

**If you are in doubt** as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in Shenyang Public Utility Holdings Company Limited (the “Company”), you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

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**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)**

## **VERY SUBSTANTIAL DISPOSAL**

**Financial adviser to the Company**



**WALLBANCK BROTHERS**  
**Securities (Hong Kong) Limited**

A notice convening an extraordinary general meeting of the Company to be held at Conference Room, Lexington Shenyang Rich Gate Hotel, 128 Harbin Road, Shenyang, the PRC at 11:00 a.m. on 9 July 2009, is set out on pages 115 to 116 of this circular. Whether or not you are able to attend such meeting, you are requested to complete the accompany form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong Registrars Limited at Rooms 1806-7, 18/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be).

Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

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## DEFINITIONS

*In this circular, the following expressions shall have the following meanings unless the context indicates otherwise:*

|                                                   |                                                                                                                                                                                                               |
|---------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| “Announcement”                                    | the announcement issued on 5 February 2009 by the Company in relation to the Debt Transfer and the Shares Subscription                                                                                        |
| “Beijing Mingde Guangye”                          | Beijing Mingde Guangye Investment Consultant Company Limited* (北京明德廣業投資諮詢有限公司)                                                                                                                                |
| “Board”                                           | board of directors of the Company                                                                                                                                                                             |
| “Business Day(s)”                                 | any day(s) (other than a Saturday or Sunday or public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hour                                     |
| “Company”                                         | Shenyang Public Utility Holdings Company Limited, a company incorporated in the PRC with limited liability and the H-shares of which are listed on the Stock Exchange                                         |
| “Debt Transfer”                                   | the transfer of debt from Shenyang Education to Shanghai Hanhua due to the Company, Shenyang Real Estate, Shenyang Pollon and Shenyang Property totaling RMB256,638,760.49                                    |
| “Debt Transfer and Shares Subscription Agreement” | the agreement entered into between the Company, Shenyang Real Estate, Shenyang Pollon, Shenyang Property and Shanghai Hanhua on 18 February 2008 in relation to the Debt Transfer and the Shares Subscription |
| “Director(s)”                                     | the director(s) of the Company                                                                                                                                                                                |
| “EGM”                                             | the extraordinary general meeting of the Company to be convened for the purposes of considering and if thought fit, to ratify and approve, among other things, the Debt Transfer and the Shares Subscription  |
| “Group”                                           | the Company and its subsidiaries                                                                                                                                                                              |
| “Latest Practicable Date”                         | 20 May 2009, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication                                                        |

## DEFINITIONS

|                        |                                                                                                                                              |
|------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| “Listing Rules”        | The Rules Governing the Listing of Securities on the Stock Exchange                                                                          |
| “PRC”                  | The People’s Republic of China which for the purpose of this circular excludes Hong Kong, the Macau Special Administrative Region and Taiwan |
| “Registrar”            | Hong Kong Registrars Limited, the share registrar of the Company                                                                             |
| “Remaining Group”      | the Group upon completion of the Debt Transfer and the Shares Subscription                                                                   |
| “Shanghai Hanhua”      | Shanghai Hanhua Property Management Company Limited* (上海瀚華物業管理有限公司)                                                                          |
| “Shareholder(s)”       | Shareholder(s) of the Company                                                                                                                |
| “Shares Subscription”  | the subscription of the remaining 30% interest in Shenyang Education held by Company at RMB2,514,062.24                                      |
| “Shenyang Education”   | Shenyang Development Beida Education Science Park Company Limited* (瀋陽發展北大教育科學園有限公司)                                                         |
| “Shenyang Pollon”      | Shenyang Pollon Finance Building Management Company Limited* (瀋陽江勝金融大廈管理有限公司)                                                                |
| “Shenyang Real Estate” | Shenyang Development Real Estate Development Company Limited* (瀋陽發展房產開發有限公司)                                                                 |
| “Stock Exchange”       | The Stock Exchange of Hong Kong Limited                                                                                                      |
| “HK\$”                 | Hong Kong dollars, the lawful currency of Hong Kong                                                                                          |
| “RMB”                  | Renminbi, the lawful currency of the PRC                                                                                                     |
| “%”                    | per cent.                                                                                                                                    |

*For the purpose of this circular, all amounts denominated in RMB have been translated (for information only) into HK\$ using the exchange rate of RMB1.00 : HK\$1.13. Such translation shall not be construed as a representation that amount of RMB was or may have been converted.*

*\* For identification purpose only*



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)**

*Executive Directors:*

Mr. An Mu Zong (*Chairman*)

Mr. Wang Zai Xing

Mr. Chow Ka Wo Alex

*Non-executive Directors:*

Mr. Deng Yan Bin

Mr. Lin Dong Hui

Mr. Wang Hui

*Independent Non-executive Directors:*

Mr. Cai Lian Jun

Mr. Wong Kai Tat

Mr. Chan Ming Sun Jonathan

*Registered Office:*

No.1-4, 20A, Central Street,

Shenyang Economic and

Technological Development Zone,  
the PRC

*Principal Office:*

14/F, Jin Mao International

Apartment,  
1 Xiao Dong Road,

Da Dong District,  
Shenyang, the PRC

23 May 2009

*To the Shareholders*

Dear Sir or Madam,

**VERY SUBSTANTIAL DISPOSAL**

**INTRODUCTION**

Reference is made to the Announcement in relation to the Debt Transfer and the Shares Subscription.

The purpose of this circular is to give you (i) further information in respect of the Debt Transfer and the Shares Subscription; and (ii) the notice of EGM and the proxy form.

**I. THE DEBT TRANSFER AND THE SHARES SUBSCRIPTION**

On 18 February 2008, the Company, Shenyang Real Estate, Shenyang Pollon, Shenyang Property and Shanghai Hanhua entered into the Debt Transfer and Shares Subscription Agreement, pursuant to which (i) Shanghai Hanhua shall purchase the debt of Shenyang Education due to the Company, Shenyang Real Estate, Shenyang Pollon,

## LETTER FROM THE BOARD

Shenyang Property totalling RMB256,638,760.49; and (ii) Shanghai Hanhua agreed to subscribe the remaining 30% interest in Shenyang Education held by the Company at RMB2,514,062.24.

### **The Debt Transfer and Shares Subscription Agreement**

Date : 18 February 2008

Vendors : (i) The Company;  
(ii) Shenyang Real Estate;  
(iii) Shenyang Pollon; and  
(iv) Shenyang Property

Purchaser : Shanghai Hanhua

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Shanghai Hanhua is independent of and not connected with the Company and its connected persons (as defined in the Listing Rules).

### **(1) The Debt Transfer**

#### *Disposed assets*

The debt of Shenyang Education, totalling RMB256,638,760.49, due to

- (i) the Company of RMB185,227,797.00;
- (ii) Shenyang Real Estate of RMB30,551,480.40;
- (iii) Shenyang Pollon of RMB34,363,194.90; and
- (iv) Shenyang Property of RMB6,496,288.19.

The debt of RMB256,638,760.49 is a loan borrowed by Shenyang Education from the Company and its subsidiaries for the period between the end of 2002 and July of 2007 for the construction of schools.

The Directors represent that the debt of Shenyang Education due to Shenyang Real Estate, Shenyang Pollon and Shenyang Property of approximately RMB30,511,480.40, RMB34,363,194.90 and RMB6,496,288.19 respectively have been transferred to the Company. Such transfers were not part of the Debt Transfer and Shares Subscription Agreement. On 28 February 2008, the Company entered into another debt transfer agreement with Shenyang Real Estate, Shenyang Pollon and Shenyang Property, pursuant to

## LETTER FROM THE BOARD

which Shenyang Real Estate, Shenyang Pollon and Shenyang Property agreed to transfer the rights to receive their respective debt payments to the Company.

### *Consideration*

The consideration for the Debt Transfer was RMB256,638,760.49 which was the same as the amount of debt owed by Shenyang Education to the Company as abovementioned.

### *Payment terms*

The consideration for the Debt Transfer would be payable by Shanghai Hanhua to the Company in the following manner:

- (i) as to RMB100,000,000 in cash within 18 months after the date of the Debt Transfer and Shares Subscription Agreement (the **“1st Installment of Debt Purchase Payment”**); and
- (ii) the remaining balance of RMB156,638,760.49 shall be fully paid within 24 months following the aforesaid first installment of debt purchase payment

Shanghai Hanhua holds 70% interest in Shenyang Education and has provided its 70% interest in Shenyang Education as a guarantee for its payment of the aforesaid balance amount. In the event that Shanghai Hanhua is unable to pay the consideration for the Debt Transfer in full, the Company has the right to obtain the 70% interest in Shenyang Education held by Shanghai Hanhua.

Up to August 2008, Shanghai Hanhua had paid RMB116,415,067.76 to the Company for the consideration of Debt Transfer. On 1 September 2008, Shanghai Hanhua signed a letter of undertaking, pursuant to which Shanghai Hanhua undertook to pay for the remaining balance of the consideration of Debt Transfer of approximately RMB140,223,692.73 within 24 months pursuant to the following schedule:

- (i) RMB5 million in October 2008;
- (ii) RMB5 million in December 2008;
- (iii) RMB20 million in March 2009;
- (iv) RMB20 million in June 2009;
- (v) RMB20 million in September 2009;

## LETTER FROM THE BOARD

(vi) RMB20 million in December 2009; and

(vii) the remaining balance of RMB50,223,692.73 before July 2010.

Up to the date of this circular, Shanghai Hanhua had paid approximately RMB163,894,173.70 in accordance with the payment schedule. The remaining balance will be paid in accordance with the payment schedule of the letter of undertaking.

### *Completion*

The Debt Transfer had not yet completed until the full payment of the consideration of RMB256,638,760.49. Up to the date of this circular, the Company received approximately RMB163,894,173.70 for the payment of consideration of Debt Transfer and the remaining balance of the consideration is expected to be received on or before July 2010.

### *Gain on the Debt Transfer*

There was no loss/gain for the Debt Transfer as the consideration for the Debt Transfer was the same as the amount of debt owed by Shenyang Education to the Company.

## **(2) The Shares Subscription**

### *Disposed assets*

The remaining 30% interest in Shenyang Education held by the Company.

### *Consideration*

Shanghai Hanhua agreed to purchase and the Company agreed to dispose the remaining 30% interest in Shenyang Education held by the Company at a consideration of RMB2,514,060.24.

According to 瀋陽市中級人民法院民事(執行)裁定書(2007瀋法執字第577號) on 15 January 2008, both Shenyang Real Estate and Shanghai Hanhua agreed to settle all the debts by transferring 70% in Shenyang Education held by Shenyang Real Estate to Shanghai Hanhua at a value of RMB5,866,145.23. The basis for the determination of consideration of RMB2,514,060.24 for the disposal of the remaining 30% interest in Shenyang Education was calculated on a pro-rata basis from the aforesaid disposal of 70% interest in Shenyang Education.

## LETTER FROM THE BOARD

Shenyang Education, being an associate of the Company, incurred net liabilities of RMB89 million as at the time of Shares Subscription. Shanghai Hanhua has undertaken not to demand the Company to assume such liabilities after the completion of Shares Subscription.

According to the valuation report on 30% interest of Shenyang Education as stated in Appendix IV to this circular, the market value of the 30% equity interest in Shenyang Education as at 31 December 2007 was at a negative value of approximately RMB27,000,000.

The net loss attributable to the 30% interest in Shenyang Education for the year ended 31 December 2006 and 31 December 2007 were approximately RMB957,942.05 and RMB1,151,125.96 respectively based on the management accounts of Shenyang Education provided by the Company.

### *Payment terms*

The consideration of RMB2,514,060.24 was payable in cash by Shanghai Hanhua to the Company and had been fully paid in August 2008.

### *Completion*

The Shares Subscription had been completed in September 2008.

### *Gain on the Shares Subscription*

Since the value of remaining 30% interest in Shenyang Education was zero as at the time of Shares Subscription, the gain on the Shares Subscription was approximately RMB2,514,060.24 which was the same as the consideration for the Shares Subscription.

### **(3) Aggregate consideration**

The aggregate consideration for the Debt Transfer and the Shares Subscription is approximately RMB259,152,820.73.

### **(4) Use of proceeds**

The sale proceeds were utilized to repay the loan due to the banks and creditors. Up to the date of this circular, the proceeds from the Debt Transfer of approximately RMB163,894,173.70 and the proceeds from the Shares Subscription of approximately RMB2,514,060.24 had been fully utilized for the repayment of bank loans and loans from creditors.

## LETTER FROM THE BOARD

### REASONS FOR ENTERING INTO THE DEBT TRANSFER AND SHARES SUBSCRIPTION AGREEMENT

It was disclosed in the interim report of the Company for the period ended 30 June 2008 that the Management Committee of Shenyang Economic and Technological Development Zone has resolved to take back the state-owned land use rights of Shenyang Education freely in 2005. Due to the liquidity problem, Shenyang Education was unable to develop the residential units according to the agreed schedule. Given the above situation, it is expected that the Debt Transfer and the Shares Subscription would maximize the flexibility of the pro-investments of the Group and existing assets for the interest of the Group.

In light of the above, the Directors consider that the terms of the Debt Transfer and Shares Subscription Agreement and the transactions contemplated thereunder are fair and reasonable and the Debt Transfer and Shares Subscription Agreement and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

### FINANCIAL IMPACT OF THE DEBT TRANSFER AND THE SHARES SUBSCRIPTION

Upon completion of the Debt Transfer and the Shares Subscription, it is expected that the Company will cease to have any interest in Shenyang Education. Set out in Appendix III to this circular is the unaudited pro forma financial information of the Remaining Group, which illustrates (i) the possible financial impact of the disposal of the entire equity interests in Shenyang Education (the “Disposal”) on the results and cash flows of the Group, assuming the Disposal had been completed on 31 December 2007; and (ii) the possible financial impact of the Disposal on the assets and liabilities of the Group, assuming the Disposal had been completed on 31 December 2007.

Based on the unaudited pro forma consolidated balance sheet of the Remaining Group as at 31 December 2007, it is expected that the assets of the Remaining Group will be decreased from RMB1,090,528,000 to RMB875,377,000, which principally reflects the adjustment of the property and equipment and the prepaid lease payments on land use rights. The liabilities are expected to be reduced from RMB586,756,000 to RMB239,255,000 as a result of the Disposal.

Based on the unaudited pro forma consolidated income statement of the Remaining Group for the year ended 31 December 2007, it is expected that the turnover of the Group will be reduced from RMB7,116,000 to RMB6,905,000 and the profit for the year will be increased from RMB112,319,000 to RMB127,379,000 as a result of the Disposal.

The content of this section is subject to change and confirmation by the Company.

### INFORMATION ON SHANGHAI HANHUA

Shanghai Hanhua is a limited company incorporated in the PRC on 17 January 2005 and is principally engaged in property management.

## LETTER FROM THE BOARD

### INFORMATION ON THE GROUP

Trading in the H shares of the Company has been suspended since 23 December 2004. Prior to the suspension, the Group was principally engaged in property development, educational investment and cemetery development in the PRC. The Group encountered financial distress in the last few years and has been downsizing the scale of operations since its suspension. Most of the Group's assets were being sold through auctions as ordered by the courts in the PRC. As at the date of this circular, the principal assets remained in the Group are a property in Zhuhai which is currently leased to Zhuhai Subsidiary Experimental School of Beijing University and Beijing Diye Real Estate Development Company Limited.

### INFORMATION ON SHENYANG REAL ESTATE, SHENYANG POLLON AND SHENYANG PROPERTY

It was disclosed in the annual report of the Company for year ended 31 December 2007 that Shenyang Real Estate, Shenyang Pollon and Shenyang Property were subsidiaries of the Company.

Shenyang Real Estate, in which the Company directly held 99.86% equity interests, was a real estate developer in Shenyang as at 31 December 2007.

Shenyang Pollon, in which the Company directly held 92.50% equity interests and Shenyang Real Estate directly holds 7.50% equity interests, is a real estate developer in Shenyang in which the Company held 99.99% equity interests in total as at 31 December 2007.

Shenyang Property, in which the Company directly held 1.00% equity interests and Shenyang Real Estate holds 99.00% equity interests, is a property management service provider in Shenyang in which the Company held 99.86% equity interests in total as at 31 December 2007. During the period ended 30 June 2008, the Company and Shenyang Real Estate entered the Equity Interest Transfer Agreement dated 8 March 2008 with an independent third party to dispose of 60% equity interest in Shenyang Property held by the Company and Shenyang Real Estate and the consideration for the said equity interest transfer was RMB600,000. The transactions contemplated under the Equity Interest Transfer Agreement had been completed and did not constitute any notifiable transactions nor connected transactions under the Listing Rules. Since then, Shenyang Property ceased to be a subsidiary of the Company.

### INFORMATION ON SHENYANG EDUCATION

Shenyang Education is an education investor in which the Company directly holds 30.00% equity interests before the completion of the Shares Subscription and Shanghai Hanhua holds 70.00% equity interests.

In July 2006, No.6 Construction Work Company of No.4 Works Bureau of China Construction ("**China Construction**") commenced legal action against Shenyang Real Estate for the unpaid balance of construction payment. The parties reached a settlement

## LETTER FROM THE BOARD

after negotiation. The Intermediate People's Court of Shenyang issued the Civil Mediation Agreement (2006) Liao Zhong Min (2) Fang Chu Zi No.129 民事調解書(2006)遼中民(2)房初字第129號 in 14 February 2007, pursuant to which Shenyang Real Estate was liable to pay China Construction the unpaid balance of construction payment and interest thereof of RMB5,830,700 before 10 April 2007, and Shanghai Hanhua guaranteed the payment.

Owing to the fact that the Shenyang Real Estate did not implement the repayment, Shanghai Hanhua discharged the liability of guarantee and paid the unpaid balance of construction payment and interest thereof for Shenyang Real Estate to China Construction in May 2007. Since Shenyang Real Estate failed to pay the assistance (the guarantee by Shanghai Hanhua in relation to a claim of construction fee and interest totaling RMB5,830,704.16 from China Construction against Shenyang Real Estate) to Shanghai Hanhua within the designated period, Shanghai Hanhua then made a claim to the Intermediate People's Court of Shenyang for the repayment of the assistance and applied for the enforcement against Shenyang Real Estate according to the Civil Mediation Agreement (2006) Liao Zhong Min (2) Fang Chu Zi No.129 民事調解書(2006)遼中民(2)初字第129號. In the process of execution, the parties reached a settlement and agreed to pay off all the debts with the 70% equity interest in Shenyang Education held by Shenyang Real Estate, the executed party, at a price of RMB5,866,150. The parties signed the Share Settlement Agreement (股權抵債協議書) dated 15 August 2007 on this matter.

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

### GENERAL

The Debt Transfer and Shares Subscription Agreement and the transactions contemplated thereunder constitute a very substantial disposal as defined under the Listing Rules and are subject to announcement, circular, accountant's report and shareholders' approval requirements set out in Rule 14.33 and Rule 14.34 of the Listing Rules. None of the shareholders of the Company has a material interest in the transaction and none of them shall abstain from voting at the EGM. The controlling shareholder of the Company, Beijing Mingde Guangye, holding 58.8% of the issued share capital of the Company at the date of this circular, undertakes to vote in favour of the resolution concerning the Debt Transfer and Shares Subscription Agreement and the transactions contemplated thereunder.

The content of this circular is subject to change and confirmation by the Company.

### NON-COMPLIANCE WITH LISTING RULES

The Company failed to disclose the Debt Transfer and the Shares Subscription which would have been subject to disclosure, accountant's report and shareholders' approval requirements under the Listing Rules. The non-compliance with the Listing Rules mentioned above was due to inadvertent omission by the Directors. The Company admits its breaches of Rule 14.34 and Rule 14.49 of the Listing Rules.

## LETTER FROM THE BOARD

### FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group's operations are expected to focus on the followings:

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

### EGM

A notice convening the EGM with the resolutions, among other matters, is set out in this circular. Whether or not the Shareholders are able to attend the meeting or any adjourned meeting, they are requested to complete the accompany form of proxy and return it to the Company's branch share registrar in Hong Kong, Hong Kong Registrars Limited at Rooms 1806-7, 18/F, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not later than 48 hours before the time of the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude the Shareholders from attending and voting at the meeting or at any adjourned meeting should they wish to do so.

### RECOMMENDATION

Under the said circumstances of financial distress faced by the Group and on balance, the Directors consider that the Debt Transfer and Shares Subscription Agreement and the transactions contemplated thereunder are fair and reasonable to the Company and in the interest of the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to ratify and approve the Debt Transfer and Shares Subscription Agreement and the transactions contemplated thereunder.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board  
**Shenyang Public Utility Holdings Company Limited**  
**An Mu Zong**  
*Chairman*

*The following is the text of the report, prepared for the purpose of inclusion in this circular, received from our reporting accountants, Lo and Kwong C.P.A. Company Limited, in respect of the financial information of the Group.*



Lo and Kwong C.P.A. Company Limited  
Certified Public Accountants  
1304, Shanghai Industrial Investment Bldg.,  
60 Hennessy Road, Wanchai, Hong Kong.  
Tel: (852) 2802 2187  
Fax: (852) 2824 4091

23 May 2009

The Directors  
Shenyang Public Utility Holdings Company Limited  
Jinmao International Apartment,  
14/F., Da Dong District,  
Shenyang, the PRC,  
Postal code: 110041

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) of Shenyang Public Utility Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2006, 2007 and 2008 (the “Relevant Periods”) prepared for inclusion in the Company’s circular dated 23 May 2009 (the “Circular”) in connection with the disposal (the “Disposal”) of the Group’s 100% equity interest in Shenyang Development Beida Education Science Park Company Limited and its subsidiaries, which are principally engaged in education projects in Shenyang.

According to the Intermediate People’s of Shenyang issued a Civil Order (Execution) (2007) Shen Fa Zhi Ji No.577 on 15 January 2008, both Shenyang Real Estate and Shanghai Hanhua agreed to settle all the debts by transferring 70% in Shenyang Education held by Shenyang Real Estate on Shanghai Hanhua at a consideration of approximately RMB5,866,000. At 18 February 2008, The Company, Shenyang Real Estate, Shenyang Pollon and Shenyang Property agreed to transfer the rights to receive their respective debt payments to the Company (the “Debt Transfer”). Per the same agreement, Shanghai Hanhua agreed to purchase and the Company agreed to dispose the remaining 30% interest in Shenyang Education held by the Company at a consideration of approximately RMB2,514,000. As a result, 100% shareholding of Shenyang Education and its subsidiaries was disposed to Shanghai Hanhua after the Disposal.

