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 31 DECEMBER 2007

**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 RMB7,116,000, representing a year on year decrease of approximately 56.78%. Property business contracted during the Period, while education business remained stable and plots leasing business was closed.
- Profit attributable to shareholders of the Company amounted to approximately RMB115,657,000.
- The Board resolved that no dividend would be declared for the year ended 31st December 2007.

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 31 December 2007, together with comparative figures for the corresponding period of 2006 as follows:

**CONSOLIDATED INCOME STATEMENT**
*For the year ended 31st December 2007*

| | Note | 2007 RMB'000 | 2006 RMB'000 (restated) |
|---|---|---|---|
| **Continuous operations** | | | |
| Turnover | 5 | **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 sales 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 | 7 | **(23,577)** | (34,149) |
| Loss before taxation | 8 | **(55,170)** | (63,891) |
| Taxation | 9 | **613** | 613 |
| Loss for the year on continuous operations | | **(54,557)** | (63,278) |
| **Discontinued operations** | | | |
| Profit (loss) for the year on discontinued operations | | **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 | 11 | | |
| – 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 | | **146,795** | 159,931 |
| Investment properties | | **255,390** | 317,786 |
| Prepaid lease payments on land use rights | | **86,752** | 89,316 |
| Goodwill | | **–** | – |
| Available-for-sale financial assets | | **20,000** | 20,000 |
| | | **508,937** | 587,033 |
| **Current assets** | | | |
| Properties held for sale | | **484,987** | 495,715 |
| Inventories | | **341** | 469 |
| Accounts receivable | *13* | **–** | 1,192 |
| Amount due from a former customer | | **–** | – |
| Amount due from holding company | | **54,268** | 55,296 |
| Prepaid lease payments on land use rights | | **2,564** | 2,564 |
| Prepayments | | **3,039** | 2,518 |
| Other receivables | | **31,914** | 185,615 |
| Bank balances and cash | | **4,478** | 9,444 |
| | | **581,591** | 752,813 |
| **Current liabilities** | | | |
| Accounts payable | *14* | **43,080** | 58,249 |
| Other payables and accrued charges | | **411,821** | 540,283 |
| Receipts in advance | | **44,089** | 65,356 |
| Tax payables | | **1,168** | 1,159 |
| Deferred income | | **–** | 62,096 |
| Provision for a potential liability | | **2,043** | 18,502 |
| Bank loans – repayable within one year | | **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

*As at 31st December 2007*

| | Note | **2007** | 2006 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| **Capital and reserves** | | | |
| Share capital | | **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 | | **22,555** | 23,168 |
| | | **526,327** | 412,857 |

## CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

*For the year ended 31st December 2007*

| | Equity attributable to shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Statutory surplus reserve | Statutory public welfare reserve | Retained loss | Total | Minority interests | Total equity |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *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 |

# 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 "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 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 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 on and 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, 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.

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.

**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 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.

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

| | 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 | | |
| 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.

## 6. 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).

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* | Total *RMB'000* | Cemetery development *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 holding 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 | | | | 293,570 | – | 293,570 |
| 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 | | | | – | | – |

(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* | Cemeteny development *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 holding 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 |
| Loss on disposal of property and equipment, and investment properties | | | | | | |
| – segment | 5,442 | 1,653 | – | 4,095 | 45 | 7,140 |
| – corporate | | | | | | 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.

## 7. Finance Costs

| | 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 |

## 8. Loss before taxation

| | 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' and Supervisors' remuneration | **226** | – | **–** | – | **226** | 435 |
| Staff salaries, allowances and bonuses | **4,185** | 5,498 | **1,956** | 1,258 | **6,141** | 6,321 |
| 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 |

## 9. Taxation

| | Continuous operations | | Discontinued operations | | 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 | **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 |

## 10. Dividends

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

## 11. 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** | 2006 |
|---|---|---|
| | ***RMB'000*** | *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.

