as the principal of the loan and RMB87,759.88 of interest

from a deposit of RMB80,000,000 of Hua Jin Hua Gong in the Guang Dong Development Bank. And Guang Dong Development Bank also took the remaining RMB19,182,716.61 of the above RMB80,000,000 as settlement of the principal of the loan on 12 April 2006. As a result, the remaining outstanding principal was RMB30,895,693.45.

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 RMB30,895,693.45 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 RMB30,895,693.45 and the interest of RMB2,221,284.82 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 RMB164,489 and the custody fee of RMB160,520.

In August 2007, Shenyang Intermediate People's Court sequestered RMB56,461,629.47 from the account of Hua Jin Hua Gong to settle the outstanding amount of RMB30,895,693.45 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.

- iii) 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 sequestered 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 RMB400,520.

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.

- iv) The claim for RMB56,461,629.47 by Hua Jin after the loan disputes between the Company and Guangdong Development Bank

RMB56,461,629.47 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 RMB56,461,629.47.

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 RMB56,461,629.47 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 RMB56,461,629.47; (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 RMB162,054.07 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.

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.

e) 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 RMB5,830,704.16 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 RMB3,830,704.16 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.

- 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”)

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 RMB280,834 shall be borne by Shenyang Development and Shenyang Tianbei equally in the amount of RMB140,417. 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; (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 RMB46,799,130 to Beijing Mingyude in July 2008 by way of entrustment payment, RMB13,567,130 of which was for the RMB12,870,000 that Beijing Mingyude had paid for the Company as a guarantor and the interest accrued.

- 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 enforcee, at a value of RMB5,866,145.23. 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.

CODE OF BEST PRACTICE

The Board are pleased to confirm that the Company has complied with the Code of Best Practice as set out in the Listing Rules during the Year.

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 the 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.

By order of the board of
Shenyang Public Utility Holdings Company Limited
Wang Hui
Director

24th October 2008, Shenyang, the PRC

As at the date of this announcement, the directors of the Company are as follows:

Executive directors: Mr. An Mu Zong and Mr. Wang Zai Xing

Non executive directors: Mr. Deng Yan Bin, Mr. Lin Dong Hui and Mr. Wang Hui

Independent non executive director: Mr. Cai Lian Jun