The Financial Information comprises the consolidated balance sheet of the Group as at 31 December 2006, 2007 and 2008 and the consolidated income statements, the consolidated statements of changes in equity and consolidated cash flow statements for each of the Relevant Periods, and a summary of significant accounting policies and other explanatory notes.

The Company is incorporated in the People’s Republic of China (the “PRC”) and its H shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Other general information of the Company please refers to Appendix VI of the Circular. Trading in the H shares of the Company shares was suspended since 23 December 2004.

The Company acts as an investment holding company. During the Relevant Periods, the Group was principally engaged in development, sales and rental of properties and investment and management of education projects; and cemetery development business until that business solely operated by the Group's wholly owned subsidiaries were sold during the year ended 31 December 2007.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 41 to the Financial Information below. Both subsidiaries are private companies incorporated in the PRC.

The financial statements of the Group for the three years ended 31 December 2006, 2007 and 2008 were audited by us.

The Financial Information as set out in this report has been prepared based on the audited consolidated financial statements of the Group for each of the Relevant Periods (hereinafter collectively referred to as the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), after making such adjustments as are appropriate for the purpose of preparing the Financial Information for inclusion in the Circular. The Financial Information also includes the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with HKFRS. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors of the Company are also responsible for the contents of the circular in which this report is included.

For the purpose of this report, we have examined the Underlying Financial Statements and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material fundamental uncertainty relating to going concern basis paragraphs stated in the Independent Auditor's Report for the three years ended 31 December 2006, 2007 and 2008, we do not express an opinion on the Financial Information as to whether they give a true and fair view of the financial position of the Group as at the three years ended and of its results on continuous operations and cash flows for the three years then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the Financial Information have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

For the details of the abovesaid paragraphs, please refer to the Independent Auditor's Report for the three years ended 31 December 2006, 2007 and 2008.

**Consolidated Income Statement**

|                                                                                         | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000  |
|-----------------------------------------------------------------------------------------|-----------------|-----------------|------------------|
| <b>Continuous operations</b>                                                            |                 |                 |                  |
| Turnover                                                                                | 39,617          | 7,116           | 16,465           |
| Bank interests received                                                                 | 33              | 21              | 2,971            |
| Other income                                                                            | 16,296          | 555             | 137              |
| Cost of properties sold                                                                 | (40,237)        | (3,889)         | (7,328)          |
| Taxes on sales of properties                                                            | (2,179)         | (436)           | (1,126)          |
| Staff costs                                                                             | (4,359)         | (5,545)         | (6,681)          |
| Depreciation and amortisation                                                           | (12,216)        | (19,083)        | (24,005)         |
| Impairment loss on properties held for sale                                             | (216,438)       | –               | –                |
| Loss on disposal of property and equipment                                              | –               | –               | (408)            |
| Loss on sales of investment properties                                                  | –               | –               | (6,978)          |
| Gain on disposal of subsidiaries                                                        | 204,123         | –               | –                |
| Impairment loss on investment in associate                                              | (200)           | –               | –                |
| Allowance for bad and doubtful debt                                                     | (4,034)         | (94)            | (10,127)         |
| Other operating expenses                                                                | (21,537)        | (10,238)        | (12,237)         |
| Prepayments of land purchase transferred and<br>profit on sales of other current assets | –               | –               | 19,575           |
| Finance costs                                                                           | (17,876)        | (23,577)        | (34,149)         |
| Loss before taxation                                                                    | (59,007)        | (55,170)        | (63,891)         |
| Taxation                                                                                | 613             | 613             | 613              |
| Loss for the year on continuous operations                                              | <u>(58,394)</u> | <u>(54,557)</u> | <u>(63,278)</u>  |
| <b>Discontinued operations</b>                                                          |                 |                 |                  |
| Profit/(loss) for the year on discontinued<br>operations                                | <u>N/A</u>      | <u>166,876</u>  | <u>(17,333)</u>  |
| (Loss) profit for the year on continuous and<br>discontinued operations                 | <u>(58,394)</u> | <u>112,319</u>  | <u>(80,611)</u>  |
| Attributable to:                                                                        |                 |                 |                  |
| Shareholders of the Company                                                             | (54,638)        | 115,657         | (76,705)         |
| Minority interests                                                                      | <u>(3,756)</u>  | <u>(3,338)</u>  | <u>(3,906)</u>   |
|                                                                                         | <u>(58,394)</u> | <u>112,319</u>  | <u>(80,611)</u>  |
| (Loss) Earning per share                                                                |                 |                 |                  |
| – Basic                                                                                 |                 |                 |                  |
| Arising from continuous operations                                                      | (RMB0.06)       | (RMB0.05)       | (RMB0.06)        |
| Arising from discontinued operations                                                    | <u>N/A</u>      | <u>RMB0.16</u>  | <u>(RMB0.02)</u> |
| Arising from continuous and discontinued<br>operations                                  | <u>N/A</u>      | <u>RMB0.11</u>  | <u>(RMB0.08)</u> |
| – Diluted                                                                               | <u>N/A</u>      | <u>N/A</u>      | <u>N/A</u>       |

**Consolidated Balance Sheet**

|                                                    | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000  |
|----------------------------------------------------|-----------------|-----------------|------------------|
| <b>NON CURRENT ASSETS</b>                          |                 |                 |                  |
| Property and equipment                             | 19,200          | 146,795         | 159,931          |
| Investment properties                              | 248,342         | 255,390         | 317,786          |
| Prepaid lease payments on land use rights          | –               | 86,752          | 89,316           |
| Available-for-sale financial assets                | 20,000          | 20,000          | 20,000           |
| Other long term receivable                         | 32,745          | –               | –                |
|                                                    | <u>320,287</u>  | <u>508,937</u>  | <u>587,033</u>   |
| <b>CURRENT ASSETS</b>                              |                 |                 |                  |
| Properties held for sale                           | 205,735         | 484,987         | 495,715          |
| Inventories                                        | –               | 341             | 469              |
| Accounts receivable                                | –               | –               | 1,192            |
| Amount due from parent company                     | –               | 54,268          | 55,296           |
| Prepaid lease payments on land use rights          | –               | 2,564           | 2,564            |
| Prepayments                                        | 1,572           | 3,039           | 2,518            |
| Other receivables                                  | 80,692          | 31,914          | 185,615          |
| Bank balances and cash                             | 6,803           | 4,478           | 9,444            |
|                                                    | <u>294,802</u>  | <u>581,591</u>  | <u>752,813</u>   |
| <b>CURRENT LIABILITIES</b>                         |                 |                 |                  |
| Trade payables                                     | 5,875           | 43,080          | 58,249           |
| Other payables and accruals                        | 33,333          | 412,989         | 540,283          |
| Receipts in advance                                | 12,759          | 44,089          | 65,356           |
| Tax payables                                       | 551             | 1,168           | 1,159            |
| Deferred income                                    | –               | –               | 62,096           |
| Provision for a potential liability                | 1,041           | 2,043           | 18,502           |
| Bank loans – repayable within one year             | 14,000          | 62,000          | 181,344          |
|                                                    | <u>67,008</u>   | <u>564,201</u>  | <u>926,989</u>   |
| <b>NET CURRENT ASSET (LIABILITIES)</b>             | <u>227,794</u>  | <u>17,390</u>   | <u>(174,176)</u> |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>       | <u>548,081</u>  | <u>526,327</u>  | <u>412,857</u>   |
| <b>CAPITAL AND RESERVES</b>                        |                 |                 |                  |
| Share capital                                      | 1,020,400       | 1,020,400       | 1,020,400        |
| Reserves                                           | (605,974)       | (550,985)       | (666,642)        |
| Equity attributable to shareholders of the Company | <u>414,426</u>  | <u>469,415</u>  | <u>353,758</u>   |
| Minority interests                                 | 28,715          | 34,357          | 35,931           |
| <b>TOTAL EQUITY</b>                                | <u>443,141</u>  | <u>503,772</u>  | <u>389,689</u>   |
| <b>NON-CURRENT LIABILITIES</b>                     |                 |                 |                  |
| Deferred taxation                                  | 21,942          | 22,555          | 23,168           |
| Other non current liabilities                      | 82,998          | –               | –                |
|                                                    | <u>104,940</u>  | <u>22,555</u>   | <u>23,168</u>    |
| <b>TOTAL EQUITY AND NON-CURRENT LIABILITIES</b>    | <u>548,081</u>  | <u>526,327</u>  | <u>412,857</u>   |

## Consolidated Statements of Changes in Equity

|                                           | Equity attributable to shareholders of the Company |                             |                                            |                                                      |                               |                  |                                  |                            |
|-------------------------------------------|----------------------------------------------------|-----------------------------|--------------------------------------------|------------------------------------------------------|-------------------------------|------------------|----------------------------------|----------------------------|
|                                           | Share<br>capital<br>RMB'000                        | Share<br>premium<br>RMB'000 | Statutory<br>Surplus<br>reserve<br>RMB'000 | Statutory<br>public<br>welfare<br>reserve<br>RMB'000 | Retained<br>losses<br>RMB'000 | Total<br>RMB'000 | Minority<br>interests<br>RMB'000 | Total<br>equity<br>RMB'000 |
| At 1 January 2005                         | 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 31 December 2005 and<br>1 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 31 December 2006 and<br>1 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 31 December 2007 and<br>1 January 2008 | 1,020,400                                          | 323,258                     | 103,582                                    | -                                                    | (977,825)                     | 469,415          | 34,357                           | 503,772                    |
| Loss for the year                         | -                                                  | -                           | -                                          | -                                                    | (54,638)                      | (54,638)         | (3,756)                          | (58,394)                   |
| Disposal of subsidiaries                  | -                                                  | -                           | (351)                                      | -                                                    | -                             | (351)            | (1,886)                          | (2,237)                    |
| At 31 December 2008                       | <u>1,020,400</u>                                   | <u>323,258</u>              | <u>103,231</u>                             | <u>-</u>                                             | <u>(1,032,463)</u>            | <u>414,426</u>   | <u>28,715</u>                    | <u>443,141</u>             |

**Consolidated Cash Flow Statement**

|                                                                                   | <i>Notes</i> | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> | <b>2006</b><br><i>RMB'000</i> |
|-----------------------------------------------------------------------------------|--------------|-------------------------------|-------------------------------|-------------------------------|
| <b>OPERATING ACTIVITIES</b>                                                       |              |                               |                               |                               |
| Loss before taxation of continuous operations                                     |              | (59,007)                      | (55,170)                      | (63,891)                      |
| Profit (loss) before taxation of discontinued operations                          |              | <u>–</u>                      | <u>167,971</u>                | <u>(16,708)</u>               |
|                                                                                   |              | (59,007)                      | 112,801                       | (80,599)                      |
| Adjustments for:                                                                  |              |                               |                               |                               |
| Prepayments of land purchase transferred and gain on sale of other current assets |              | –                             | –                             | (19,575)                      |
| Bank interest received                                                            |              | (33)                          | (21)                          | (2,982)                       |
| Depreciation on property and equipment                                            |              | 2,061                         | 8,307                         | 9,585                         |
| Depreciation on investment properties                                             |              | 10,155                        | 10,293                        | 13,902                        |
| Amortisation of prepaid lease payments on land use rights                         |              | –                             | 2,564                         | 2,564                         |
| Impairment loss on properties held for sale                                       |              | 216,438                       | –                             | –                             |
| Impairment loss on investment in associate                                        |              | 200                           | –                             | –                             |
| Finance costs                                                                     |              | 17,876                        | 23,577                        | 36,570                        |
| Loss on disposal of property and equipment                                        |              | 852                           | –                             | 595                           |
| Loss on disposal of investment properties                                         |              | –                             | –                             | 6,978                         |
| Allowance for bad and doubtful debts                                              |              | 4,034                         | –                             | –                             |
| Gain on disposal of subsidiaries                                                  | 35           | (204,123)                     | (198,436)                     | –                             |
| Provision for bad and doubtful debt                                               |              | <u>–</u>                      | <u>–</u>                      | <u>10,127</u>                 |
| Operating cash flows before movements in working capital                          |              | (11,547)                      | (40,915)                      | (22,835)                      |
| Decrease (increase) in properties held for sale                                   |              | 42,789                        | 10,728                        | (228,947)                     |
| Decrease (increase) in inventories                                                |              | –                             | 128                           | (108)                         |
| Decrease (increase) in accounts receivables                                       |              | –                             | 1,192                         | (573)                         |
| Decrease (increase) in prepayments                                                |              | 1,467                         | (521)                         | 100,043                       |
| Increase in amount due from a holding company                                     |              | 54,268                        | –                             | –                             |
| Decrease in trade payable                                                         |              | (18,318)                      | (11,932)                      | (495)                         |
| Increase in other payables and accrued charges                                    |              | 60,897                        | 55,539                        | 112,940                       |
| Decrease in provision for a potential liability                                   |              | (1,002)                       | (16,459)                      | (3,388)                       |
| Increase (decrease) in receipts in advance                                        |              | 2,706                         | (19,525)                      | (166,692)                     |
| Increase in deferred income                                                       |              | <u>–</u>                      | <u>50,434</u>                 | <u>28,201</u>                 |
| Cash generated from (used in) operations                                          |              | 131,260                       | 28,669                        | (181,854)                     |
| PRC Enterprise Income Tax (paid) returned                                         |              | <u>–</u>                      | <u>(130)</u>                  | <u>2,568</u>                  |
| <b>NET CASH FROM (USED IN) OPERATING ACTIVITIES</b>                               |              | <u>131,260</u>                | <u>28,539</u>                 | <u>(179,286)</u>              |

|                                                                                                               | <i>Notes</i> | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> | <b>2006</b><br><i>RMB'000</i> |
|---------------------------------------------------------------------------------------------------------------|--------------|-------------------------------|-------------------------------|-------------------------------|
| <b>INVESTING ACTIVITIES</b>                                                                                   |              |                               |                               |                               |
| Bank interest received                                                                                        |              | 33                            | 21                            | 2,982                         |
| Decrease in other current assets                                                                              |              | –                             | –                             | 5,720                         |
| Disposal of subsidiaries (Net cash and cash equivalents)                                                      | 35           | 8,502                         | (6,490)                       | –                             |
| Purchase of property and equipment                                                                            |              | (1,521)                       | (7,730)                       | (9,545)                       |
| Purchase of investment properties                                                                             |              | –                             | (107)                         | (6,729)                       |
| Decrease in amount due from parent company                                                                    |              | –                             | 1,028                         | 212,898                       |
| (Increase) decrease in other receivables                                                                      |              | (112,073)                     | 149,393                       | (6,750)                       |
| Decrease in pledged bank deposits                                                                             |              | –                             | –                             | 71,598                        |
| Proceeds from disposal of property and equipment                                                              |              | –                             | –                             | 297                           |
| Proceeds from disposal of investment properties                                                               |              | –                             | –                             | 58,993                        |
| Decrease in investment costs payable                                                                          |              | –                             | –                             | (39,512)                      |
| <b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>                                                           |              | <u>(105,059)</u>              | <u>136,115</u>                | <u>289,952</u>                |
| <b>FINANCING ACTIVITIES</b>                                                                                   |              |                               |                               |                               |
| New bank loans raised                                                                                         |              | 14,000                        | –                             | 65,000                        |
| Repayment of bank loans borrowed                                                                              |              | (20,000)                      | (118,554)                     | (235,146)                     |
| Interests payment                                                                                             |              | (17,876)                      | (23,577)                      | (16,970)                      |
| (Decrease) increase in other payables                                                                         |              | –                             | (27,489)                      | 76,841                        |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                                                                  |              | <u>(23,876)</u>               | <u>(169,620)</u>              | <u>(110,275)</u>              |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                                   |              | 2,325                         | (4,966)                       | 391                           |
| <b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>                                                 |              | <u>4,478</u>                  | <u>9,444</u>                  | <u>9,053</u>                  |
| <b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b> |              | <u><u>6,803</u></u>           | <u><u>4,478</u></u>           | <u><u>9,444</u></u>           |

**Notes to the Consolidated Financial Statements**

*For the year ended 31 December 2008*

**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 Appendix VI of this Circular.

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

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 15 December 2004 until further notice.

**2. ADOPTION OF GOING CONCERN BASIS**

The Group suffered loss of RMB58,394,000 for the year ended 31 December 2008 and two short term bank loans amounting to RMB14,000,000 has to be repaid in 2009. The management of the Company has taken the following measures:

- (i) Carry out debt restructuring with its creditors. The Group has reached agreements with its creditors in respect of debt restructuring and the court litigations have been discharged. Therefore, these financial information 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;
- (iv) The substantial shareholder of the Company has changed from Shenyang Public Utility Group Company Limited to Beijing Mingde Guangye Investment Consultant Company Limited on 24 February 2009. The management is now working for obtaining the financial support from the new substantial shareholder. The new shareholder has indicated in a letter to the Company on 26 February 2009 that they would fully support the resumption of trading of H-shares of the Company.

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 31 December 2008, the management of the Company is of the opinion that it is appropriate to prepare these financial information on a going concern basis.

### 3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORT STANDARD

In the current year, the Group has applied all of the 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 1 January 2006, 2007 and 2008 respectively. 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 1 January 2009. The directors of the Group anticipate the application of these new standards, amendments or interpretations will have no material impact on the Group’s results and financial position.

|                                 |                                                                                            |
|---------------------------------|--------------------------------------------------------------------------------------------|
| HKFRS (Amendment)               | Improvements to HKFRS <sup>1</sup>                                                         |
| HKAS 1 (Revised)                | Presentation of Financial Statements <sup>2</sup>                                          |
| HKAS 32 and HKAS 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation <sup>2</sup>         |
| HKAS 23 (Revised)               | Borrowing Costs <sup>2</sup>                                                               |
| HKAS 27 (Revised)               | Consolidated and Separate Financial Statements <sup>3</sup>                                |
| HKAS 39 (Amendment)             | Financial Instruments: Recognition and Measurement – Eligible Hedge Items <sup>3</sup>     |
| HKFRS 1 & HKAS 27 (Amendments)  | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate <sup>2</sup> |
| HKFRS 2 (Amendment)             | Share-based Payment -Vesting Conditions and Cancellations <sup>2</sup>                     |
| HKFRS 3 (Revised)               | Business Combinations <sup>3</sup>                                                         |
| HKFRS 8                         | Operating Segments <sup>2</sup>                                                            |
| HK(IFRIC)-INT 13                | Customer Loyalty Programmes <sup>5</sup>                                                   |
| HK(IFRIC)-INT 15                | Agreements for the Construction of Real Estate <sup>2</sup>                                |
| HK(IFRIC)-INT 16                | Hedges of a Net Investment in a Foreign Operation <sup>6</sup>                             |
| HK(IFRIC)-INT 17                | Distributions of Non-cash Assets to Owners <sup>3</sup>                                    |

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2009, except the amendments to HKFRS 5 which are effective for annual periods beginning on or after 1 July 2009

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2009.

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2008.

<sup>5</sup> Effective for annual periods beginning on or after 1 October 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 as explained in the accounting policies set out below.

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

The principal accounting policies adopted are as follows:

#### **Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

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

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

#### **Goodwill**

Goodwill arising on an acquisition of a subsidiary, with an agreement dated on or after 1 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 capitalised, the Group has discontinued amortising such goodwill from 1 January 2005 onwards. A cash-generating unit to which goodwill is tested for impairment annually, and whenever there is an indication that the unit may be impaired (see the accounting policies below).

Goodwill arising on an acquisition of a subsidiary, with an agreement dated before 1 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 recognised 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 capitalised is included in the determination of the amount of profit or loss on disposal.

### Revenue Recognition

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

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

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

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

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

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

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

### Property and Equipment

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

Depreciation is provided to write off the cost of items of property and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

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

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

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

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

### Investment Properties

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

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

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

#### **Land Use Rights**

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

#### **Properties under Development for Sale**

Properties under development for sale are stated at cost less any identified impairment loss. Cost comprises the land cost with development expenditure, which includes construction costs, capitalized interest and direct costs attributable to the development of the properties.

#### **Completed Properties Held for Sale**

Completed properties held for sale are classified under current assets and stated at the lower of cost and net realizable value. Cost comprises land cost, direct purchase cost or expenditure incurred for the construction and, where applicable, other incidental expenses that has been incurred in bringing the properties to their present location and condition, is calculated using the weighted average method. Net realizable value represents the actual or estimated selling price in the ordinary course of business less all related selling and marketing costs.

#### **Inventories**

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

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

#### **Financial Instruments**

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

#### *Financial Assets*

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

### Effective Interest Method

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

### Loans and Receivables

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

### Available-for-sale financial assets

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

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

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

### Impairment of Financial Assets

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

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

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

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

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

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

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

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

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

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

#### *Financial liabilities and equity*

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

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

#### *Effective interest method*

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

Interest expenses are recognized on an effective interest basis.

#### *Other financial liabilities*

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

#### *Equity investments*

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

*Derecognition*

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

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

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

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

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

**Borrowings costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

**Foreign currencies**

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

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

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

### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because the former excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is 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 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.

### **Leasing**

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

#### *The Group as lessor*

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

#### *The Group as lessee*

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

### **Retirement benefit costs**

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

**Provision**

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

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

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

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

**Depreciation and amortization of property and equipment and investment properties**

The net carrying amount of the Group's property and equipment (excluding construction under development) and investment properties as at 31 December 2008 was approximately RMB19,200,000 and RMB248,342,000 respectively. The Group depreciates and amortizes the property and equipment and investment properties on a straight line basis at 2% to 20% each year over the estimated useful life between 5 and 50 years after including its estimated remaining value, commencing from the date the property and equipment and investment properties is placed into use. The estimated useful life represents the number of years which the Group places the property and equipment and investment properties into production, reflecting the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property and equipment and investment properties.

**Impairment of property and equipment and investment properties**

The impairment loss for property and equipment and investment properties are recognised for the amounts by which the carrying amounts exceeds its recoverable amount, in accordance with the Group's accounting policy.

The group tests annually whether property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the net asset exceed its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations prepared on the basis of management's assumptions and estimates such as the future revenue and discount rates, taking into account the existing business expansion plan going forward, the current sales orders on hand and other strategic new business development. The management had reviewed the Group's property, plant and equipment for impairment using cash flow projections and valuation report prepared by an independent professional valuer. No impairment loss was provided for both years.