## 12. 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 |

## 13. 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 receivables at the balance sheet date is set out as follows:

| | **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 receivables | **–** | 1,192 |

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

Accounts receivables 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 account receivables that are not considered to be impaired is as follows:

| | **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:

| | **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.

**14. Accounts Payable**

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

| | **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.

## MANAGEMENT DISCUSSION AND ANALYSIS

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 challenge 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.

## BUSINESS REVIEW

### Analysis of Real Estate Development Business

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

During the Period, the last stage improvement of construction, 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.

### Analysis of Education Investment Business

During the Year, the construction of new teaching and administrative staff dormitory and foreign teachers' apartment 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.

**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.

**FINANCIAL REVIEW**

**Operating Revenue**

Income of the Group in the Year was RMB7,116,000, representing a decrease of approximately 56.78%.

Income from property business decreased by RMB5,616,000 in the Year. It is due to the contraction of the property business;

Education projects' income mainly comprises the rental income of Zhuhai Education Park of RMB3,000,000;

618 plots were leased during the Year, representing an increase of 44 plots over the previous year; the business recorded a rental income of approximately RMB2,788,000. At the end of the year, as the Cemetery Company has been auctioned, the cemetery business was closed.

**Profits**

Profit attributable to shareholders of the Company amounted to RMB115,657,000.

The profit is due to the gain from the disposal of the Company's 95% equity interest in Shenzhen Jingmei of approximately RMB198 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 RMB1,090,529,000 from approximately RMB1,339,846,000, representing a decrease of approximately RMB249,317,000 or 18.61%.

**Current assets of the Group**

During the Year, the current assets of the Group decreased by approximately RMB171,221,000 to RMB581,592,000 as compared with RMB752,813,000 in the Previous Year, representing a decrease of approximately 22.74%.

**Bank borrowings of the Group**

As at 31st December 2007, the Group's bank borrowings totalled RMB62,000,000 (2006: RMB181,344,000). The abovementioned borrowings bear interest at 7.0% to 9.7% per annum.

## 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: RMB7,686,200) and RMB245,000 (2006: RMB267,800). 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 Limted ("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 authorties 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. 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 Decemeber 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. 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. The Group had contingent liabilites 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. 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. 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 2007 and of its loss on continous 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.

## 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.

## 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 third stage of delisting.

### (2) 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 瀋陽天北建築安裝工程公司 ("天北建築") 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.

## 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 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.

**(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 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 RMB3,388,730.

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 relavant interest. Up to 31st August 2008, SPU has repaid approximately RMB 101,340,000 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 sequestrated RMB70,000,000 and RMB80,000,000 from the accounts of the Company and Hua Jin Hua Gong respectively. Among above-mentioned amount, RMB 10,300,000 was used to repay the principal of the loan of RMB 20,000,000, and the balance was used to repay another loan of RMB 171,000,000. Thus the outstanding amount of the loan of RMB 29,000,000 was RMB 18,700,000.

In August 2007, Shenyang Intermediate People's Court sequestrated RMB 56,461,629.47 from the account of Hua Jin Hua Gong to settle the outstanding principal and interest of the loan of RMB 29,000,000.

As a result, the principal and interest of the loan of RMB 29,000,000 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 RMB 171,000,000 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 RMB 30,895,693.45 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 RMB 50,000,000 and RMB 51,300,000 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 sequestrated 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 RMB 171,000,000.

(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 sequestrated from the account of Hua Jin Hua Gong in settlement of the RMB 171,000,000 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 RMB 80,000,000.

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 RMB 83,540,000 was repaid to Hua Jin to fully settle the amount of RMB 80,000,000 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 caculated 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 repaied 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 RMB 17,000,000 by two instalments. The legal fee, custody fee and audit fee totaling RMB 280,834 shall be borne by Shenyang Development and Shenyang Tianbei equally in the amount of RMB 140,417. 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 enforce, 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.

## 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.

## 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.

## 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.

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*