**Impairment of held-for-sell properties**

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

**Allowances for bad and doubtful debts**

Management regularly reviews the recoverability and age of the trade and other receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

**6. CAPITAL RISK MANAGEMENT**

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

The capital structure of the Group consists of debt, which includes bank borrowings (note 32), cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the company review the capital structure on a regular basis. As a part of this review, the directors of the Company consider the cost of capital and the associated risks and take appropriate actions to adjust the Group's capital structure. The overall strategy of the Group remained unchanged during the two years ended 31 December 2008 and 2007.

**7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

**Currency risk**

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

**Interest Rate Risk**

The Group's interest rate risk relates primarily to bank savings and variable-rate borrowings. (See note 31 for details of these borrowings.) It is the Group's policy to keep its borrowings at floating rate of interests so as to minimize the fair interest rate risk.

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

The sensitivity analyses below have been determined based on the exposure to interest rates for derivatives and non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the balance sheet date were outstanding for the whole year. A 200 basis point (2007: 100 basis points) increase or decrease in interest rates of the Peoples' Bank of China is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The management adjusted the sensitivity rate from 100 basis points to 200 basis points for assessing interest rate risk after considering the impact of the volatile financial market conditions after the third quarter of 2008.

If interest rates had been 200 basis points (2007: 100 basis points) higher or lower and all other variables were held constant, the Group's after-tax loss for the year ended 31 December 2008 would increase or decrease by RMB280,000 (2007: increase or decrease by RMB502,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable-rate bank borrowings.

#### **Credit risk**

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2008 in relation to each class of recognized financial assets is the carrying amount of the respective recognized financial assets as stated in the consolidated balance sheet. As at 31 December 2008, the Group has significant concentration of credit risk as 95% (2007: 100%) of the total other receivables was due from a counterparty.

In order to minimize the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

#### **Liquidity Risk**

As the Group suffered a loss on approximately RMB58,394,000 for the year ended 31 December 2008, the management has carefully considered the present policy applied by the Group on liquidity. Regarding the present policy in the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings and ensures compliance with loan covenants. As disclosed in note 2, the management believes the Group will perform financial duties in the future.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

|                                             | Weighted<br>average<br>effective<br>interest rate | Undiscounted<br>cash flows<br>within<br>1 year<br>RMB'000 | Carrying<br>amounts at<br>31 December<br>2008<br>RMB'000 |
|---------------------------------------------|---------------------------------------------------|-----------------------------------------------------------|----------------------------------------------------------|
| <b>2008</b>                                 |                                                   |                                                           |                                                          |
| <b>Non-derivative financial liabilities</b> |                                                   |                                                           |                                                          |
| Accounts payable                            |                                                   | 5,875                                                     | 5,875                                                    |
| Other payables                              |                                                   | 33,333                                                    | 33,333                                                   |
| Receipt in advance                          |                                                   | 12,759                                                    | 12,759                                                   |
| Provision for a potential liabilities       |                                                   | 1,041                                                     | 1,041                                                    |
| Bank borrowings due within one year         | 6.9%                                              | 14,000                                                    | 14,000                                                   |
|                                             |                                                   | <u>67,008</u>                                             | <u>67,008</u>                                            |
| <b>2007</b>                                 |                                                   |                                                           |                                                          |
| <b>Non-derivative financial liabilities</b> |                                                   |                                                           |                                                          |
| Accounts payable                            |                                                   | 43,080                                                    | 43,080                                                   |
| Other payables                              |                                                   | 412,989                                                   | 412,989                                                  |
| Receipt in advance                          |                                                   | 44,089                                                    | 44,089                                                   |
| Provision for a potential liabilities       |                                                   | 2,043                                                     | 2,043                                                    |
| Bank borrowings due within one year         | 8.10%                                             | 67,022                                                    | 62,000                                                   |
|                                             |                                                   | <u>569,223</u>                                            | <u>564,201</u>                                           |
| <b>2006</b>                                 |                                                   |                                                           |                                                          |
| <b>Non-derivative financial liabilities</b> |                                                   |                                                           |                                                          |
| Accounts payable                            |                                                   | 58,249                                                    | 58,249                                                   |
| Other payables                              |                                                   | 540,283                                                   | 540,283                                                  |
| Receipt in advance                          |                                                   | 65,256                                                    | 65,256                                                   |
| Provision for a potential liabilities       |                                                   | 18,502                                                    | 18,502                                                   |
| Bank borrowings due within one year         | 7.05%                                             | 181,344                                                   | 181,344                                                  |
|                                             |                                                   | <u>863,634</u>                                            | <u>863,634</u>                                           |

**Fair value**

The directors consider that the fair values of financial assets and financial liabilities recorded at amortised cost in the consolidated balance sheet approximate to the corresponding carrying amounts due to their short-term maturities.

**Categories of financial instruments**

|                                                             | 2008<br>HK\$'000 | 2007<br>HK\$'000 | 2006<br>HK\$'000 |
|-------------------------------------------------------------|------------------|------------------|------------------|
| <b>Financial assets</b>                                     |                  |                  |                  |
| Loans and receivables (including cash and cash equivalents) |                  |                  |                  |
| Amount due from parent company                              | –                | 54,268           | 55,296           |
| Other receivables                                           | 80,692           | 31,914           | 185,615          |
| Prepayment                                                  | 1,572            | 3,039            | 2,518            |
| Bank balances and cash                                      | 6,803            | 4,478            | 9,444            |
|                                                             | <u>89,067</u>    | <u>93,699</u>    | <u>252,873</u>   |
| <b>Financial liabilities</b>                                |                  |                  |                  |
| Financial liabilities measured at amortised cost            |                  |                  |                  |
| Trade payables                                              | 5,875            | 43,080           | 58,249           |
| Other payables and accruals                                 | 33,333           | 412,989          | 540,283          |
| Bank loans-repayable within one year                        | 14,000           | 62,000           | 181,344          |
| Receipts in advance                                         | 12,759           | 44,089           | 65,356           |
| Provision for a potential liability                         | 1,041            | 2,043            | 18,502           |
|                                                             | <u>67,008</u>    | <u>564,201</u>   | <u>863,734</u>   |

**8. TURNOVER**

Turnover represents the amounts received and receivable for development, sale, rental and management of properties less sale returns and discounts; revenue from education projects and cemetery development businesses for the year, the Group's turnover for the year arising from continuous and discontinued operations is stated below:

|                                                        | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000 |
|--------------------------------------------------------|-----------------|-----------------|-----------------|
| <b>Continuous operations</b>                           |                 |                 |                 |
| Development, sale, rental and management of properties | 36,617          | 3,905           | 9,521           |
| Education projects                                     | 3,000           | 3,211           | 6,370           |
| Others                                                 | –               | –               | 574             |
|                                                        | <u>39,617</u>   | <u>7,116</u>    | <u>16,465</u>   |
| <b>Discontinued operations (Note)</b>                  |                 |                 |                 |
| Cemetery development (Note)                            | –               | 2,832           | 1,602           |
|                                                        | <u>39,617</u>   | <u>9,948</u>    | <u>18,067</u>   |

*Note:* One former 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 10 May 2048. Xili Cemetery develops tomb sets and niches for cremation urns on the land and conveys to the lessees for the period as same as the lease terms of the land. The rental income is wholly received from the leasee when the legally binding contract is signed. Such rental income is recognised on a straight-line basis in the income statement over the relevant lease terms. The rental income received but not yet recognised to consolidated balance sheet is classified as deferred income in the balance sheet.

## 9. SEGMENT INFORMATION

### Business Segments

For management purposes, the Group is currently organised into three (2007 and 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 | – | Property 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 2007 (See Note 15 for details).

Segment information about these businesses is presented below:

(a) For the year ended 31 December 2008/as at 31 December 2008:

|                                                                       | Continuous operations                                                    |                                  |                              |                  |
|-----------------------------------------------------------------------|--------------------------------------------------------------------------|----------------------------------|------------------------------|------------------|
|                                                                       | Property<br>development,<br>sale, rental<br>and<br>management<br>RMB'000 | Education<br>projects<br>RMB'000 | Other<br>business<br>RMB'000 | Total<br>RMB'000 |
| <b>Consolidated Income Statement</b>                                  |                                                                          |                                  |                              |                  |
| Turnover                                                              | 36,617                                                                   | 3,000                            | –                            | 39,617           |
| Segment results                                                       | (11,544)                                                                 | (7,603)                          | –                            | (19,147)         |
| Interest income                                                       |                                                                          |                                  |                              | 33               |
| Unallocated corporate expenses                                        |                                                                          |                                  |                              | (9,502)          |
| Finance costs                                                         |                                                                          |                                  |                              | (17,876)         |
| Impairment loss on properties held for sales                          |                                                                          |                                  |                              | (216,438)        |
| Gain on disposal of subsidiaries                                      |                                                                          |                                  |                              | 204,123          |
| Impairment loss on investment in associate                            |                                                                          |                                  |                              | (200)            |
| Loss before taxation                                                  |                                                                          |                                  |                              | (59,007)         |
| Taxation                                                              |                                                                          |                                  |                              | 613              |
| Loss for the year                                                     |                                                                          |                                  |                              | (58,394)         |
| <b>Consolidated Balance Sheet</b>                                     |                                                                          |                                  |                              |                  |
| Segment assets                                                        | 214,237                                                                  | 266,981                          | –                            | 481,218          |
| Unallocated corporate assets                                          |                                                                          |                                  |                              | 133,871          |
| Total assets                                                          |                                                                          |                                  |                              | 615,089          |
| Segment liabilities                                                   | 23,034                                                                   | 36,959                           | –                            | 59,993           |
| Unallocated corporate liabilities                                     |                                                                          |                                  |                              | 111,955          |
| Total liabilities                                                     |                                                                          |                                  |                              | 171,948          |
| <b>Other Information</b>                                              |                                                                          |                                  |                              |                  |
| Additions to properties and equipment, and investment properties      |                                                                          |                                  |                              |                  |
| – segment                                                             | –                                                                        | 4,628                            | –                            | 4,628            |
| – corporate                                                           |                                                                          |                                  |                              | –                |
| Depreciation and amortization                                         |                                                                          |                                  |                              |                  |
| – segment                                                             | 114                                                                      | 11,980                           | –                            | 12,094           |
| – corporate                                                           |                                                                          |                                  |                              | 122              |
| Loss on disposal of property and equipment, and investment properties |                                                                          |                                  |                              |                  |
| – segment                                                             | –                                                                        | 852                              | –                            | 852              |
| – corporate                                                           |                                                                          |                                  |                              | –                |
| Allowances for bad and doubtful debts                                 |                                                                          |                                  |                              |                  |
| – segment                                                             | 2,987                                                                    | –                                | –                            | 2,987            |
| – corporate                                                           |                                                                          |                                  |                              | 1,047            |
| Impairment losses on properties held for sales                        |                                                                          |                                  |                              |                  |
| – segment                                                             | 216,438                                                                  | –                                | –                            | 216,438          |
| – corporate                                                           |                                                                          |                                  |                              | –                |

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

|                                                                       | Continuous operations                                        |                               |                           |                       | Discontinued operations         |                  |
|-----------------------------------------------------------------------|--------------------------------------------------------------|-------------------------------|---------------------------|-----------------------|---------------------------------|------------------|
|                                                                       | Property development, sale, rental and management<br>RMB'000 | Education projects<br>RMB'000 | Other business<br>RMB'000 | Sub-Total<br>RMB'000' | Cemetery development<br>RMB'000 | Total<br>RMB'000 |
| <b>Consolidated Income Statement</b>                                  |                                                              |                               |                           |                       |                                 |                  |
| Turnover                                                              | 3,905                                                        | 3,211                         | -                         | 7,116                 | 2,832                           | 9,948            |
| Segment results                                                       | (5,113)                                                      | (18,461)                      | -                         | (23,574)              | (26,354)                        | (49,928)         |
| Interests income                                                      |                                                              |                               |                           | 21                    | -                               | 21               |
| Unallocated corporate profit                                          |                                                              |                               |                           | (8,040)               | -                               | (8,040)          |
| Finance costs                                                         |                                                              |                               |                           | (23,577)              | (4,111)                         | (27,688)         |
| Profit on disposal of subsidiaries                                    |                                                              |                               |                           | -                     | 198,436                         | 198,436          |
| (Loss) profit before taxation                                         |                                                              |                               |                           | (55,170)              | 167,971                         | 112,801          |
| Taxation                                                              |                                                              |                               |                           | 613                   | (1,095)                         | (482)            |
| Profit for the year                                                   |                                                              |                               |                           | (54,557)              | 166,876                         | 112,319          |
| <b>Consolidated Balance Sheet</b>                                     |                                                              |                               |                           |                       |                                 |                  |
| Segment assets                                                        | 482,546                                                      | 405,356                       | 193                       | 888,095               | -                               | 888,095          |
| Amount due from parent company                                        |                                                              |                               |                           | 54,268                | -                               | 54,268           |
| Unallocated corporate assets                                          |                                                              |                               |                           | 148,165               | -                               | 148,165          |
| Total assets                                                          |                                                              |                               |                           | 1,090,528             | -                               | 1,090,528        |
| Segment liabilities                                                   | 173,865                                                      | 116,731                       | 2,590                     | 293,186               | -                               | 293,186          |
| Unallocated corporate liabilities                                     |                                                              |                               |                           | 293,570               | -                               | 293,570          |
| Total liabilities                                                     |                                                              |                               |                           | 586,756               | -                               | 586,756          |
| <b>Other Information</b>                                              |                                                              |                               |                           |                       |                                 |                  |
| 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                                                           |                                                              |                               |                           | -                     |                                 | -                |

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

|                                                                       | Continuous operations                                        |                               |                           |                       | Discontinued operations         |                  |
|-----------------------------------------------------------------------|--------------------------------------------------------------|-------------------------------|---------------------------|-----------------------|---------------------------------|------------------|
|                                                                       | Property development, sale, rental and management<br>RMB'000 | Education projects<br>RMB'000 | Other business<br>RMB'000 | Sub-Total<br>RMB'000' | Cemetery development<br>RMB'000 | Total<br>RMB'000 |
| <b>Consolidated Income Statement</b>                                  |                                                              |                               |                           |                       |                                 |                  |
| 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)         |
| <b>Consolidated Balance Sheet</b>                                     |                                                              |                               |                           |                       |                                 |                  |
| Segment assets                                                        | 649,992                                                      | 422,793                       | 193                       | 1,072,978             | 81,462                          | 1,154,440        |
| Amount due from parent company                                        |                                                              |                               |                           | 55,296                | –                               | 55,296           |
| Unallocated corporate assets                                          |                                                              |                               |                           | 126,563               | 3,547                           | 130,110          |
| Total assets                                                          |                                                              |                               |                           | 1,254,837             | 85,009                          | 1,339,846        |
| Segment liabilities                                                   | 178,593                                                      | 120,509                       | 2,990                     | 302,092               | 109,921                         | 412,013          |
| Unallocated corporate liabilities                                     |                                                              |                               |                           | 517,840               | 20,304                          | 538,144          |
| Total liabilities                                                     |                                                              |                               |                           | 819,932               | 130,225                         | 950,157          |
| <b>Other Information</b>                                              |                                                              |                               |                           |                       |                                 |                  |
| Additions to properties and equipment, and investment properties      |                                                              |                               |                           |                       |                                 |                  |
| – segment                                                             | 1                                                            | 16,089                        | –                         | 16,090                | 184                             | 16,274           |
| – corporate                                                           |                                                              |                               |                           | –                     |                                 | –                |
| Depreciation and amortization                                         |                                                              |                               |                           |                       |                                 |                  |
| – segment                                                             | 2,316                                                        | 23,203                        | 11                        | 22,631                | 2,046                           | 24,696           |
| – corporate                                                           |                                                              |                               |                           | 1,355                 |                                 | 1,355            |
| Loss on disposal of property and equipment, and investment properties |                                                              |                               |                           |                       |                                 |                  |
| – segment                                                             | 5,442                                                        | 1,653                         | –                         | 4,095                 | 45                              | 7,140            |
| – corporate                                                           |                                                              |                               |                           | 433                   |                                 | 433              |
| Allowances for bad and doubtful debts                                 |                                                              |                               |                           |                       |                                 |                  |
| – segment                                                             | 10,064                                                       | –                             | –                         | 10,064                | –                               | 10,064           |
| – corporate                                                           |                                                              |                               |                           | 63                    |                                 | 63               |

For the year ended 31 December 2008, 2007 and 2006, all of the Group's businesses were taken place in the PRC. All of the Group's turnover and operating results were originated in the PRC. In addition, all of the Group's assets were located in the PRC, accordingly no geographical segment information is presented.

## 10. FINANCE COSTS

|                                                                | Continuous operations |         |         | Discontinuous operations |         |         | Total   |         |         |
|----------------------------------------------------------------|-----------------------|---------|---------|--------------------------|---------|---------|---------|---------|---------|
|                                                                | 2008                  | 2007    | 2006    | 2008                     | 2007    | 2006    | 2008    | 2007    | 2006    |
|                                                                | RMB'000               | RMB'000 | RMB'000 | RMB'000                  | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Interest on bank borrowings wholly repayable within five years | 17,876                | 23,577  | 34,149  | –                        | 4,111   | 2,421   | 17,876  | 27,688  | 36,570  |

## 11. LOSS BEFORE TAXATION

|                                                             | Continuous operations |         |         | Discontinuous operations |         |         | Total   |         |         |
|-------------------------------------------------------------|-----------------------|---------|---------|--------------------------|---------|---------|---------|---------|---------|
|                                                             | 2008                  | 2007    | 2006    | 2008                     | 2007    | 2006    | 2008    | 2007    | 2006    |
|                                                             | RMB'000               | RMB'000 | RMB'000 | RMB'000                  | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Loss before taxation is arrived at after charging:          |                       |         |         |                          |         |         |         |         |         |
| Directors' and Supervisors' remuneration ( <i>note 12</i> ) | 195                   | 203     | 405     | –                        | –       | –       | 195     | 203     | 405     |
| Staff salaries, allowances and bonuses                      | 3,492                 | 4,208   | 5,498   | –                        | 1,956   | 853     | 3,492   | 6,164   | 6,351   |
| Contributions to retirement and other benefits schemes      | 672                   | 1,134   | 1,183   | –                        | 184     | 15      | 672     | 1,318   | 1,198   |
|                                                             | 4,359                 | 5,545   | 7,086   | –                        | 2,140   | 868     | 4,359   | 7,685   | 7,954   |
| Inventory cost recognised as expense                        | –                     | –       | 256     | –                        | –       | –       | –       | –       | 256     |
| Auditor's remuneration                                      | 1,000                 | 1,100   | 1,100   | –                        | –       | –       | 1,000   | 1,100   | 1,100   |
| Under provision on auditor's remuneration                   | 800                   | –       | –       | –                        | –       | –       | 800     | –       | –       |
| Depreciation of property and equipment                      | 2,061                 | 7,466   | 8,748   | –                        | 841     | 837     | 2,061   | 8,307   | 9,585   |
| Depreciation of investment properties                       | 10,155                | 9,053   | 12,693  | –                        | 1,240   | 1,209   | 10,155  | 10,293  | 13,902  |
| Amortisation for prepaid lease payment for land use right   | –                     | 2,564   | 2,564   | –                        | –       | –       | –       | 2,564   | 2,564   |

## 12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

## (a) Directors' and Supervisors' Emoluments

The emoluments paid or payable to directors and supervisors were as follow:

|                                     | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000 |
|-------------------------------------|-----------------|-----------------|-----------------|
| Fees:                               |                 |                 |                 |
| Executive Directors                 | 60              | 45              | 150             |
| Non-executive Directors             | 90              | –               | 150             |
| Independent non-executive Directors | 30              | 135             | 60              |
| Supervisors                         | 15              | 23              | 45              |
|                                     | <u>195</u>      | <u>203</u>      | <u>405</u>      |

The emoluments of each of the directors and supervisors were disclosed as below:

For the year ended 31 December 2008

| Name                                       | Fees<br>RMB'000 | Other emoluments                                           |                                                                     | Total<br>emoluments<br>RMB'000 |
|--------------------------------------------|-----------------|------------------------------------------------------------|---------------------------------------------------------------------|--------------------------------|
|                                            |                 | Salary<br>allowances<br>and benefits<br>in kind<br>RMB'000 | Contributions<br>to<br>retirement<br>benefits<br>schemes<br>RMB'000 |                                |
| <b>Executive directors:</b>                |                 |                                                            |                                                                     |                                |
| An Mu Zong                                 | 30              | –                                                          | –                                                                   | 30                             |
| Wang Zai Xing                              | <u>30</u>       | <u>–</u>                                                   | <u>–</u>                                                            | <u>30</u>                      |
|                                            | <u>60</u>       | <u>–</u>                                                   | <u>–</u>                                                            | <u>60</u>                      |
| <b>Non-executive directors:</b>            |                 |                                                            |                                                                     |                                |
| Deng Yan Bin                               | 30              | –                                                          | –                                                                   | 30                             |
| Lin Dong Hu                                | 30              | –                                                          | –                                                                   | 30                             |
| Wang Hui                                   | <u>30</u>       | <u>–</u>                                                   | <u>–</u>                                                            | <u>30</u>                      |
|                                            | <u>90</u>       | <u>–</u>                                                   | <u>–</u>                                                            | <u>90</u>                      |
| <b>Independent non-executive director:</b> |                 |                                                            |                                                                     |                                |
| Cai Lian Jun                               | <u>30</u>       | <u>–</u>                                                   | <u>–</u>                                                            | <u>30</u>                      |
|                                            | <u>30</u>       | <u>–</u>                                                   | <u>–</u>                                                            | <u>30</u>                      |
| <b>Supervisors:</b>                        |                 |                                                            |                                                                     |                                |
| Wang Xing Ye                               | <u>15</u>       | <u>–</u>                                                   | <u>–</u>                                                            | <u>15</u>                      |
| Total in 2008                              | <u>195</u>      | <u>–</u>                                                   | <u>–</u>                                                            | <u>195</u>                     |

For the year ended 31 December 2007

| Name                                | Fees<br><i>RMB'000</i> | Other emoluments                                            |                                                                      | Total<br>emoluments<br><i>RMB'000</i> | Note                           |
|-------------------------------------|------------------------|-------------------------------------------------------------|----------------------------------------------------------------------|---------------------------------------|--------------------------------|
|                                     |                        | Salary allowances and<br>benefits in kind<br><i>RMB'000</i> | Contributions to<br>retirement<br>benefits schemes<br><i>RMB'000</i> |                                       |                                |
| Executive directors:                |                        |                                                             |                                                                      |                                       |                                |
| Xu Er Hui                           | –                      | –                                                           | –                                                                    | –                                     | Resigned on<br>5 May 2007      |
| Wang Se                             | 45                     | –                                                           | –                                                                    | 45                                    | Resigned on<br>5 May 2007      |
| An Mu Zong                          | –                      | –                                                           | –                                                                    | –                                     | –                              |
| Liu Chang Lin                       | –                      | –                                                           | –                                                                    | –                                     | Resigned on<br>1 March 2007    |
| Wang Zai Xing                       | <u>–</u>               | <u>–</u>                                                    | <u>–</u>                                                             | <u>–</u>                              | –                              |
|                                     | <u>45</u>              | <u>–</u>                                                    | <u>–</u>                                                             | <u>45</u>                             |                                |
| Non-executive directors:            |                        |                                                             |                                                                      |                                       |                                |
| Dr. Michel P. Detay                 | –                      | –                                                           | –                                                                    | –                                     | Resigned on<br>22 January 2007 |
| Deng Yan Bin                        | –                      | –                                                           | –                                                                    | –                                     |                                |
| Lin Dong Hu                         | –                      | –                                                           | –                                                                    | –                                     |                                |
| Wang Hui                            | –                      | –                                                           | –                                                                    | –                                     |                                |
| Shi Jian Hing                       | –                      | –                                                           | –                                                                    | –                                     | Passed away in<br>January 2007 |
|                                     | <u>–</u>               | <u>–</u>                                                    | <u>–</u>                                                             | <u>–</u>                              |                                |
|                                     | <u>–</u>               | <u>–</u>                                                    | <u>–</u>                                                             | <u>–</u>                              |                                |
| Independent non-executive director: |                        |                                                             |                                                                      |                                       |                                |
| Choy Shu Kwan                       | 45                     | –                                                           | –                                                                    | 45                                    | Resigned on<br>8 June 2007     |
| Cui Yan                             | 45                     | –                                                           | –                                                                    | 45                                    | Resigned on<br>1 February 2007 |
| Cai Lian Jun                        | <u>45</u>              | <u>–</u>                                                    | <u>–</u>                                                             | <u>45</u>                             |                                |
|                                     | <u>135</u>             | <u>–</u>                                                    | <u>–</u>                                                             | <u>135</u>                            |                                |
| Supervisors:                        |                        |                                                             |                                                                      |                                       |                                |
| Yang Zhi An                         | 23                     | –                                                           | –                                                                    | 23                                    | Resigned on<br>6 March 2007    |
| Wang Xing Ye                        | <u>–</u>               | <u>–</u>                                                    | <u>–</u>                                                             | <u>–</u>                              |                                |
|                                     | <u>23</u>              | <u>–</u>                                                    | <u>–</u>                                                             | <u>–</u>                              |                                |
|                                     | <u>203</u>             | <u>–</u>                                                    | <u>–</u>                                                             | <u>203</u>                            |                                |

For the year ended 31 December 2006

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

None of the directors of the company waived or agreed to waive any emoluments paid by the Group and no incentive payment for joining the Group or compensation for loss of office was paid or payable to any director of the company the three years ended 31 December 2008, 2007 and 2006 respectively.

**(b) Employees' emoluments**

Of the five individuals with the highest emoluments in the Company, no director (2007: no director), whose emoluments are included in the disclosures in note (a) above. The emoluments of the remaining individuals for the two years ended 31 December 2008 and 2007 were as follows:

|                                         | 2008       | 2007         | 2006       |
|-----------------------------------------|------------|--------------|------------|
| Salaries, allowance and other benefits  | 679        | 1,082        | 943        |
| Retirement benefit scheme contributions | —          | —            | —          |
|                                         | <u>679</u> | <u>1,082</u> | <u>943</u> |

**13. RETIREMENT BENEFITS SCHEME**

The employees of the Group are members of state-managed retirement benefits schemes operated by the PRC government. The Group is required to contribute at a certain percentage on the total compensation paid to the Group's employees for the year to fund the retirement benefits. The rate of contributions for the current year is 25% (2007: 25.5%). The only obligation of the Group with respect to the retirement benefits schemes is to make such specified contributions.

**14. TAXATION**

| Continuous operations |         |         | Discontinued operations |         |         | Total   |         |         |
|-----------------------|---------|---------|-------------------------|---------|---------|---------|---------|---------|
| 2008                  | 2007    | 2006    | 2008                    | 2007    | 2006    | 2008    | 2007    | 2006    |
| RMB'000               | RMB'000 | RMB'000 | RMB'000                 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |

The taxation comprises of:

The Company and subsidiaries

|                               |            |            |            |          |                |              |            |              |             |
|-------------------------------|------------|------------|------------|----------|----------------|--------------|------------|--------------|-------------|
| – PRC enterprise income tax   | —          | —          | —          | —        | (1,095)        | (625)        | —          | (1,095)      | (625)       |
| – Deferred taxation (Note 34) | 613        | 613        | 613        | —        | —              | —            | 613        | 613          | 613         |
|                               | <u>613</u> | <u>613</u> | <u>613</u> | <u>—</u> | <u>(1,095)</u> | <u>(625)</u> | <u>613</u> | <u>(482)</u> | <u>(12)</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 two years ended 31 December 2008 and 2007.

The taxation rates applicable to the Group in the PRC is 15% – 25% (2007 and 2006: 15% – 33%).

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 issued by the Tenth National People's Congress. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New law. Pursuant to the New Law and Implementation Regulations, the Enterprise income Tax for both domestic and foreign-invested enterprises will be unified at 25 % effective from 1 January 2008. There will be a transitional period for PRC subsidiaries that currently entitled to preferential tax treatments granted by the relevant tax authorities. PRC subsidiaries currently subject to an enterprise income tax rate lower than 25% will continue to enjoy the lower tax rate and be gradually transitioned to the new unified rate of 25 % within five years after 1 January 2008.

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

|                                                                                | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000 |
|--------------------------------------------------------------------------------|-----------------|-----------------|-----------------|
| (Loss) profit before taxation                                                  |                 |                 |                 |
| – Continuous operations                                                        | (59,007)        | (55,170)        | (63,891)        |
| – Discontinued operations                                                      | –               | 167,971         | (16,708)        |
|                                                                                | <u>(59,007)</u> | <u>112,801</u>  | <u>(80,599)</u> |
| Income tax at the applicable tax rates                                         | (14,752)        | 38,814          | (24,873)        |
| Tax effect of income and expenses not taxable<br>or deductible for tax purpose | 7,206           | 61,417          | 17,357          |
| Tax effect of unrecognised tax losses                                          | <u>8,159</u>    | <u>(99,749)</u> | <u>7,528</u>    |
| Taxation expenses                                                              | <u>613</u>      | <u>482</u>      | <u>12</u>       |

## 15. DISCONTINUED OPERATIONS

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

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

|                                                          | From<br>1 January<br>2008 to<br>31 December<br>2008<br>RMB'000 | From<br>1 January<br>2007 to<br>29 December<br>2007<br>RMB'000 | From<br>1 January<br>2006 to<br>31 December<br>2006<br>RMB'000 |
|----------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|
| Operating loss of cemetery development<br>business       | –                                                              | (31,560)                                                       | (17,333)                                                       |
| Profit from disposal of cemetery development<br>business | <u>–</u>                                                       | <u>198,436</u>                                                 | <u>–</u>                                                       |
|                                                          | <u>–</u>                                                       | <u>166,876</u>                                                 | <u>(17,333)</u>                                                |
| Attributable to:                                         |                                                                |                                                                |                                                                |
| Equity holders of the Company                            | –                                                              | 166,876                                                        | (17,333)                                                       |
| Minority interests                                       | <u>–</u>                                                       | <u>–</u>                                                       | <u>–</u>                                                       |
|                                                          | <u>–</u>                                                       | <u>166,876</u>                                                 | <u>(17,333)</u>                                                |

The cemetery development business has been included into the consolidated income statement for the three years ended 31 December 2008, 2007 and 2006 as follow:

|                                            | From<br>1 January<br>2008 to<br>31 December<br>2008<br>RMB'000 | From<br>1 January<br>2007 to<br>29 December<br>2007<br>RMB'000 | From<br>1 January<br>2006 to<br>31 December<br>2006<br>RMB'000 |
|--------------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|----------------------------------------------------------------|
| Turnover                                   | –                                                              | 2,832                                                          | 1,602                                                          |
| Bank interests received                    | –                                                              | –                                                              | 11                                                             |
| Staff costs                                | –                                                              | (2,140)                                                        | (1,273)                                                        |
| Depreciation and amortization              | –                                                              | (2,081)                                                        | (2,046)                                                        |
| Loss on disposal of property and equipment | –                                                              | –                                                              | (187)                                                          |
| Other operating expenses                   | –                                                              | (24,965)                                                       | (12,394)                                                       |
| Finance costs                              | –                                                              | (4,111)                                                        | (2,421)                                                        |
|                                            | <hr/>                                                          | <hr/>                                                          | <hr/>                                                          |
| Loss before taxation                       | –                                                              | (30,465)                                                       | (16,708)                                                       |
| Taxation                                   | –                                                              | (1,095)                                                        | (625)                                                          |
|                                            | <hr/>                                                          | <hr/>                                                          | <hr/>                                                          |
| Loss for the year                          | <hr/><br>–                                                     | <hr/><br>(31,560)                                              | <hr/><br>(17,333)                                              |

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

#### 16. DIVIDENDS

No dividend was paid or proposed, nor has any dividend been proposed during the year ended 2006, 2007 and 2008.

#### 17. (LOSS) EARNING PER SHARE

##### For continuing and discontinued operations

The calculation of the basic loss per share attributable to the ordinary equity holders of the Company is based on the following data:

|                                                                                    | 2008                | 2007                | 2006                |
|------------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| Number of shares:                                                                  |                     |                     |                     |
| Weighted average number of ordinary shares for the purpose of basic loss per share | <hr/> 1,020,400,000 | <hr/> 1,020,400,000 | <hr/> 1,020,400,000 |

No diluted loss per share have been presented for the two years ended 31 December 2008 and 2007 as there was no dilutive potential ordinary share for both years.

Earnings figures are calculated as follows:

|                                                           | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000 |
|-----------------------------------------------------------|-----------------|-----------------|-----------------|
| (Loss)/profit attributable to shareholders of the Company | (54,638)        | 115,657         | (76,705)        |
| Less: Profit for the year of discontinued operations      | <hr/> –         | <hr/> 166,876   | <hr/> (17,333)  |
| Loss per share calculated from continuous operations      | <hr/> (54,638)  | <hr/> (51,219)  | <hr/> (59,372)  |

## 18. PROPERTY AND EQUIPMENT

|                                                             | Buildings<br>RMB'000 | Leasehold<br>improvement<br>RMB'000 | Furniture,<br>Fixtures<br>and office<br>equipment<br>RMB'000 | Motor<br>Vehicles<br>RMB'000 | Construction<br>in<br>progress<br>RMB'000 | Total<br>RMB'000 |
|-------------------------------------------------------------|----------------------|-------------------------------------|--------------------------------------------------------------|------------------------------|-------------------------------------------|------------------|
| <b>Cost</b>                                                 |                      |                                     |                                                              |                              |                                           |                  |
| At 1 January 2005                                           | 51,181               | 5,962                               | 21,837                                                       | 8,603                        | 306,035                                   | 393,618          |
| Transfer from construction in progress                      | 207,669              | -                                   | -                                                            | -                            | (207,669)                                 | -                |
| Additions                                                   | 6,840                | -                                   | 314                                                          | 49                           | 2,655                                     | 9,858            |
| Disposal/write-off                                          | -                    | -                                   | (3)                                                          | (3,278)                      | (100,025)                                 | (103,306)        |
| At 1 January 2005 and 1 January 2006                        | 265,690              | 5,962                               | 22,148                                                       | 5,374                        | 996                                       | 300,170          |
| Transferred from construction in progress                   | 36                   | -                                   | -                                                            | -                            | (36)                                      | -                |
| Additions                                                   | -                    | -                                   | 196                                                          | 136                          | 9,213                                     | 9,545            |
| Disposals/write-off                                         | -                    | (5,962)                             | (1,765)                                                      | (993)                        | -                                         | (8,659)          |
| At 31 December 2006 and<br>1 January 2007                   | 265,726              | -                                   | 20,579                                                       | 4,578                        | 10,173                                    | 301,056          |
| Transferred from construction in progress                   | 2,336                | -                                   | 114                                                          | -                            | (2,450)                                   | -                |
| Additions                                                   | 1,760                | -                                   | 125                                                          | -                            | 5,845                                     | 7,730            |
| Disposals/write-off                                         | (14,460)             | -                                   | (825)                                                        | (1,297)                      | -                                         | (16,582)         |
| At 31 December 2007 and 1 January 2008                      | 255,362              | -                                   | 19,993                                                       | 3,281                        | 13,568                                    | 292,204          |
| Transferred to investment properties                        | -                    | -                                   | -                                                            | -                            | (3,107)                                   | (3,107)          |
| Additions                                                   | -                    | -                                   | 38                                                           | -                            | 1,483                                     | 1,521            |
| Disposals/write-off                                         | (701)                | -                                   | -                                                            | (872)                        | -                                         | (1,573)          |
| Disposal of subsidiaries (Note 35)                          | (254,661)            | -                                   | (3,526)                                                      | (1,127)                      | -                                         | (259,314)        |
| At 31 December 2008                                         | -                    | -                                   | 16,505                                                       | 1,282                        | 11,944                                    | 29,731           |
| <b>Accumulated depreciation</b>                             |                      |                                     |                                                              |                              |                                           |                  |
| At 1 January 2005                                           | 1,192                | 3,378                               | 5,960                                                        | 2,314                        | -                                         | 12,844           |
| Provided for the year                                       | 6,999                | 1,192                               | 3,878                                                        | 1,253                        | -                                         | 13,322           |
| Eliminated on disposals/write off                           | -                    | -                                   | (2)                                                          | (1,286)                      | -                                         | (1,288)          |
| At 1 January 2005 and 1 January 2006                        | 8,191                | 4,570                               | 9,836                                                        | 2,281                        | -                                         | 24,878           |
| Provided for the year                                       | 7,106                | 1,192                               | 652                                                          | 635                          | -                                         | 9,585            |
| Eliminated on disposals/write off                           | -                    | (5,762)                             | (1,544)                                                      | (461)                        | -                                         | (7,767)          |
| At 31 December 2006 and 1 January 2007                      | 15,297               | -                                   | 8,944                                                        | 2,455                        | -                                         | 26,696           |
| Provided for the year                                       | 7,404                | -                                   | 616                                                          | 287                          | -                                         | 8,307            |
| Eliminated on disposals/write off                           | (3,101)              | -                                   | (460)                                                        | (462)                        | -                                         | (4,023)          |
| At 31 December 2007 and 1 January 2008                      | 19,600               | -                                   | 9,100                                                        | 2,280                        | -                                         | 30,980           |
| Provided for the year                                       | -                    | -                                   | 1,959                                                        | 102                          | -                                         | 2,061            |
| Eliminated on disposal                                      | -                    | -                                   | -                                                            | (722)                        | -                                         | (722)            |
| Eliminated on disposal of subsidiaries (Note 35)            | (19,600)             | -                                   | (1,390)                                                      | (798)                        | -                                         | (21,788)         |
| At 31 December 2008                                         | -                    | -                                   | 9,669                                                        | 862                          | -                                         | 10,531           |
| <b>Impairment loss</b>                                      |                      |                                     |                                                              |                              |                                           |                  |
| At 1 January 2005                                           | -                    | -                                   | -                                                            | -                            | -                                         | -                |
| Provided for the year                                       | 114,429              | -                                   | -                                                            | -                            | -                                         | 114,429          |
| At 31 December 2005, 1 January 2006 and<br>31 December 2006 | 114,429              | -                                   | -                                                            | -                            | -                                         | 114,429          |
| At 1 January 2007, 1 January 2008                           | 114,429              | -                                   | -                                                            | -                            | -                                         | 114,429          |
| Eliminated on disposal of subsidiaries (Note 35)            | (114,429)            | -                                   | -                                                            | -                            | -                                         | (114,429)        |
| At 31 December 2008                                         | -                    | -                                   | -                                                            | -                            | -                                         | -                |
| <b>Net carrying amount</b>                                  |                      |                                     |                                                              |                              |                                           |                  |
| At 31 December 2008                                         | -                    | -                                   | 6,836                                                        | 420                          | 11,944                                    | 19,200           |
| At 31 December 2007                                         | 121,333              | -                                   | 10,893                                                       | 1,001                        | 13,568                                    | 146,795          |
| At 31 December 2006                                         | 136,000              | -                                   | 11,635                                                       | 2,123                        | 10,173                                    | 159,931          |

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

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

## 19. INVESTMENT PROPERTIES

RMB'000

### Costs

|                                      |          |
|--------------------------------------|----------|
| At 1 January 2005 and 1 January 2006 | 466,994  |
| Additions                            | 6,729    |
| Disposal                             | (77,684) |

At 31 December 2006 and 1 January 2007 396,039

|                           |          |
|---------------------------|----------|
| Additions                 | 107      |
| Disposals of subsidiaries | (56,686) |

At 31 December 2007 and 1 January 2008 339,460

Transfer from construction in progress 3,107

At 31 December 2008 342,567

### Accumulated depreciation

|                       |        |
|-----------------------|--------|
| At 1 January 2005     | 10,840 |
| Provided for the year | 11,931 |

At 1 January 2005 and 1 January 2006 22,771

Provided for the year 13,902

Eliminated on disposal (6,106)

At 1 January 2006 and 1 January 2007 30,567

|                                        |         |
|----------------------------------------|---------|
| Provided for the year                  | 10,293  |
| Eliminated on disposal of subsidiaries | (4,476) |

At 31 December 2007 and 1 January 2008 36,384

Provided for the year 10,155

At 31 December 2008 46,539

### Impairment loss

|                                                       |        |
|-------------------------------------------------------|--------|
| At 1 January 2006, 2007 and 2008 and 31 December 2008 | 47,686 |
|-------------------------------------------------------|--------|

### Net carrying amount

At 31 December 2008 248,342

At 31 December 2007 255,390

At 31 December 2006 317,786

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

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

|          | <b>2008</b>    | <b>2007</b>    | <b>2006</b>    |
|----------|----------------|----------------|----------------|
|          | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Campus   | 248,342        | 255,390        | 264,341        |
| Cemetery | —              | —              | 53,445         |
|          | <u>248,342</u> | <u>255,390</u> | <u>317,786</u> |

The investment properties was valued by an independent professional valuer, Malcolm & Associates Appraisal Limited, on 31 December 2008 based on open market basis, of which fair value was RMB298,000,000.

#### 20. PREPAID LEASE PAYMENTS ON LAND USE RIGHTS

|                                                                                                | <b>2008</b>    | <b>2007</b>    | <b>2006</b>    |
|------------------------------------------------------------------------------------------------|----------------|----------------|----------------|
|                                                                                                | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| Prepaid lease payments on land use rights of leasehold land in the PRC held under medium terms | <u>—</u>       | <u>89,316</u>  | <u>91,880</u>  |
| Analysed for reporting purposes as:                                                            |                |                |                |
| Non-current assets                                                                             | —              | 86,752         | 89,316         |
| Current assets                                                                                 | <u>—</u>       | <u>2,564</u>   | <u>2,564</u>   |
|                                                                                                | <u>—</u>       | <u>89,316</u>  | <u>91,880</u>  |

The above amount was the prepaid lease payment for a piece of land located in Shenyang PRC used for education project purpose. The prepaid lease payments on land use right had been disposed during the year. Details please refer to note 33(c) of the notes to the financial statements.

## 21. GOODWILL

|                                                                              | <i>RMB'000</i>   |
|------------------------------------------------------------------------------|------------------|
| <b>Costs</b>                                                                 |                  |
| At 1 January 2005                                                            | 644,158          |
| Elimination of accumulated amortization upon the application of HKFRS 3      | <u>(34,786)</u>  |
| At 1 January 2006, 31 December 2007 and 1 January 2007                       | 609,372          |
| Disposal of subsidiaries                                                     | <u>(549,996)</u> |
| At 1 January 2007, 31 December 2008 and 1 January 2008                       | <u>59,376</u>    |
| <b>Accumulated amortisation</b>                                              |                  |
| At 1 January 2005                                                            | 34,786           |
| Elimination of accumulated amortization upon the application of HKFRS 3      | <u>(34,786)</u>  |
| At 31 December 2005, 31 December 2006, 31 December 2007 and 31 December 2008 | <u>–</u>         |
| <b>Impairment</b>                                                            |                  |
| At 1 January 2005                                                            | –                |
| Impairment loss recognized for the year                                      | <u>609,372</u>   |
| At 31 December 2005, 1 January 2006 and 31 December 2006                     | 609,372          |
| Disposal of subsidiaries                                                     | <u>(549,996)</u> |
| At 1 January 2007, 31 December 2008 and 1 January 2008                       | <u>59,376</u>    |
| <b>Net carrying amount</b>                                                   |                  |
| At 31 December 2008                                                          | <u><u>–</u></u>  |
| At 31 December 2007                                                          | <u><u>–</u></u>  |
| At 31 December 2006                                                          | <u><u>–</u></u>  |

## 22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                                     | 2008<br><i>RMB'000</i> | 2007<br><i>RMB'000</i> | 2006<br><i>RMB'000</i> |
|-------------------------------------|------------------------|------------------------|------------------------|
| Unlisted equity securities, at cost | <u>20,000</u>          | <u>20,000</u>          | <u>20,000</u>          |

The amount represents investment in Tsinghua Unisplendour Hi-Tech Venture Capital, Inc. ("Tsinghua Unisplendour"). The Group had 8% (2007: 8%) equity interests in Tsinghua Unisplendour. Tsinghua Unisplendour is an unlisted company established in the PRC and is engaged in investment in technology projects. The above investment is an unlisted equity securities issued by private companies. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

## 23. PROPERTIES HELD FOR SALE

|                              | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000 |
|------------------------------|-----------------|-----------------|-----------------|
| Properties under development |                 |                 |                 |
| At cost                      | 410,379         | 407,148         | 407,148         |
| Less: Impairment loss        | (216,438)       | –               | –               |
| Realisable value             | <u>193,941</u>  | <u>407,148</u>  | <u>407,148</u>  |
| Completed properties         |                 |                 |                 |
| At cost                      | 11,794          | 143,727         | 163,448         |
| Less: Impairment loss        | –               | (65,888)        | (72,747)        |
| Realisable value             | <u>11,794</u>   | <u>77,839</u>   | <u>90,701</u>   |
|                              | <u>205,735</u>  | <u>484,987</u>  | <u>495,715</u>  |

- (a) The Group's properties held for sale were all located in PRC and under medium-term leases (lease periods of 20 years or more but less than 50 years).
- (b) Included in properties under development was development cost of a property development project in Beijing of RMB193,941,000 (2007: RMB407,148,000). The development right for the land was acquired from the Municipal Government of Zhaoyang District of Beijing in previous years.

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

- (c) As disclosed in note 33(a), a project of "Jinmao Tower" located in Shenyang, the PRC with the book value of RMB23,257,000 in 2007 was disposed along with the disposal of the equity interest in Shenyang Pollon Finance Building Management Company Limited.
- (d) Included in the completed properties was a project of "Water-Flowers City" located in Shenyang, the PRC with the book value of RMB11,794,000 (2007: RMB54,582,000). The properties have been started to pre-sales in 2003. Up to 31 December 2005, all the units were subscribed. Due to the delay in the construction, the properties were unable to hand-over to the customers on schedule. Consequently, some of the customers demanded for refund of deposits paid.

During the year, some customers have occupied the units they purchased. But since the Group has not completed the procedures of obtaining Real Estates Title certificate for purchasers as of the balance date of the financial statements, the sales amount of RMB12,759,000 (2007: approximately RMB29,622,000) received was not recognized as income but stated as receipts in advance under current liabilities (Note 29).

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

#### 24. TRADE RECEIVABLES

The sale was recognised 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:

|                                       | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000 |
|---------------------------------------|-----------------|-----------------|-----------------|
| 61 – 365 days                         | –               | –               | 1,171           |
| 1 – 2 years                           | –               | –               | 1,420           |
| Over 2 years                          | 12,518          | 12,518          | 11,189          |
|                                       | <u>12,518</u>   | <u>12,518</u>   | <u>13,780</u>   |
| Allowances for bad and doubtful debts | (12,518)        | (12,518)        | (12,588)        |
|                                       | <u>–</u>        | <u>–</u>        | <u>1,192</u>    |
| Net amount of trade receivables       | <u>–</u>        | <u>–</u>        | <u>1,192</u>    |

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

Trade 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.

Movement in allowance of receivables impairment is as follows:

|                                      | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000 |
|--------------------------------------|-----------------|-----------------|-----------------|
| Balance at beginning of the year     | 12,518          | 12,588          | 11,620          |
| Reversal during disposing subsidiary | –               | (70)            | –               |
| Recognised impairment loss           | –               | –               | 968             |
|                                      | <u>–</u>        | <u>–</u>        | <u>968</u>      |
| Balance at end of the year           | <u>12,518</u>   | <u>12,518</u>   | <u>12,588</u>   |

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.

## 25. AMOUNT DUE FROM A FORMER CUSTOMER

|                                             | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000 |
|---------------------------------------------|-----------------|-----------------|-----------------|
| Shenyang Water General Corporation ("SWGC") | 96,656          | 96,656          | 96,656          |
| Less: impairment loss                       | <u>(96,656)</u> | <u>(96,656)</u> | <u>(96,656)</u> |
|                                             | <u>—</u>        | <u>—</u>        | <u>—</u>        |

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

The amount is unsecured and interest free.

## 26. OTHER LONG TERM RECEIVABLES AND OTHER RECEIVABLES

Other long term receivables are amounts unsecured, interest free and payable over 1 year.

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

The directors of the Company believes that book value of other long term receivables and other receivables approximates to their fair value.

## 27. INVESTMENT IN ASSOCIATE

|                                           | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000 |
|-------------------------------------------|-----------------|-----------------|-----------------|
| Cost of investment in unlisted associates | 200             | —               | —               |
| Less: Accumulated impairment              | <u>(200)</u>    | <u>—</u>        | <u>—</u>        |
|                                           | <u>—</u>        | <u>—</u>        | <u>—</u>        |

At 31 December 2008, the Group had interests in the following associates:

| Name of subsidiary                                       | Class of shares held | Paid-up registered capital<br>RMB'000 | Percentage of effective equity interest held by the Company |            | Principal activities                      |
|----------------------------------------------------------|----------------------|---------------------------------------|-------------------------------------------------------------|------------|-------------------------------------------|
|                                                          |                      |                                       | Directly                                                    | Indirectly |                                           |
| Shenyang Development Property Management Company Limited | Ordinary share       | 200                                   | 1%                                                          | 39%        | Provision of property management services |

**28. TRADE PAYABLE**

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

|              | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> | <b>2006</b><br><i>RMB'000</i> |
|--------------|-------------------------------|-------------------------------|-------------------------------|
| Over 2 years | <u>5,875</u>                  | <u>43,080</u>                 | <u>58,249</u>                 |

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

**29. RECEIPTS IN ADVANCE**

|                                                     | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> | <b>2006</b><br><i>RMB'000</i> |
|-----------------------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Sales of properties ( <i>Note 23(c) and 23(d)</i> ) | 12,759                        | 43,947                        | 45,300                        |
| Deposits for leasing of tombs sets and niches       | –                             | –                             | 17,515                        |
| Others                                              | <u>–</u>                      | <u>142</u>                    | <u>2,541</u>                  |
|                                                     | <u>12,759</u>                 | <u>44,089</u>                 | <u>65,356</u>                 |

**30. PROVISION FOR POTENTIAL LIABILITIES**

|                                          | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> | <b>2006</b><br><i>RMB'000</i> |
|------------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Default payments for sales of properties | 1,041                         | 2,043                         | 2,448                         |
| Loss arising from litigation             | <u>–</u>                      | <u>–</u>                      | <u>16,054</u>                 |
|                                          | <u>1,041</u>                  | <u>2,043</u>                  | <u>18,502</u>                 |

**31. BANK LOANS**

|                                                  | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> | <b>2006</b><br><i>RMB'000</i> |
|--------------------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Secured, variable rate loans due within one year | 14,000                        | 62,000                        | 83,067                        |
| Unpledged and unsecured                          | <u>–</u>                      | <u>–</u>                      | <u>98,277</u>                 |
|                                                  | <u>14,000</u>                 | <u>62,000</u>                 | <u>181,344</u>                |

Details of above-mentioned secured loans are as follows:

|                                                                         | <b>2008</b><br><i>RMB'000</i> | <b>2007</b><br><i>RMB'000</i> | <b>2006</b><br><i>RMB'000</i> |
|-------------------------------------------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| SPUG                                                                    | –                             | 42,000                        | 48,540                        |
| Beijing Beida Jade Bird Company Limited<br>("Beida Jade Bird")          | –                             | 20,000                        | 34,527                        |
| Zhuhai Beida Education Science Park<br>Company Limited ("Zhuhai Beida") | <u>14,000</u>                 | <u>–</u>                      | <u>–</u>                      |
|                                                                         | <u>14,000</u>                 | <u>62,000</u>                 | <u>83,067</u>                 |

The weighted average effective interest rates on the Group's variable rate bank loans was 6.9% (2007: 8.1%).

## 32. SHARE CAPITAL

|                                                               | Number of<br>shares  | Amount<br>RMB'000 |
|---------------------------------------------------------------|----------------------|-------------------|
| <b>Authorised:</b>                                            |                      |                   |
| At 31 December 2006, 31 December 2007 and<br>31 December 2008 |                      |                   |
| Domestic shares of RMB1.00 each                               | 600,000,000          | 600,000           |
| H shares of RMB1.00 each                                      | 420,400,000          | 420,400           |
|                                                               | <u>1,020,400,000</u> | <u>1,020,400</u>  |
| <b>Issued and fully paid:</b>                                 |                      |                   |
| At 31 December 2006, 31 December 2007 and<br>31 December 2008 |                      |                   |
| Domestic shares of RMB 1.00 each                              | 600,000,000          | 600,000           |
| H shares of RMB 1.00 each                                     | 420,400,000          | 420,400           |
|                                                               | <u>1,020,400,000</u> | <u>1,020,400</u>  |

## 33. DEFERRED TAXATION

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

|                                               | RMB'000       |
|-----------------------------------------------|---------------|
| At 1 January 2006                             | 23,781        |
| Written back to income statement for the year | <u>(613)</u>  |
| As at 31 December 2006 and 1 January 2007     | 23,168        |
| Written back to income statement for the year | <u>(613)</u>  |
| As at 31 December 2007 and 1 January 2008     | 22,555        |
| Written back to income statement for the year | <u>(613)</u>  |
| As at 31 December 2008                        | <u>21,942</u> |

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

As at 31 December 2008, the Group has estimated unused tax losses of RMB392,985,000(2007: RMB392,985,000) available for offsetting future profits. No tax losses have been recognised as deferred tax assets due to the unpredictability of future profit streams. These unused tax losses will be expired by 2012.

**34. OTHER NON-CURRENT LIABILITIES, OTHER PAYABLES AND ACCRUALS**

Other non-current liabilities are amounts unsecured, interest free and payable over 1 year.

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

The director of the Company consider that the carrying amount of other non-current liabilities, other payables and accruals approximates to their fair value.

**35. DISPOSAL AND DEREGISTRATION OF SUBSIDIARIES**

- (a) The Group disposed its all equity interests in Shenyang Pollon Finance Building Management Company Limited at a total consideration of RMB200,000 on 30 October 2008.

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

|                                                     | <b>Building<br/>Management<br/>Company<br/>RMB'000</b> |
|-----------------------------------------------------|--------------------------------------------------------|
| Net value of disposed assets:                       |                                                        |
| Property and equipment                              | 5                                                      |
| Properties held for sale                            | 23,257                                                 |
| Other receivables                                   | 720                                                    |
| Bank overdrafts                                     | (1,642)                                                |
| Trade payable                                       | (16,250)                                               |
| Other payables and accrual expenses                 | (8,025)                                                |
| Receipts in advance                                 | (34,036)                                               |
| Amounts due to Group companies                      | (27,087)                                               |
|                                                     | (63,058)                                               |
| Gain on disposal                                    | 63,258                                                 |
| Total consideration                                 | 200                                                    |
| Payment manner:                                     |                                                        |
| Bank and cash                                       | 200                                                    |
| Net amount of cash inflows arising from disposal    |                                                        |
| Disposed bank overdrafts and sales proceed received | 1,842                                                  |

- (b) The Group disposed its 60% equity interests in Shenyang Development Property Management Company Limited at a total consideration of RMB600,000 on 28 March 2008.

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

|                                                            | <b>Shenyang<br/>Property</b><br><i>RMB'000</i> |
|------------------------------------------------------------|------------------------------------------------|
| Net value of disposed assets:                              |                                                |
| Property and equipment                                     | 142                                            |
| Other receivables                                          | 8                                              |
| Amount due from Group companies                            | 9,034                                          |
| Bank balances and cash                                     | 2,291                                          |
| Other payables and accrual expenses                        | (1,464)                                        |
| Amount due to Group companies                              | (11,936)                                       |
|                                                            | (1,925)                                        |
| Minority interests                                         | (1,765)                                        |
| Gain on disposal                                           | 4,290                                          |
|                                                            | 600                                            |
| Total consideration                                        | <u>600</u>                                     |
| Payment manner:                                            |                                                |
| Bank and cash                                              | 600                                            |
|                                                            | <u>600</u>                                     |
| Net amount of cash outflows arising from disposal          |                                                |
| Disposed bank balances and cash and sales proceed received | 1,691                                          |
|                                                            | <u>1,691</u>                                   |

- (c) The Group disposed its all equity and debts interests in Shenyang Development Beida Education Science Park Company Limited, Shenyang Jade Bird School Foreign Language School and Shenyang Beida Jade Bird Business Information System Co Ltd (“Shenyang Business Information”) at a total consideration of approximately RMB8,380,000 on 25 September 2008.

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

|                                                           | <b>Shenyang<br/>Education,<br/>Jade Bird<br/>School and<br/>Shenyang<br/>Business<br/>Information<br/>RMB'000</b> |
|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Net value of disposed assets:                             |                                                                                                                   |
| Property and equipment                                    | 122,950                                                                                                           |
| Prepaid lease payments on land use rights                 | 89,316                                                                                                            |
| Inventories                                               | 342                                                                                                               |
| Other receivables                                         | 2,576                                                                                                             |
| Amount due from Group companies                           | 8,210                                                                                                             |
| Bank balances and cash                                    | 21                                                                                                                |
| Trade payable                                             | (2,637)                                                                                                           |
| Other payables and accrual expenses                       | (39,952)                                                                                                          |
| Amount due to Group companies                             | (266,486)                                                                                                         |
| Bank borrowings                                           | (42,000)                                                                                                          |
|                                                           | <hr/>                                                                                                             |
|                                                           | (127,660)                                                                                                         |
| Other reserves                                            | (351)                                                                                                             |
| Minority interests                                        | (121)                                                                                                             |
| Gain on disposal                                          | 136,512                                                                                                           |
|                                                           | <hr/>                                                                                                             |
| Total consideration                                       | 8,380                                                                                                             |
|                                                           | <hr/> <hr/>                                                                                                       |
| Payment manner:                                           |                                                                                                                   |
| Bank and cash                                             | 8,380                                                                                                             |
|                                                           | <hr/> <hr/>                                                                                                       |
| Net amount of cash inflows arising from disposal          |                                                                                                                   |
| Disposed bank balances and cash and sale proceed received | 8,359                                                                                                             |
|                                                           | <hr/> <hr/>                                                                                                       |

- (d) Shenzhen Grand Scene Investment Development Co Ltd was deregistered on 11 November 2008.

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

|                                                         | <b>Shenzhen<br/>Grand Scene</b><br><i>RMB'000</i> |
|---------------------------------------------------------|---------------------------------------------------|
| Net value of disposed assets:                           |                                                   |
| Bank balances and cash                                  | 7                                                 |
| Amount due to Group companies                           | (70)                                              |
|                                                         | <hr/>                                             |
| Gain on deregistration                                  | 63                                                |
|                                                         | <hr/>                                             |
| Net amount of cash outflows arising from deregistration |                                                   |
| Deregistered bank balances and cash                     | (7)                                               |
|                                                         | <hr/> <hr/>                                       |

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

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

|                                                | <b>Shenzhen<br/>Jingmei<br/>and Xili<br/>Cemetery</b><br><i>RMB'000</i> |
|------------------------------------------------|-------------------------------------------------------------------------|
| 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)                                                                   |
|                                                | <hr/>                                                                   |
|                                                | (90,200)                                                                |
| Minority interests                             | 1,764                                                                   |
| Earning on disposal                            | 198,436                                                                 |
|                                                | <hr/>                                                                   |
| Total consideration                            | 110,000                                                                 |
|                                                | <hr/> <hr/>                                                             |
| Payment manner:                                |                                                                         |
| Other payables                                 | 110,000                                                                 |
|                                                | <hr/> <hr/>                                                             |
| Net amount of cash flows arising from disposal |                                                                         |
| Disposed bank balances and cash                | 6,490                                                                   |
|                                                | <hr/> <hr/>                                                             |

## 36. OPERATION LEASE COMMITMENTS

**As a lessor**

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

|                                           | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000 |
|-------------------------------------------|-----------------|-----------------|-----------------|
| Schoolhouse and equipment ( <i>Note</i> ) | <u>3,000</u>    | <u>3,000</u>    | <u>4,000</u>    |

*Note:* Pursuant to the agreement in respect of leasing schoolhouse and related equipments between the Group and the lessee Zhuhai Beida Subsidiary Experiment School ("Zhuhai School"), Zhuhai School had no amount owed to the Group (2007: RMB3,000,000).

As at the balance sheet date, the Group has entered into agreements with tenants to lease schoolhouse and related equipments. The lease period was from January 2003 to December 2013. Rents have been determined, until December 2009, and the subsequent rents would be otherwise negotiated.

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

|                   | 2008<br>RMB'000 | 2007<br>RMB'000 | 2006<br>RMB'000 |
|-------------------|-----------------|-----------------|-----------------|
| Within one year   | 3,000           | 3,000           | 3,000           |
| Two to five years | <u>–</u>        | <u>–</u>        | <u>3,000</u>    |
|                   | <u>3,000</u>    | <u>3,000</u>    | <u>6,000</u>    |

## 37. CONTINGENT LIABILITIES

Pursuant to the sales and purchase agreement for the acquisition of equity interests in Shenzhen Jingmei and Xili Cemetery (collectively refers as "Cemetery Companies" below) dated 31 December 2003, all liabilities not relating to the operations of cemetery business would be transferred out of the Cemetery Companies and undertaken up by the former shareholder of Cemetery Companies (the "Former Shareholder"). During 2004, the Company entered into an agreement with the Former Shareholder that of the Cemetery Companies' other payables of approximately RMB24,771,000 and other receivables of approximately RMB8,785,000 would be offset against the outstanding balances of approximately RMB14,886,000 owed to the Cemetery Companies by the Former Shareholder and that the net balance of RMB1,100,000 owed to the Former Shareholder was waived.

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

The above contingent liabilities were released as Shenzhen Jingmei's and Xili Cemetery's equity interests were transferred in 2007.

## 38. LITIGATIONS AND SEQUESTRATION OF ASSETS

Up to the date of this report, the Group had a number of litigations in the PRC closed and in progress during the two years ended 31 December 2008 and 2007.

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

On 6 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 16 February 2005, the Company has repaid an additional RMB20,000,000 to Shenzhen Development Bank. On 22 February 2005, Hua Jin Hua Gong paid RMB8,000,000 to Shenzhen Development Bank for the Company. On 26 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 12 December 2005, the Higher People's Court of Liaoning Province issued the [Civil Judgement (2005) Liao Min San Chu Zi No.26] 民事判決書(2005)遼民三初字第26號, pursuant to which SPU was liable to repay the sum of RMB161,380,000 together with interest and other fees arising from the legal action in the total sum of RMB1,624,000 to Hua Jin Hua Gong within 10 days from the effective date of the Judgement. Beijing Diye and Beida Jade Bird undertook to repay the above-mentioned amounts for SPU; Shenyang Pollon also undertook to repay the above-mentioned amounts for SPU, but they reserved the right to recover the loss from SPU after the assumption of liability as guarantors by Beijing Diye and Beida Jade Bird and compensation responsibility by Shenyang Pollon, respectively.

On 16 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 RMB3,389,000.

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

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

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

**(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 14 May 2007, Beida Jade Bird commenced legal action against SPUG and Shenzhen Jingmei for its payment to Hua Jin Hua Gong. On 13 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 31 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 17 September 2008, Beida Jade Bird undertook that it would not require Shenyang Public Utility to make repayment in cash within 24 months from 17 September 2008.

According to the letter of undertaking issued by Shenyang Public Utility Group Company Limited on 18 September 2008, Shenyang Public Utility Group Company Limited undertook that it would not require SPU to make repayment in cash within 24 months from 18 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 26 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 18 February 2006, Shenyang Intermediate People’s Court issued the Civil Judgement [2006] Shen Zhong Min (3) He Chu Zi No.34 (《判決書》(2006)瀋中民三合初字第34號), pursuant to which, (1) the Company was liable to repay the principal of RMB29,000,000 within 10 days from the date of judgement; (2) the Company was liable to pay the interest of the loan amounting to RMB180,000; (3) Guangdong Development Bank lawfully enjoyed priority in compensation in respect of the two time deposits of the Company amounting to RMB10,303,000 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 RMB155,000 and a property custody fee of RMB146,000.

On 6 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 RMB56,462,000 from the account of Hua Jin Hua Gong to settle the outstanding principal and interest of the loan of RMB29,000,000.

As a result, the principal and interest of the loan of RMB 29,000,000 has been fully recovered by Guangdong Development Bank.

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

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

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

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 RMB63,389,000, in which RMB60,192,000 was repaid for the principal of the loan, RMB3,197,000 were used for the repayment of interest and compound interest respectively on 6 April 2006, and Guang Dong Development Bank recovered RMB60,730,000 as the principal of the loan and RMB88,000 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 RMB19,183,000 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 RMB30,896,000.

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

On 31 January 2007, Shenyang Intermediate People's Court issued the Civil Judgement [2006] Shen Zhong Min (3) He Chu Zi No.234 (2006) 瀋中民三合初字第234號《民事判決書》, pursuant to which (1) the Company was liable to repay the outstanding amount of RMB30,896,000 and the interest of RMB2,221,000 to Guangdong Development Bank within 10 days from the date of judgment; (2) Beida Jade Bird and SPU were jointly liable to pay off the amount payable; (3)

Huajin Tongda and Hua Jin Hua Gong jointly guaranteed the repayment of the outstanding amount mentioned in (1) but only limited to RMB50,000,000 and RMB51,300,000 respectively; and (4) the Company, Hua Jin Hua Gong, SPU, Beida Jade Bird and Huajin Tongda undertook to pay the legal expense of RMB164,000 and the custody fee of RMB160,000.

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

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

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

RMB80,000,000 was sequestered from the account of Hua Jin Hua Gong in settlement of the RMB171,000,000 loan for the Company. On 12 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 25 November 2006; (2) in the event that the Company was unable to pay off the sum, each of SPUG and Beida Jade Bird would pay one-third of the outstanding balance and the Company shall repay the remaining one-third; and the Company was liable to pay the legal expense of RMB410,000 and the custody fee of RMB401,000.

Owing to the fact that the Company, SPU and Beida Jade Bird did not implement the repayment voluntarily, the Railway Transport Intermediate Court of Shenyang (瀋陽鐵路運輸法院) held an judicial sale on 29 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 10 March 2008, the Railway Transport Intermediate Court of Shenyang (瀋陽鐵路運輸法院) issued the [Civil Execution Order (2007) Shen Tie Zhi Zi No.3-1] 民事裁定書(2007)瀋鐵執指字第3-1號 and confirmed the completion of execution and the conclusion of the lawsuit.

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

On 17 October 2007, Hua Jin reached a settlement with the Company, SPU, Beida Jade Bird, Shenyang Pollon and Beijing Mingyude Business and Trade Company Limited ("Beijing Mingyude") in respect of the dispute about guarantee recourse. The Higher People's Court of Liaoning Province issued the [Civil Mediation Agreement (2007) Liao Min San Chu Zi No.36] 民事調解書(2007)遼民三初字第36號 relating to this settlement, pursuant to which (1) the sum of RMB56,462,000 as an assistant amount for fulfilling its guarantee responsibility and the remaining interest incurred from the date of making assistant payment to the date of actual repayment calculated at then prevailing loan interest rate for circulating fund issued by the People's Bank of China are payable by the Company to Hua Jin; (2) Hua Jin agrees the Company to repay the aggregate debt of RMB56,462,000.

The Company was liable to repay RMB32,160,000 before 30 November 2007 and to repay RMB24,300,000 before 25 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 SPUG 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 RMB24,300,000 payable by the Company; (5) If the Company did not implemented the repayment on time and Mingyude and Shenyang Pollon did not fulfilled the guarantee responsibility on the agreed term, the Company shall be liable to repay the plaintiff Hua Jin based on the aggregate debt of RMB56,462,000; (6) after above-mentioned guarantors fulfilled the guarantee responsibility, they are entitled to recover the debt from the Company at the amount they made repayment on behalf of the Company; (7) each of Hua Jin and the Company was liable to pay for the legal fee of RMB162,000 and a custody fee of RMB5,000.

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

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

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

On 20 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 repayed the debt of RMB24,300,000 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.

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

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

After the mediation of Shenyang Intermediate People's Court, all parties involved had voluntarily reached a mediation agreement pursuant to which, Shenyang Intermediate People's Court issued the Civil Mediation of (2006) Liao Zhong Min (2) Fang Chu Zi No. 129 and the Civil Execution Order of (2006) Shen Zhong Min (2) Fang Chu Zi No. 129 to confirm the main contents of the mediation agreement are as follows: (1) both parties have agreed that Shenyang Development shall pay the construction cost and interest totaling RMB5,831,000 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 14 February 2007; and a sum of RMB3,831,000 and litigation fee shall be paid to China Construction before 10 April 2007. If the guarantor failed to make the repayment on time, Shenyang

Development shall pay half of the interest forgone by China Construction; (4) the guarantor Shanghai Hanhua guaranteed the payment of the above amount by Shenyang Development to China Construction. If Shenyang Development fails to make payment as per the term provided in Clause 2 of the agreement, the guarantor shall make the payment accordingly. If the guarantor fails to perform its responsibility after the due date, China Construction may apply for compulsory execution of the guarantee pursuant to a Civil Mediation Agreement delivered by the Court in accordance with the law; (5) the three parties of the agreement have agreed that, if the guarantor shall obtain all the title of debts requested by China Construction towards Shenyang Development in the litigation, and the right of custody over the assets of Shenyang Development involved in the litigation; (6) after performance of its responsibility, the guarantor shall have the right of recourse against Shenyang Development in accordance with Article 31 of the Law of Guarantee of the People's Republic of China and shall have the right to apply for compulsory execution of the Civil Mediation issued by the Court in accordance with the applicable law.

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

The litigation was handled and mediated by the Intermediate People's Court of Shenyang and all parties involved had reached a reconciliation agreement voluntarily, pursuant to which, the Court issued a Civil Mediation Agreement 《民事調解書》(2006) Liao Zhong Min Er Fang Chu Zi No. 190 as follows, inter alias: (1) both parties agreed that the Company shall pay to Shenyang Tianbei the construction fee and interest totaling RMB17,000,000 by two instalments. The legal fee, custody fee and audit fee totaling RMB281,000 shall be borne by Shenyang Development and Shenyang Tianbei equally in the amount of RMB140,000. Shenyang Development shall pay such amount to Shenyang Tianbei on or before 20 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 28 June 2007 and 6 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;

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

(4) Shenyang Tianbei has agreed to return all project files and relevant information for completion examination of the projects involved in the litigation, as well as to deliver vacant possession all 6 residential units and one shop in "Shui Xie Hua Du" (水榭花都) currently occupied by it to Shenyang Development within 3 days upon receipt of RMB4,130,000 as provided in Article 2 of the agreement; (5) Shenyang Tianbei has agreed to issue receipt and tax vouchers to Shenyang Development within 15 days upon receipt of RMB12,870,000 as required in Article 2 of the agreement. Shenyang Tianbei shall also assign a designated person to assist Shenyang Development to complete the registration and examination of the projects with the related authorities (the registrars). Shenyang Tianbei has agreed to submit its consent to the Court for the release of the confiscated and frozen assets of Shenyang Development and assist Shenyang Development to finish the relief of the assets; (6) if Shenyang Tianbei fails to perform its responsibilities as

provided in Article 4 and 5 of the agreement in time, Shenyang Development may apply to the competent court for compulsory performance of the responsibilities of Shenyang Tianbei as provided in Article 4 and 5 in the agreement; (7) the four parties to the agreement have agreed that, after the execution of the agreement, if the Guarantors have paid all of the debts as stated in Article 2 of the agreement on behalf of Shenyang Development, the Guarantors shall have the right of recourse against Shenyang Development in an amount equal to the debts repaid to Shenyang Tianbei and obtain the custodian rights of Shenyang Tianbei over the assets of Shenyang Development; and (8) after performance of their responsibilities, the Guarantors shall have the right of recourse against Shenyang Development in accordance with Article 31 of the Law of Guarantee of the People's Republic of China and shall have the right to apply for compulsory execution of the Civil Mediation issued by the Court in respect to the litigation in accordance with the applicable law.

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

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

According to the Engagement letter of Settlement Business by China Merchants Bank (招商銀行結算業務委託書) (NO0013645688) and the entrustment payment notice provided by the Company, the Company had paid RMB46,799,130 to Beijing Mingyude in July 2008 by way of entrustment payment, RMB13,567,000 of which was for the RMB12,870,000 that Beijing Mingyude had paid for the Company as a guarantor and the interest accrued.

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

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 enforcer, at a value of RMB5,866,000. In this respect, the parties had executed a Share Settlement Agreement.

On 19 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 15 January 2008, which approved the Share Settlement Agreement between the parties allowed the transfer of equity interest. The execution of the Civil Mediation Agreement of Intermediate People's Court of Shenyang (2006) Liao Zhong Min (2) Fang Chu Ji No. 129 was completed.

- (h) In 2008, there were a number of new litigation cases regarding to the claims from individual customers and contractors against Shenyang Development, Pollon Finance and Shenyang Business Information of which the amount of total claims was uncertain up to the date of this report. The directors of the Company are of their opinion that the captioned contingent liabilities arising from the litigations of Pollon Finance and Shenyang Business Information were released as their equity interests were transferred in 2008.

### 39. POST BALANCE SHEET EVENTS

- (a) According to the sale and purchase agreement dated 31 December 2008, the entire interest, that is 80% of Beijing Diye, will be disposed to a third party for a total consideration of RMB200,000,000. The agreement is subject to the approval of the resumption status of the company and the approval of the disposal by the shareholders of the company.

Particulars of its assets and liabilities, as at 31 December 2008 are as follows:

|                                              | <i>RMB'000</i> |
|----------------------------------------------|----------------|
| <b>Assets</b>                                |                |
| Property and equipment                       | 427            |
| Properties held for sale                     | 193,941        |
| Bank balances and cash                       | 6,532          |
|                                              | <hr/>          |
|                                              | 200,900        |
|                                              | <hr/>          |
| <b>Liabilities</b>                           |                |
| Accounts payables                            | 20             |
| Other payables and accrual expenses          | 880            |
| Internal amount due to the Group's companies | 461,184        |
|                                              | <hr/>          |
|                                              | 462,084        |
|                                              | <hr/>          |

- (b) On 5 January 2009, the Company as purchaser signed a sale and purchase agreement of which the Company will purchase a property in Beijing for a total consideration of RMB93,000,000 from a third party. The property comprises the first and second floors of an 18-storey commercial building in Beijing and the gross floor area of the property is approximately 3,808.27 square meter. The agreement is subject to the approval of the resumption of listing status of the Company, the approval of the purchase by the shareholders of the Company and the completion of the sale of the entire interest held by the Company in Beijing Diye.
- (c) On 5 January 2009, the Company signed a sale and purchase agreement with third parties for the sale and purchase of Shenzhen Jade Bird Optoelectroice Company which owns a property comprising a 7-storey building located in the Shenzhen for a total consideration of RMB83,000,000. The gross floor area of the property is approximately 12,508.18 square meter. The agreement is subject to the approval of the resumption of listing status of the Company, the approval of the purchase by the shareholders of the Company and the completion of the sale of the entire interest held by the Company in Beijing Diye.

(d) **Change of Substantial Shareholder**

On 26 February 2009, the Company received a copy of [[2007] Yi Zhong Zhi Zi No. 1192-3, *Civil Judgment*,] 民事裁定書(2007)一中執字第1192-3號 issued by the Intermediate People's Court of Beijing (the "Court") on 24 February 2009 (the "Judgment"). The Judgment indicated that the 600,000,000 domestic shares of the Company (representing approximately 58.8% equity interest of the issued share capital of the Company as at the date of this announcement) held by Shenyang Public Utility Group Company Limited ("SPU") (the "Domestic Shares") were put under an auction pursuant to the Court's order dated 13 February 2009. The Domestic Shares are then being transferred to Beijing Mingde Guangye Investment Consultant Company Limited (北京明德廣業投資諮詢有限公司) ("Beijing Mingde Guangye") at a consideration of RMB102,520,000, representing RMB0.17 per Domestic Share as a result of the aforesaid auction.

The Judgment indicated that on 10 July 2007, Beijing Beida Jade Bird Company Limited ("Beida Jade Bird") transferred its creditor's right for its claim against SPU and Shenzhen Jingmei to Beijing Teli. The Domestic Shares were sequestered by the Court on 21 July 2008.

The Judgment indicated that due to the fact that the SPU and Shenzhen Jingmei did not implement the required relevant repayment, Beijing Teli applied to the Court to dispose the Domestic Shares by an auction. The Domestic Shares were put under an auction pursuant to the Court's order on 13 February 2009. The Domestic Shares are being transferred to Beijing Mingde Guangye at a consideration of RMB102,520,000, representing RMB0.17 per Domestic Share as a result of the aforesaid auction.

Trading in the H Shares was suspended with effect on 23 December 2004 and has remained suspended pending the release of announcement relating to the outstanding financial statements of the Company and the submission of a viable resumption proposal to demonstrate, among other things, that the Company (i) complies with Rule 13.24 of the Listing Rules; (ii) has in place adequate financial reporting system and internal control procedures; and (iii) has sufficient working capital for the operation to seek its approval for the resumption of trading in the H Shares. Further announcement will be made in this regard in compliance with the Listing Rules. Trading in the shares of the Company will remain suspended until further notice.

Beijing Mingde Guangye has indicated in a letter to the Company on 26 February 2009 that it fully supports the resumption of trading of H-shares of the Company.

## 40. CONNECTED TRANSACTIONS

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

The identified connected parties of the Group are as follows:

| Name of company                                                                    | Relationships with the Company             |
|------------------------------------------------------------------------------------|--------------------------------------------|
| SPU                                                                                | The parent company of the Company          |
| Beida Hi-Tech                                                                      | A shareholder of SPU                       |
| Weifang Beida Jade Bird Huaguang Technology Company Limited ("Jade Bird Huaguang") | The holding company of Beida Hi-Tech       |
| Beida Jade Bird                                                                    | A shareholder of Jade Bird Huaguang        |
| Beijing Tianqiao Beida Jade Bird Technology Company Limited ("Beijing Tianqiao")   | A shareholder of Jade Bird Huaguang        |
| Beijing Beida Education Investment Company Limited ("Beida Education Investment")  | A subsidiary of Beida Jade Bird            |
| Zhuhai School                                                                      | A branch of Beida Education Investment     |
| 珠海科教                                                                               | A subsidiary of Beida Education Investment |
| 北京特利投資管理有限公司                                                                       | A subsidiary of Beida Jade Bird            |
| 深圳青島光電有限公司("深圳青島光電")                                                               | A subsidiary of Beida Jade Bird            |
| Huajin Company                                                                     | Other state-owned enterprise               |
| Beijing Peking University Resource Group Co., Ltd. ("Peking University Resource")  | Other state-owned enterprise               |

Apart from the guarantees provided by certain connected parties for bank borrowings of the Group as stated in Note 30, principal connected party transactions in the ordinary course of business between the Group and connected parties are as follows:

- (a) During the year, the Group received rental income of RMB3,000,000 (2007: RMB3,000,000) from Zhuhai School for leasing of campus with related equipment. The lease period was from January 2003 to December 2013. Rents have been determined until December 2009 and the subsequent rents would be otherwise negotiated by the parties.

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

| Name of connected party             | 2008<br>RMB'000   | 2007<br>RMB'000   | 2006<br>RMB'000   |
|-------------------------------------|-------------------|-------------------|-------------------|
| Other payables and accrual expenses |                   |                   |                   |
| Beida Jade Bird                     | –                 | 126,924           | 66,088            |
| 北京特利                                | –                 | 23,729            | 109,130           |
| Huajin Company                      | –                 | 78,155            | 72,455            |
| Beijing Tianqiao                    | –                 | 5,400             | 5,400             |
| Zhuhai School                       | 3,999             | 20,328            | 23,577            |
|                                     | <u>          </u> | <u>          </u> | <u>          </u> |

(c) Non-current liabilities

| Name of connected party | 2008<br>RMB'000   | 2007<br>RMB'000   | 2006<br>RMB'000   |
|-------------------------|-------------------|-------------------|-------------------|
| Beida Jade Bird         | 82,998            | –                 | –                 |
|                         | <u>          </u> | <u>          </u> | <u>          </u> |

(d) Compensation for the key management

|                     | 2008<br>RMB'000   | 2007<br>RMB'000   | 2006<br>RMB'000   |
|---------------------|-------------------|-------------------|-------------------|
| Short term benefits | –                 | 226               | –                 |
|                     | <u>          </u> | <u>          </u> | <u>          </u> |

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

#### 41. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries, as at 31 December 2008 are as follows:

| Name of subsidiary                                            | Class of shares held | Paid-up registered capital<br>RMB'000 | Percentage of effective equity interest held by the Company |            | Principal activities                            |
|---------------------------------------------------------------|----------------------|---------------------------------------|-------------------------------------------------------------|------------|-------------------------------------------------|
|                                                               |                      |                                       | Directly                                                    | Indirectly |                                                 |
| Shenyang Development Real Estate                              | Ordinary share       | 250,000                               | 100%                                                        | –          | Development and sale of properties              |
| Beijing Diye                                                  | Ordinary share       | 30,000                                | –                                                           | 100%       | Development and sale of properties              |
| Shanghai Beida Jade Bird Education Investment Company Limited | Ordinary share       | 100,000                               | 80%                                                         | 20%        | Closed                                          |
| Zhuhai Beida Education Science Park Company Limited           | Ordinary share       | 20,000                                | 70%                                                         | –          | investment and management of education projects |

- (a) The above list only includes the information about principal subsidiaries which are considered by the directors of the Company to be able to affect results or assets of the Group. In the opinion of the directors, to present the information about all the subsidiaries would be too redundant.
- (b) All subsidiaries of the Group are companies with limited liabilities incorporated in PRC and are operated in PRC.
- (c) None of the subsidiaries owned any debt securities that were intermittently effective as at balance sheet date or any time during the year.

**42. BALANCE SHEET OF THE COMPANY**

|                                                 | 2008<br>RMB'000 | 2007<br>RMB'000  | 2006<br>RMB'000  |
|-------------------------------------------------|-----------------|------------------|------------------|
| <b>NON CURRENT ASSETS</b>                       |                 |                  |                  |
| Property and equipment                          | 283             | 531              | 653              |
| Investment in subsidiaries                      | 95,151          | 598,622          | 626,646          |
| Available-for-sale financial assets             | 20,000          | 20,000           | 20,000           |
| Other long term receivable                      | 32,744          | –                | –                |
|                                                 | <u>148,178</u>  | <u>619,153</u>   | <u>647,299</u>   |
| <b>CURRENT ASSETS</b>                           |                 |                  |                  |
| Amount due from parent company                  | –               | 58,224           | 59,264           |
| Amounts due from subsidiaries                   | 405,152         | 745,505          | 833,635          |
| Other receivables                               | 80,474          | 44,660           | 69,351           |
| Other current assets                            | –               | 1,000            | 1,000            |
| Bank balances and cash                          | 171             | 3,264            | 2,226            |
|                                                 | <u>485,797</u>  | <u>852,653</u>   | <u>965,476</u>   |
| <b>CURRENT LIABILITIES</b>                      |                 |                  |                  |
| Investment cost payable                         | –               | –                | 39,512           |
| Other payables and accrued charges              | 29,238          | 142,760          | 177,796          |
| Amounts due to subsidiaries                     | 93,486          | 272,324          | 275,697          |
| Bank loans – repayable within one year          | –               | –                | 49,975           |
|                                                 | <u>122,724</u>  | <u>415,084</u>   | <u>542,980</u>   |
| <b>NET CURRENT ASSET</b>                        | <u>363,073</u>  | <u>437,569</u>   | <u>422,496</u>   |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>    | <u>511,251</u>  | <u>1,056,722</u> | <u>1,069,795</u> |
| <b>CAPITAL AND RESERVES</b>                     |                 |                  |                  |
| Share capital                                   | 1,020,400       | 1,020,400        | 1,020,400        |
| Reserves                                        | (592,147)       | 36,322           | 49,395           |
| <b>TOTAL EQUITY</b>                             | <u>428,253</u>  | <u>1,056,722</u> | <u>1,069,795</u> |
| <b>NON CURRENT LIABILITY</b>                    |                 |                  |                  |
| Other non-current liabilities                   | <u>82,998</u>   | <u>–</u>         | <u>–</u>         |
| <b>TOTAL EQUITY AND NON CURRENT LIABILITIES</b> | <u>511,251</u>  | <u>1,056,722</u> | <u>1,069,795</u> |

Yours Faithfully,  
**Lo and Kwong C.P.A Company Limited**  
*Certified Public Accountants*  
Hong Kong

**2. MATERIAL CHANGES**

The Directors confirm that there has been no material adverse change in the financial or trading position of the Group since 31 December 2008, the date to which the latest audited financial statements of the Company were made up.

**3. STATEMENT OF INDEBTEDNESS**

As at the close of business on 31 March 2009, being the latest practicable date for the purpose of the indebtedness statement, the Remaining Group had an outstanding principal amount of the bank loans of approximately RMB14,000,000 which is secured, interest-charged under variable interest rates and repayable within one year and an other non-current liabilities of approximately RMB82,998,000, which is interest-free, unsecured and repayable on 30 September 2010.

As at 31 December 2008, save as aforesaid and apart from intra-group liabilities and normal trade payables, none of the companies in the Remaining Group had any outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loan or indebtedness in the nature of borrowings, debt securities or other similar indebtedness, finance leases or hire purchase commitment, or any guarantees or other material contingent liabilities.

**4. WORKING CAPITAL**

The Directors, after due and careful consideration, are of the opinion that after taking into account the available banking facilities, present internal resources of the Remaining Group and assumptions of restructuring of the Remaining Group to be participated, the Remaining Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this circular, in the absence of any unforeseen circumstances.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

- (i) Set out below is the management discussion and analysis of the Group for the year ended 31 December 2006.

1. SUMMARY OF THE RESULTS

(1) Summary of income statement

The Group's profits

|                                            | 2006     | 2005        | 2004      | 2003    | 2002    |
|--------------------------------------------|----------|-------------|-----------|---------|---------|
|                                            | RMB'000  | RMB'000     | RMB'000   | RMB'000 | RMB'000 |
| Turnover                                   | 18,067   | 91,221      | 35,312    | 169,116 | 451,620 |
| (Loss) profit after taxation               | (80,611) | (1,249,512) | (200,046) | 17,454  | 93,193  |
| (Loss) profit attributable to shareholders | (76,705) | (1,229,130) | (197,559) | 17,833  | 92,791  |
| (Loss) earnings per share (RMB)            | (0.08)   | (1.20)      | (0.19)    | 0.02    | 0.09    |

(2) Analysis of segment results

|                                            | 2006     | 2005        | 2004      | 2003    | 2002    |
|--------------------------------------------|----------|-------------|-----------|---------|---------|
|                                            | Amount   | Amount      | Amount    | Amount  | Amount  |
| Consolidated (loss) profit before Taxation | (80,599) | (1,288,602) | (200,831) | 31,834  | 156,280 |
| Of which:                                  |          |             |           |         |         |
| Property development                       | (24,477) | (301,109)   | (76,040)  | 28,434  | 12,865  |
| Education Investment                       | (19,666) | (307,451)   | (14,148)  | (2,711) | –       |
| Cemetery development and lease             | (14,298) | (35,047)    | (38,546)  | –       | –       |
| Shenhai Electricity and Heat               | –        | –           | –         | 24,288  | 20,388  |
| Shenyang Water                             | –        | –           | –         | –       | 158,816 |

(3) Analysis of segment turnover

|                      | 2006 % on total |          | 2005 % on total |          | 2004 % on total |          | 2003 % on total |          | 2002 % on total |          |
|----------------------|-----------------|----------|-----------------|----------|-----------------|----------|-----------------|----------|-----------------|----------|
|                      | Turnover        | turnover | Turnover        | turnover | Turnover        | turnover | Turnover        | turnover | Turnover        | turnover |
|                      | RMB'000         | RMB'000  | RMB'000         | RMB'000  | RMB'000         | RMB'000  | RMB'000         | RMB'000  | RMB'000         | RMB'000  |
| Total turnover       | 18,067          | 100      | 91,221          | 100      | 35,312          | 100      | 169,116         | 100      | 451,620         | 100      |
| Of which:            |                 |          |                 |          |                 |          |                 |          |                 |          |
| Property development | 9,521           | 52.70    | 77,040          | 84.45    | 21,128          | 59.83    | 165,762         | 98.02    | 125,820         | 27.90    |
| Education Investment | 6,370           | 35.26    | 6,472           | 7.09     | 10,658          | 30.18    | 2,500           | 1.48     | -               | -        |
| Cemetery development |                 |          |                 |          |                 |          |                 |          |                 |          |
| and lease            | 1,602           | 8.87     | 926             | 1.02     | 494             | 1.40     | -               | -        | -               | -        |
| Other operations     | 574             | 3.17     | 6,783           | 7.44     | 3,032           | 8.59     | 854             | 0.50     | 400             | 0.05     |
| Shenyang Water       | -               | -        | -               | -        | -               | -        | -               | -        | 325,400         | 72.05    |

2. ANALYSIS OF REAL ESTATE DEVELOPMENT BUSINESS

Summary of operating results

|                                  | 2006     | 2005      |
|----------------------------------|----------|-----------|
| Turnover (RMB'000)               | 9,521    | 77,040    |
| Profit before taxation (RMB'000) | (24,477) | (301,109) |

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 last stage improvement of construction, 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.

The project “Cosmo International Mansion” in Shenyang is the reconstruction of an incomplete project, with gross floor area of approximately 30,000 square metres. In December 2006, the Higher People’s Court of Liaoning Province held an auction in which the shops in 1-5F and 95 apartments of Cosmo International Mansion were disposed of. The sale proceeds were used to settle the debt of the Company.

The “Scenic Bay” of Beijing Diye has obtained the approval for land requisition and certificate of land approval. However, it was required to sale by listing in the market due to the suspension of the “Green Belt” construction project policy of Beijing Municipal Government. Under the active negotiation of Beijing Diye, the Level 1 Development Qualification of “Scenic Bay” has been obtained.

### 3. ANALYSIS OF EDUCATION INVESTMENT BUSINESS

The site area of phase one of Shenyang Education Park, a project invested by Shenyang Education, was 128,600 square metres. Shenyang School was officially opened in September 2004 and ended in the fall semester of 2006. Since the number of student was much less than expectation, the Group shut down Shenyang Beida Jade Bird School at the end of 2006 to lower the operation cost. Students at school have been properly accepted by other schools in Shenyang.

Zhuhai School has paid Zhuhai Education a rental fee amounting to RMB4,000,000 during the Year. During the Year, Zhuhai School was honoured City-Level School by Education Bureau of Zhuhai. The students of Zhuhai School amounted to approximately 600 at present.

During the Period, the commencement of the project construction of Shanghai Beida Education Science Park ("Shanghai Education Park") invested by Shanghai Education was delayed as a result of the Shanghai Municipal Government's adjustment to the land use policy of substantial projects. Shanghai Education actively negotiated with Shanghai Municipal Government about the change of the land. The parties, however, did not reach an agreement on conditions such as the price of land and planning, and the change of the land did not work out.

### 4. ANALYSIS OF CEMETERY DEVELOPMENT BUSINESS

During the Year, Xili Cemetery realized rental income of approximately RMB1,521,000.

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

#### (1) Financial statistics of the Group

| Items                     | Basis                                                                               | As at<br>31 December<br>2006 | As at<br>31 December<br>2005 |
|---------------------------|-------------------------------------------------------------------------------------|------------------------------|------------------------------|
| Gearing ratio             | Total liabilities/total assets x 100%                                               | 70.92%                       | 70.27%                       |
| Current ratio             | Current assets/current liabilities                                                  | 0.81                         | 0.85                         |
| Quick ratio               | (Current assets – inventories<br>– properties held for<br>sale)/current liabilities | 0.28                         | 0.61                         |
| Earnings/net assets ratio | Net profit/net assets x 100%                                                        | (19.68%)                     | (261.35%)                    |
| Sales profit margin       | Net profit/sales x 100%                                                             | (424.56%)                    | (1,347.42%)                  |
| Debt equity ratio         | Total liabilities/shareholders'<br>equity x 100%                                    | 243.82%                      | 236.42%                      |

(2) Overall position of the Group's assets

During the Year, there was a decrease in the total assets of the Group when compared with that of the Previous Year. The total assets of the Group decreased to approximately RMB1,339,846,000 from approximately RMB1,582,162,000, representing a decrease of approximately RMB242,316,000 or 15.32%.

| Items                                      | As at<br>31 December<br>2006<br>RMB'000 | As at<br>31 December<br>2005<br>RMB'000 | Change in<br>amounts<br>RMB'000 |
|--------------------------------------------|-----------------------------------------|-----------------------------------------|---------------------------------|
| Total assets                               | 1,339,846                               | 1,582,162                               | (242,316)                       |
| Of which:                                  |                                         |                                         |                                 |
| Property and equipment                     | 159,931                                 | 160,863                                 | (932)                           |
| Investment properties                      | 317,786                                 | 390,930                                 | (73,144)                        |
| Prepaid lease payment on<br>land use right | 89,316                                  | 91,880                                  | (2,564)                         |
| Available-for-sale financial<br>assets     | 20,000                                  | 20,000                                  | -                               |
| Current assets                             | 752,813                                 | 918,489                                 | (165,676)                       |

(3) Current assets of the Group

During the Year, the current assets of the Group decreased by approximately RMB165,676,000 to RMB752,813,000 as compared with RMB918,489,000 in the Previous Year, representing a decrease of approximately 18.04%.

| Items                                     | As at<br>31 December<br>2006<br>RMB'000 | As at<br>31 December<br>2005<br>RMB'000 | Change in<br>amounts<br>RMB'000 |
|-------------------------------------------|-----------------------------------------|-----------------------------------------|---------------------------------|
| Current assets                            | 752,813                                 | 918,489                                 | (165,676)                       |
| Of which:                                 |                                         |                                         |                                 |
| Properties held for sale                  | 495,715                                 | 266,768                                 | 228,947                         |
| Inventories                               | 469                                     | 361                                     | 108                             |
| Accounts receivables                      | 1,192                                   | 674                                     | 518                             |
| Other receivables and<br>prepaid expenses | 190,697                                 | 299,782                                 | (109,085)                       |
| Amount due from parent<br>company         | 55,296                                  | 268,194                                 | (212,898)                       |
| Tax prepaid                               | -                                       | 2,059                                   | (2,059)                         |
| Pledged bank deposits                     | -                                       | 71,598                                  | (71,598)                        |
| Bank balances and cash                    | 9,444                                   | 9,053                                   | 391                             |

**(4) Bank borrowings of the Group**

As at 31 December 2006, the Group's bank borrowings totalled RMB181,344,000 (2005: RMB351,490,000). The abovementioned borrowings bear interest at 4.70% to 7.97% per annum.

|                                                    | As at<br>31 December<br>2006<br>(RMB'000) | As at<br>31 December<br>2005<br>(RMB'000) |
|----------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Bank borrowings repayable in the following periods |                                           |                                           |
| Overdue                                            | 49,977                                    | 29,000                                    |
| Within one year                                    | 131,367                                   | 309,290                                   |
| Within one to two years                            | —                                         | 13,200                                    |
|                                                    | <u>181,344</u>                            | <u>351,490</u>                            |

As at 31 December 2006, the Group's overdue bank borrowings were RMB49,977,000.

**(5) Currency risks**

According to the "Quotations of the Exchange Rates for Converting Renminbi to Foreign Currencies by the Head Office of Designated Banks" periodically promulgated by the State Administration of Foreign Exchange of the PRC in 2006, the exchange rates of Renminbi to US dollar and to Hong Kong dollar were stable as a whole, and the exchange rate of the Hong Kong dollar to Renminbi experienced slight fluctuations during the Year. Accordingly, the Company has no currency risk.

**(6) Land reserves**

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

1. Portion of land at 10th Road in Shenyang Economic and Technological Development Zone with an area of approximately 484,000 square metres already paid up, in which the Group holds 99.9% interests;
2. A parcel of land in Guan Zhuang Xin Cun, Chaoyang District, Beijing with an area of approximately 129,000 square metres already paid up, in which the Group holds 99.89% interests.

### (7) Contingent liabilities

Save as disclosed in notes 42 and 43 to the financial statements of the Company for the year ended 31 December 2006, as at the balance sheet date, the Group did not have any other contingent liabilities.

### (8) Analysis of equity and profits

|                                     | 31 December 2006<br>RMB'000 | 31 December 2005<br>RMB'000 | Change in<br>amounts<br>RMB'000 |
|-------------------------------------|-----------------------------|-----------------------------|---------------------------------|
| Share capital                       | 1,020,400                   | 1,020,400                   | –                               |
| Share premium                       | 323,258                     | 323,258                     | –                               |
| Statutory surplus reserve           | 103,582                     | 69,054                      | 34,528                          |
| Statutory public welfare<br>reserve | –                           | 34,528                      | (34,528)                        |
| Accumulated losses                  | (1,093,482)                 | (1,016,777)                 | (76,705)                        |

## 6. EMPLOYEES

As at 31 December 2006, the Group had 106 employees.

During the Year, the aggregate salaries and allowances and termination compensation paid to the employees amounted to RMB7,686,200 (2005: RMB12,442,000) and RMB267,800. The Group has not established any share option scheme for any of its senior management or employees.

- (ii) Set out below is the management discussion and analysis of the Group for the year ended 31 December 2007.

1. SUMMARY OF THE RESULTS

(1) Summary of income statement

The Group's profits

|                                            | 2007    | 2006     | 2005        | 2004      | 2003    |
|--------------------------------------------|---------|----------|-------------|-----------|---------|
|                                            | RMB'000 | RMB'000  | RMB'000     | RMB'000   | RMB'000 |
| Turnover                                   | 7,116   | 16,465   | 91,221      | 35,312    | 169,116 |
| Profit (loss) after taxation               | 112,319 | (80,611) | (1,249,512) | (200,046) | 17,454  |
| Profit (loss) attributable to shareholders | 115,657 | (76,705) | (1,229,130) | (197,559) | 17,833  |
| Earnings (loss) per share (RMB)            | 0.11    | (0.08)   | (1.2)       | (0.19)    | 0.02    |

(2) Analysis of segment results

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

### (3) Analysis of segment turnover

|                                  | 2007 % on total |          | 2006 % on total |          | 2005 % on total |          | 2004 % on total |          | 2003 % on total |          |
|----------------------------------|-----------------|----------|-----------------|----------|-----------------|----------|-----------------|----------|-----------------|----------|
|                                  | Turnover        | turnover | Turnover        | turnover | Turnover        | turnover | Turnover        | turnover | Turnover        | turnover |
|                                  | RMB'000         | RMB'000  | RMB'000         | RMB'000  | RMB'000         | RMB'000  | RMB'000         | RMB'000  | RMB'000         | RMB'000  |
| Total turnover                   | 9,948           | 100      | 18,067          | 100      | 91,221          | 100      | 35,312          | 100      | 169,116         | 100      |
| Of which:                        |                 |          |                 |          |                 |          |                 |          |                 |          |
| Property development             | 3,905           | 39.25    | 9,521           | 52.70    | 77,040          | 84.45    | 21,128          | 59.83    | 165,762         | 98.02    |
| Education Investment             | 3,211           | 32.28    | 6,370           | 35.26    | 6,472           | 7.09     | 10,658          | 30.18    | 2,500           | 1.48     |
| Other operations                 | -               | -        | 574             | 3.17     | 6,783           | 7.44     | 3,032           | 8.59     | 854             | 0.50     |
| Discontinued operation           |                 |          |                 |          |                 |          |                 |          |                 |          |
| - Cemetery development and lease | 2,832           | 28.47    | 1,602           | 8.87     | 926             | 1.02     | 494             | 1.40     | -               | -        |

## 2. ANALYSIS OF REAL ESTATE DEVELOPMENT BUSINESS

### Summary of operating results

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

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

During the Period, the last stage improvement of construction, completion and inspection and sales of Building Management Company “Cosmo International Mansion” was the primary focus.

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

### 3. ANALYSIS OF EDUCATION INVESTMENT BUSINESS

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

### 4. ANALYSIS OF CEMETERY DEVELOPMENT BUSINESS

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

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

#### (1) Financial statistics of the Group

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

#### (2) Overall position of the Group's assets

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

## APPENDIX II      MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

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

### (3)      Current assets of the Group

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

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

### (4)      Bank borrowings of the Group

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

|                                                       | As at<br>31 December<br>2007<br>(RMB'000) | As at<br>31 December<br>2006<br>(RMB'000) |
|-------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Bank borrowings repayable in the<br>following periods |                                           |                                           |
| Overdue                                               | –                                         | 49,977                                    |
| Within one year                                       | 62,000                                    | 131,367                                   |
|                                                       | <u>62,000</u>                             | <u>181,344</u>                            |

#### (5) Currency Risks

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

#### (6) Land reserves

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

1. Portion of land at 10th Road in Shenyang Economic and Technological Development Zone with an area of approximately 484,000 square metres already paid up, in which the Group holds 99.9% interests;
2. A parcel of land in Guan Zhuang Xin Cun, Chaoyang District, Beijing with an area of approximately 129,000 square metres already paid up, in which the Group holds 99.89% interests.

#### (7) Contingent liabilities

Save as disclosed in note 42 to the financial statements of the Company for the year ended 31 December 2007, as at the balance sheet date, the Group did not have any other contingent liabilities.

# (8) Analysis of equity and profits

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

## 6. EMPLOYEES

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

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

(iii) Set out below is the management discussion and analysis of the Group for the year ended 31 December 2008.

# 1. SUMMARY OF THE RESULTS

## (1) Summary of income statement

### The Group's profits

|                                              | 2008             | 2007           | 2006             | 2005             | 2004             |
|----------------------------------------------|------------------|----------------|------------------|------------------|------------------|
|                                              | RMB'000          | RMB'000        | RMB'000          | RMB'000          | RMB'000          |
| Turnover                                     | 39,617           | 7,116          | 16,465           | 91,221           | 35,312           |
| (Loss) profit after taxation                 | (58,394)         | 112,319        | (80,611)         | (1,249,512)      | (200,046)        |
| (Loss) profit attributable to equity holders | (54,638)         | 115,657        | (76,705)         | (1,229,130)      | (197,559)        |
| (Loss) earning per share (RMB)               | <u>RMB(0.06)</u> | <u>RMB0.11</u> | <u>RMB(0.08)</u> | <u>RMB(1.20)</u> | <u>RMB(0.19)</u> |

## (2) Analysis of segment results

|                                            | 2008           | 2007            | 2006            | 2005             | 2004            |
|--------------------------------------------|----------------|-----------------|-----------------|------------------|-----------------|
|                                            | Amount         | Amount          | Amount          | Amount           | Amount          |
|                                            | RMB'000        | RMB'000         | RMB'000         | RMB'000          | RMB'000         |
| Consolidated (loss) profit before Taxation | (59,007)       | 112,801         | (80,599)        | (1,288,602)      | (200,831)       |
| Of which:                                  |                |                 |                 |                  |                 |
| Property development                       | (11,544)       | (5,113)         | (24,477)        | (301,109)        | (76,040)        |
| Education Investment                       | <u>(7,603)</u> | <u>(18,461)</u> | <u>(19,666)</u> | <u>(307,451)</u> | <u>(14,148)</u> |

## (3) Analysis of segment turnover

|                      | 2008 % on total |          | 2007 % on total |          | 2006 % on total |             | 2005 % on total |             | 2004 % on total |             |
|----------------------|-----------------|----------|-----------------|----------|-----------------|-------------|-----------------|-------------|-----------------|-------------|
|                      | Turnover        | turnover | Turnover        | turnover | Turnover        | turnover    | Turnover        | turnover    | Turnover        | turnover    |
|                      | RMB'000         | RMB'000  | RMB'000         | RMB'000  | RMB'000         | RMB'000     | RMB'000         | RMB'000     | RMB'000         | RMB'000     |
| Total turnover       | 39,617          | 100      | 9,948           | 100      | 18,067          | 100         | 91,221          | 100         | 35,312          | 100         |
| Of which:            |                 |          |                 |          |                 |             |                 |             |                 |             |
| Property development | 36,617          | 92.43    | 3,905           | 39.25    | 9,521           | 52.70       | 77,040          | 84.45       | 21,128          | 59.83       |
| Education Investment | 3,000           | 7.57     | 3,211           | 32.28    | 6,370           | 35.26       | 6,472           | 7.09        | 10,658          | 30.18       |
| Other operations     | <u>-</u>        | <u>-</u> | <u>-</u>        | <u>-</u> | <u>574</u>      | <u>3.17</u> | <u>6,783</u>    | <u>7.44</u> | <u>3,032</u>    | <u>8.59</u> |

## 2. ANALYSIS OF THE REAL ESTATE DEVELOPMENT BUSINESS

### Summary of operating results

|                                  | 2008            | 2007           |
|----------------------------------|-----------------|----------------|
| Turnover (RMB'000)               | 36,617          | 3,905          |
| Profit before taxation (RMB'000) | <u>(11,544)</u> | <u>(5,113)</u> |

During the year, 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 procedure of the phase two project of “Water-Flowers City” was completed in August 2008 and the registration procedure for property ownership certificate has been commenced.

During the year, Building Management Company entered into the Agreement of Settlement of Debts by Properties with relevant parties, pursuant to which the liabilities of certain parties, including the Company, amounted to RMB24,300,000 will be settled by the properties in Cosmo International Mansion with a value of RMB24,300,000. The procedures of obtaining ownership certificates of these properties are under progress. (Details please refer to the announcement of the Company dated 24 December 2008).

During the year, in order to adjust the business structure of the Group and reduce the amount of debts, the Group has disposed of all shareholdings in Building Management Company.

The construction of the “Scenic Bay” project in Beijing has not yet commenced during the Year. In order to adjust the business structure of the Group, the Company is actively planning to realize this project.

## 3. ANALYSIS OF THE EDUCATION INVESTMENT BUSINESS

During the period, the existing gross floor area of Zhuhai Education Park exceeded 70,000 sq. meters. In June 2008, Zhuhai Beida Subsidiary Experiment School (“Zhuhai School”) entered into a co-operative agreement for the operation of school with the Bureau of Education of Zhuhai Municipality. Accordingly, the Bureau of Education of Zhuhai Municipality has engaged Zhuhai School to provide education to public high school students with Zhuhai city household registration. Zhuhai School enrolled approximately 360 public school students for the 2008 autumn school term, while the total number of all students in Zhuhai School was approximately 987. Zhuhai School has paid Zhuhai Education a rental fee amounting to RMB3,000,000 during the Year.

During the period, the Group disposed of the debt receivable from Shenyang Education amounting to RMB256.6 million and 30% shareholding in Shenyang Education in order to retrieve the preliminary investment and recover funds for the operation of the Company. The Group ceased to hold any equity interest in Shenyang Education. (Details please refer to the announcement of the Company dated 5 February 2009).

#### **4. ANALYSIS OF THE SYSTEM INTEGRATION BUSINESS**

During the Year, Shenyang Business Information was deregistered.

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

##### **(1) Financial statistics of the Group**

| Items                      | Basis                                                                                                                  | As at<br>31 December<br>2008 | As at<br>31 December<br>2007 |
|----------------------------|------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------|
| Gearing ratio              | Total liabilities/total assets x 100%                                                                                  | 27.95%                       | 53.80%                       |
| Current ratio              | Current assets/current liabilities                                                                                     | 4.40                         | 1.03                         |
| Quick ratio                | (Current assets – inventories<br>– properties under development<br>– properties held for sale)/<br>current liabilities | 1.33                         | 0.17                         |
| Return on net assets ratio | Net loss/net assets x 100%                                                                                             | (13.18%)                     | 22.96%                       |
| Sales profit margin        | Net loss/sales x 100%                                                                                                  | (137.92%)                    | 1,625.31%                    |
| Debt equity ratio          | Total liabilities/shareholders'<br>equity x 100%                                                                       | 41.49%                       | 116.47%                      |

##### **(2) Overall position of the Group's assets**

During the Year, there was a decrease in the total assets of the Group when compared with that of the Previous Year. The total assets of the Group decreased to approximately RMB615,089,000 from approximately RMB1,090,528,000 representing a decrease of approximately RMB475,439,000 or 43.60%.

## APPENDIX II      MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

| Items                                      | As at<br>31 December<br>2008<br>RMB'000 | As at<br>31 December<br>2007<br>RMB'000 | Change in<br>amounts<br>RMB'000 |
|--------------------------------------------|-----------------------------------------|-----------------------------------------|---------------------------------|
| Total assets                               | 615,089                                 | 1,090,528                               | (475,439)                       |
| Of which:                                  |                                         |                                         |                                 |
| Property and equipment                     | 19,200                                  | 146,795                                 | (127,595)                       |
| Investment properties                      | 248,342                                 | 255,390                                 | (7,048)                         |
| Prepaid lease payment on<br>land use right | –                                       | 86,752                                  | (86,752)                        |
| Available-for-sale financial<br>assets     | 20,000                                  | 20,000                                  | –                               |
| Other long term receivables                | 32,745                                  | –                                       | 32,745                          |
| Current assets                             | 294,802                                 | 581,591                                 | (286,789)                       |

### (3)      Current assets of the Group

During the Year, the current assets of the Group decreased by approximately RMB286,789,000 to RMB294,802,000 as compared with RMB581,591,000 in the Previous Year, representing a decrease of approximately 49.31%.

| Items                                     | As at<br>31 December<br>2008<br>RMB'000 | As at<br>31 December<br>2007<br>RMB'000 | Change in<br>amounts<br>RMB'000 |
|-------------------------------------------|-----------------------------------------|-----------------------------------------|---------------------------------|
| Current assets                            | 294,802                                 | 581,591                                 | (286,789)                       |
| Of which:                                 |                                         |                                         |                                 |
| Properties held for sale                  | 205,735                                 | 484,987                                 | (279,252)                       |
| Inventories                               | –                                       | 341                                     | (341)                           |
| Other receivables and<br>prepaid expenses | 82,264                                  | 37,517                                  | 44,747                          |
| Amount due from parent<br>Company         | –                                       | 54,268                                  | (54,268)                        |
| Bank balances and cash                    | 6,803                                   | 4,478                                   | 2,325                           |

**(4) Bank borrowings of the Group**

As at 31 December 2008, the Group's bank borrowings totalled RMB14,000,000 (2007: RMB62,000,000). Borrowings repayable within one year bear average interest at 6.9% per annum.

|                                                       | As at<br>31 December<br>2008<br>(RMB'000) | As at<br>31 December<br>2007<br>(RMB'000) |
|-------------------------------------------------------|-------------------------------------------|-------------------------------------------|
| Bank borrowings repayable in the<br>following periods |                                           |                                           |
| Within one year                                       | <u>14,000</u>                             | <u>62,000</u>                             |

**(5) Notes Payable**

As at 31 December 2008, the Group did not have any balance of bank acceptance.

**(6) Currency Risks**

According to the "Quotations of the Exchange Rates for Converting Renminbi to Foreign Currencies by the Head Office of Designated Banks" periodically promulgated by the State Administration of Foreign Exchange of the PRC in 2008, the exchange rates of Renminbi to US dollar and to Hong Kong dollar were stable as a whole, and the exchange rate of the Hong Kong dollar to Renminbi experienced slight fluctuations during the Year. Besides, the balance of deposit denominated in Hong Kong dollar is not substantial. Accordingly, the Company has no currency risk.

**(7) Contingent liabilities**

Save as disclosed in note 37 to the financial statements of the Company for the year ended 31 December 2008, as at the balance sheet date, the Group did not have any other contingent liabilities.

**(8) Analysis of equity and profits**

|                           | 31 December 2008   | 31 December 2007 | Change in       |
|---------------------------|--------------------|------------------|-----------------|
|                           | <i>RMB'000</i>     | <i>RMB'000</i>   | amounts         |
|                           |                    |                  | <i>RMB'000</i>  |
| Share capital             | 1,024,000          | 1,020,400        | –               |
| Share premium             | 323,258            | 323,258          | –               |
| Statutory surplus reserve | 103,231            | 103,582          | (351)           |
| Accumulated losses        | <u>(1,032,463)</u> | <u>(977,825)</u> | <u>(54,638)</u> |

**6. EMPLOYEES AND EMPLOYEES' EDUCATION LEVEL**

As at 31 December 2008, the Group had 45 employees.

During the Year, the aggregate salaries and allowances and termination compensation paid to the employees amounted to RMB4,242,000 (2007: RMB7,440,000) and RMB117,000 (2007: 245,000). The Group has not established any share option scheme for any of its senior management or employees.

*The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the independent reporting accountants, Lo and Kwong C.P.A. Company Limited, Certified Public Accountants, Hong Kong.*



Lo and Kwong C.P.A. Company Limited  
Certified Public Accountants  
1304, 13/F., Shanghai Industrial Investment Bldg.  
60 Hennessy Road, Wanchai  
Hong Kong  
Tel: (852) 2802 2187  
Fax: (852) 2824 4091

23 May 2009

The Directors  
Shenyang Public Utility Holdings Company Limited  
Jinmao International Apartment,  
14/F., Da Dong District,  
Shenyang, the PRC,  
Postal code: 110041

Dear Sirs,

We report on the unaudited pro forma financial information of Shenyang Public Utility Holdings Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the disposal of the entire equity interests in Shenyang Development Beida Education Science Park Company Limited (“Shenyang Education”) (“the Disposal”) might have affected the financial information presented, for inclusion in Appendix III to the circular dated 23 May 2009 (the “Circular”). The basis of preparation of the unaudited pro forma financial information is set on page 89 to page 96 of the Circular.

According to the Intermediate People’s of Shenyang issued a Civil Order (Execution) (2007) Shen Fa Zhi Ji No. 577 on 15 January 2008, both Shenyang Real Estate and Shanghai Hanhua agreed to settle all the debts by transferring 70% in Shenyang Education held by Shenyang Real Estate on Shanghai Hanhua at a consideration of approximately RMB5,866,000. At 18 February 2008, The Company, Shenyang Real Estate, Shenyang Pollon and Shenyang Property agreed to transfer the rights to receive their respective debt payments to the Company (the “Debt Transfer”). Per the same agreement, Shanghai Hanhua agreed to purchase and the Company agreed to dispose the remaining 30% interest in Shenyang Education held by the Company at a consideration of approximately RMB2,514,000. As a result, 100% shareholding of Shenyang Education and its subsidiaries was disposed to Shanghai Hanhua after the Disposal.

#### **Respective responsibilities of directors of the Company and Reporting Accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”)

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom these reports were addressed by us at the dates of their issue.

**Basis of opinion**

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustment and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain all the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

The financial position of the Remaining Group as at 31 December 2007 or any future date; or

The result and cash flows of the Remaining Group for the year ended 31 December 2007 or any future periods.

**Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**Lo and Kwong C.P.A. Co Ltd**  
*Certified Public Accountants*

**Lo Wah Wai**

*Practicing Certificate Number: P02693*

Hong Kong  
23 May 2009

**(A) INTRODUCTION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP**

The unaudited pro forma information of the Remaining Group has been prepared to illustrate the effect of the Disposal.

The following is the unaudited pro forma financial information of the Remaining Group as if the Disposal had taken place on 31 December 2007 for the unaudited pro forma consolidated balance sheet and on 1 January 2007 for the unaudited pro forma consolidated income statement and the unaudited pro forma consolidated cash flow statement.

The unaudited pro forma financial information of the Remaining Group should be read in conjunction with the historical financial information of the Group as set out in Appendix I to this Circular and other financial information included elsewhere in this Circular.

The accompanying unaudited pro forma financial information of the Remaining Group is based on certain assumption, estimates, uncertainties and other currency available financial information, and is provided for illustrative purpose only because of its hypothetical nature. It may not give a true picture of the actual financial position and financial results of the Remaining Group's operations that would have been attained had the Disposal actually occurred on the dates indicated herein. Further, the accompanying unaudited pro forma financial information of the Remaining Group does not purport to predict the Group's future financial position or results of operations.

## (B) PRO FORMA CONSOLIDATED BALANCE SHEET

|                                                       | The<br>Group<br>2007<br>RMB'000<br>(Note 1) | Pro forma adjustment |                     |         | Pro forma<br>Remaining<br>Group<br>RMB'000 |
|-------------------------------------------------------|---------------------------------------------|----------------------|---------------------|---------|--------------------------------------------|
|                                                       | RMB'000<br>(Note 2)                         | RMB'000<br>(Note 3)  | RMB'000<br>(Note 4) |         |                                            |
| NON CURRENT ASSETS                                    |                                             |                      |                     |         |                                            |
| Property and equipment                                | 146,795                                     | (122,598)            |                     |         | 24,197                                     |
| Investment properties                                 | 255,390                                     |                      |                     |         | 255,390                                    |
| Prepaid lease payments on<br>land use rights          | 86,752                                      | (86,752)             |                     |         | –                                          |
| Available-for-sale financial assets                   | 20,000                                      |                      |                     |         | 20,000                                     |
|                                                       | <u>508,937</u>                              |                      |                     |         | <u>299,587</u>                             |
| CURRENT ASSETS                                        |                                             |                      |                     |         |                                            |
| Properties held for sale                              | 484,987                                     |                      |                     |         | 484,987                                    |
| Inventories                                           | 341                                         | (341)                |                     |         | –                                          |
| Amount due from parent company                        | 54,268                                      |                      |                     |         | 54,268                                     |
| Prepaid lease payments on<br>land use rights          | 2,564                                       | (2,564)              |                     |         | –                                          |
| Prepayments                                           | 3,039                                       | (1,974)              |                     |         | 1,065                                      |
| Other receivables                                     | 31,914                                      | (877)                | 8,380               | 256,637 | 296,054                                    |
| Bank balances and cash                                | 4,478                                       | (45)                 |                     |         | 4,433                                      |
|                                                       | <u>581,591</u>                              |                      |                     |         | <u>840,807</u>                             |
| CURRENT LIABILITIES                                   |                                             |                      |                     |         |                                            |
| Trade payables                                        | 43,080                                      | (2,637)              |                     |         | 40,443                                     |
| Other payables and accruals                           | 412,989                                     | (37,846)             |                     |         | 375,143                                    |
| Receipts in advance                                   | 44,089                                      |                      |                     |         | 44,089                                     |
| Provision for a potential liability                   | 2,043                                       |                      |                     |         | 2,043                                      |
| Bank loans – repayable within one year                | 62,000                                      | (42,000)             |                     |         | 20,000                                     |
|                                                       | <u>564,201</u>                              |                      |                     |         | <u>481,718</u>                             |
| NET CURRENT ASSET                                     | <u>17,390</u>                               |                      |                     |         | <u>359,089</u>                             |
| TOTAL ASSETS LESS CURRENT<br>LIABILITIES              | <u>526,327</u>                              |                      |                     |         | <u>658,676</u>                             |
| CAPITAL AND RESERVES                                  |                                             |                      |                     |         |                                            |
| Share capital                                         | 1,020,400                                   |                      |                     |         | 1,020,400                                  |
| Reserves                                              | (550,985)                                   | (132,668)            | 8,380               | 256,637 | (418,636)                                  |
| Equity attributable to shareholders<br>of the Company | 469,415                                     |                      |                     |         | 601,764                                    |
| Minority interests                                    | 34,357                                      |                      |                     |         | 34,357                                     |
| TOTAL EQUITY                                          | <u>503,772</u>                              |                      |                     |         | <u>636,121</u>                             |
| NON-CURRENT LIABILITIES                               |                                             |                      |                     |         |                                            |
| Deferred taxation                                     | 22,555                                      |                      |                     |         | 22,555                                     |
| TOTAL EQUITY AND NON-CURRENT<br>LIABILITIES           | <u>526,327</u>                              |                      |                     |         | <u>658,676</u>                             |

*Notes:*

1. The consolidated balance sheet been extracted from the Accountants' Report of Shenyang Public Utility Holdings Company Limited as at 31 December 2007 as set out in Appendix I to this circular.
2. The amounts are extracted from financial information of Shenyang Education and its subsidiaries as at 31 December 2007.
3. The amount represents total amount to be received from Shanghai Hanhua for the Disposal. The amount represents: sales proceeds of disposal of 70% and 30% shareholding of Shenyang Education approximately RMB5,866,000 and RMB2,514,008 respectively.
4. Proceeds from Shanghai Hanhua concerning the Debt Transfer.

## (C) PRO FORMA CONSOLIDATED INCOME STATEMENT

|                                                               | The<br>Group<br>2007<br>RMB'000<br>(Note 1) | Pro forma adjustment |                     |                     |  | Pro forma<br>Remaining<br>Group<br>RMB'000 |
|---------------------------------------------------------------|---------------------------------------------|----------------------|---------------------|---------------------|--|--------------------------------------------|
|                                                               |                                             | RMB'000<br>(Note 2)  | RMB'000<br>(Note 3) | RMB'000<br>(Note 4) |  |                                            |
| Turnover                                                      | 7,116                                       |                      |                     |                     |  | 7,116                                      |
| Bank interests received                                       | 21                                          |                      |                     |                     |  | 21                                         |
| Other income                                                  | 555                                         |                      |                     |                     |  | 555                                        |
| Cost of properties sold                                       | (3,889)                                     |                      |                     |                     |  | (3,889)                                    |
| Taxes on sales of properties                                  | (436)                                       |                      |                     |                     |  | (436)                                      |
| Staff costs                                                   | (5,545)                                     |                      |                     |                     |  | (5,545)                                    |
| Depreciation and amortisation                                 | (19,083)                                    |                      |                     |                     |  | (19,083)                                   |
| Allowance for bad and doubtful debt                           | (94)                                        |                      |                     |                     |  | (94)                                       |
| Gain on disposal of subsidiaries                              | –                                           | (132,668)            | 8,380               | 256,637             |  | 132,349                                    |
| Other operating expenses                                      | (10,238)                                    |                      |                     |                     |  | (10,238)                                   |
| Finance costs                                                 | (23,577)                                    |                      |                     |                     |  | (23,577)                                   |
| (Loss) profit before taxation                                 | (55,170)                                    |                      |                     |                     |  | 77,179                                     |
| Taxation                                                      | 613                                         |                      |                     |                     |  | 613                                        |
| (Loss) profit for the year on continuous operations           | (54,557)                                    |                      |                     |                     |  | 77,792                                     |
| <b>Discontinued operations</b>                                |                                             |                      |                     |                     |  |                                            |
| Profit for the year on discontinued operation                 | 166,876                                     |                      |                     |                     |  | 166,876                                    |
| Profit for the year on continuous and discontinued operations | 112,319                                     |                      |                     |                     |  | 244,668                                    |
| Attributable to:                                              |                                             |                      |                     |                     |  |                                            |
| Shareholders of the Company                                   | 115,657                                     | (132,668)            | 8,380               | 256,637             |  | 248,006                                    |
| Minority interests                                            | (3,338)                                     |                      |                     |                     |  | (3,338)                                    |
|                                                               | 112,319                                     |                      |                     |                     |  | 244,668                                    |

## Notes:

1. The consolidated balance sheet been extracted from the Accountants' Report of Shenyang Public Utility Holdings Company Limited as at 31 December 2007 as set out in Appendix I to this circular.
2. The amounts are extracted from financial information of Shenyang Education and its subsidiaries as at 31 December 2007.
3. The amount represents total amount to be received from Shanghai Hanhua for the Disposal. The amount represents: sales proceeds of disposal of 70% and 30% shareholding of Shenyang Education approximately RMB5,866,000 and RMB2,514,000 respectively.
4. Proceeds from Shanghai Hanhua concerning the Debt Transfer.

## (D) PRO FORMA CONSOLIDATED CASH FLOW STATEMENT

|                                                           | The<br>Group<br>2007<br>RMB'000<br>(Note 1) | Pro forma adjustment |                     |                     |  | Pro forma<br>Remaining<br>Group<br>RMB'000 |
|-----------------------------------------------------------|---------------------------------------------|----------------------|---------------------|---------------------|--|--------------------------------------------|
|                                                           |                                             | RMB'000<br>(Note 2)  | RMB'000<br>(Note 3) | RMB'000<br>(Note 4) |  |                                            |
| OPERATING ACTIVITIES                                      |                                             |                      |                     |                     |  |                                            |
| Loss before taxation of continuous operations             | (55,170)                                    | (117,608)            | 8,380               | 256,637             |  | 92,239                                     |
| Profit (loss) before taxation of discontinued operations  | 167,971                                     |                      |                     |                     |  | 167,971                                    |
|                                                           | 112,801                                     |                      |                     |                     |  | 260,210                                    |
| Adjustments for:                                          |                                             |                      |                     |                     |  |                                            |
| Bank interest received                                    | (21)                                        |                      |                     |                     |  | (21)                                       |
| Depreciation on property and equipment                    | 8,307                                       | (6,936)              |                     |                     |  | 1,371                                      |
| Depreciation on investment properties                     | 10,293                                      |                      |                     |                     |  | 10,293                                     |
| Amortisation of prepaid lease payments on land use rights | 2,564                                       | (2,564)              |                     |                     |  | –                                          |
| Gain on disposal of subsidiaries                          |                                             |                      |                     |                     |  | –                                          |
| Finance costs                                             | 23,577                                      | (3,178)              |                     |                     |  | 20,399                                     |
| Profit on disposal of subsidiaries                        | (198,436)                                   | 132,668              | (8,380)             | (256,637)           |  | (330,785)                                  |
| Operating cash flows before movements in working capital  | (40,915)                                    |                      |                     |                     |  | (38,533)                                   |
| Decrease (increase) in properties held for sale           | 10,728                                      |                      |                     |                     |  | 10,728                                     |
| Decrease (increase) in inventories                        | 128                                         | (9)                  |                     |                     |  | 119                                        |
| Decrease (increase) in trade receivables                  | 1,192                                       |                      |                     |                     |  | 1,192                                      |
| Decrease (increase) in prepayments                        | (521)                                       |                      |                     |                     |  | (521)                                      |
| Decrease in trade payable                                 | (11,932)                                    | (1,410)              |                     |                     |  | (13,342)                                   |
| Increase in other payables and accrued charges            | 55,539                                      | (9,241)              |                     |                     |  | 46,298                                     |
| Decrease in provision for a potential liability           | (16,459)                                    |                      |                     |                     |  | (16,459)                                   |
| Decrease in receipts in advance                           | (19,525)                                    |                      |                     |                     |  | (19,525)                                   |
| Increase in deferred income                               | 50,434                                      |                      |                     |                     |  | 50,434                                     |
| Cash generated from (used in) operations                  | 28,669                                      |                      |                     |                     |  | 20,391                                     |
| PRC Enterprise Income Tax – (paid) returned               | (130)                                       |                      |                     |                     |  | (130)                                      |
| NET CASH (USED IN) FROM OPERATING ACTIVITIES              | 28,539                                      |                      |                     |                     |  | 20,261                                     |

**APPENDIX III**
**UNAUDITED PRO FORMA FINANCIAL INFORMATION  
OF THE REMAINING GROUP**

|                                                          | <b>The<br/>Group<br/>2007</b> | <b>Pro forma adjustment</b> |                 |                 |                | <b>Pro forma<br/>Remaining<br/>Group</b> |
|----------------------------------------------------------|-------------------------------|-----------------------------|-----------------|-----------------|----------------|------------------------------------------|
|                                                          | <i>RMB'000</i>                | <i>RMB'000</i>              | <i>RMB'000</i>  | <i>RMB'000</i>  | <i>RMB'000</i> | <i>RMB'000</i>                           |
|                                                          | <i>(Note 1)</i>               | <i>(Note 2)</i>             | <i>(Note 3)</i> | <i>(Note 4)</i> |                |                                          |
| INVESTING ACTIVITIES                                     |                               |                             |                 |                 |                |                                          |
| Bank interest received                                   | 21                            |                             |                 |                 |                | 21                                       |
| Disposal of subsidiaries (Net cash and cash equivalents) | (6,490)                       |                             |                 |                 |                | (6,490)                                  |
| Purchase of property and equipment                       | (7,730)                       | 2,336                       |                 |                 |                | (5,394)                                  |
| Purchase of investment properties                        | (107)                         |                             |                 |                 |                | (107)                                    |
| Decrease in amount due from parent company               | 1,028                         |                             |                 |                 |                | 1,028                                    |
| (Increase) decrease in other receivables                 | 149,393                       | (105)                       |                 |                 |                | 149,288                                  |
|                                                          | <u>136,115</u>                |                             |                 |                 |                | <u>138,346</u>                           |
| NET CASH (USED IN) FROM INVESTING ACTIVITIES             |                               |                             |                 |                 |                |                                          |
| FINANCING ACTIVITIES                                     |                               |                             |                 |                 |                |                                          |
| Repayment of bank loans borrowed                         | (118,554)                     | 3,000                       |                 |                 |                | (115,554)                                |
| Interests payment                                        | (23,577)                      | 3,178                       |                 |                 |                | (20,399)                                 |
| Decrease in other payables                               | (27,489)                      |                             |                 |                 |                | (27,489)                                 |
|                                                          | <u>(169,620)</u>              |                             |                 |                 |                | <u>(163,442)</u>                         |
| NET CASH USED IN FINANCING ACTIVITIES                    |                               |                             |                 |                 |                |                                          |
| NET INCREASE (DECREASE) IN CASH AND CASH                 | (4,966)                       | 131                         |                 |                 |                | (4,835)                                  |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING               | 9,444                         | (176)                       |                 |                 |                | 9,268                                    |
|                                                          | <u>4,478</u>                  |                             |                 |                 |                | <u>4,433</u>                             |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR         |                               |                             |                 |                 |                |                                          |

*Set out below is the text of the letter received from Malcolm & Associates Appraisal Limited, an independent valuer, prepared for the purpose of incorporation in this circular, in connection with its valuation of the market value as at 31 December 2007 of the 30% equity interest in Shenyang Development Beida Education Science Park Company Limited.*



**MALCOLM & ASSOCIATES APPRAISAL LTD**  
**建盟顧問有限公司**

Suite 1203, 12/F, Shanghai Industrial Investment Bldg.,  
60 Hennessy Rd., Wanchai, Hong Kong  
香港灣仔軒尼詩道60號上海實業大廈12字樓1203室  
Tel 電話 : (852) 2294 0303 Fax 傳真 : (852) 2294 0063  
Email 電郵 : info@malcolmappraisal.com.hk  
Website 網址 : www.malcolmappraisal.com.hk

23 May 2009

The Directors

**Shenyang Public Utility Holdings Company Limited (the “Company”)**

14/F, Jin Mao International Apartment,

No.1 Xiao Dong Road,

Dadong District,

Shenyang, Liaoning Province

The People’s Republic of China

Dear Sirs,

**INSTRUCTIONS**

We refer to your instructions for us to provide our opinion on the market value of the 30% equity interest in Shenyang Development Beida Education Science Park Company Limited (referred to as “Shenyang Education”) as at 31 December 2007.

This report describes the background of Shenyang Education, a brief industry overview and the basis of valuation & assumptions. It also explains the valuation methodology utilized and presents our conclusion of value.

**BASIS OF VALUATION**

Our valuation has been carried out on the basis of market value. Market value is defined as “the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

**BACKGROUND OF SHENYANG EDUCATION**

Shenyang Education, an education investor, is a limited liability company with a registered capital of RMB50,000,000 incorporated at Shenyang Economic and Technological Development Zone, Shenyang, the People's Republic of China (the "PRC") in September 2002 mainly for real estate development business and real estate sales. At present, an education park occupied by Shenyang Education is located at the above zone with an area of around 133,306 square meters with large-scale integrated communities such as halls of residence, training centre, arts centre and sports centre. All the educational resources in the zone are shared by all the primary and secondary schools which rent the space from Shenyang Education. Shenyang Education adheres to the "high quality and efficiency, credibility first" business purposes in the spirit of "people-oriented" business philosophy with the implementation of scientific and standardized management.

**BRIEF INDUSTRY OVERVIEW**

Basic education in the PRC was extremely backward before the foundation of the PRC in 1949. During the past 50 years since the establishment of the PRC, basic education, however, has gained tremendous improvements. Since the promulgation of the "Compulsory Education Law of the PRC" in 1986, the 9-year compulsory education has been implemented by governments at various levels and made significant progress. According to the statistics of 2007, the net enrollment rate of primary school age children attained 99.5%. There were altogether 320,061 primary schools with an enrollment of around 105,640,000 students. 99.9% of the graduates enjoyed the access to junior secondary schools and the full-time teachers in primary schools had reached 5,613,000. In addition, there were 59,109 junior secondary schools with an enrollment of 57,209,000 students. Those schools employed totally 3,464,000 full-time teachers and 79.3% of the junior secondary school graduates continue their study in senior secondary schools, about 20% higher than the figure in 2002.

According to the Tenth Five-year Plan, some targets have been set to meet by 2010. Those related to pre-school, primary and secondary education include: pre-school education to be improved to meet social demand, conditions for running schools and the teaching level to be significantly enhanced, more people will receive nine-year national compulsory education, the gross enrollment rate of junior middle schools will exceed 95%, the gross enrollment rate of senior middle schools will be augmented and high school education will be popularized in cities and the developed areas.

Shenyang is a traditional educational city and the education is fully developed and supported with construction of new schools in rural areas, renovation of special education schools, building of vocational schools and full exemption of tuition fees of students in 2008. Since the opening and reform, Shenyang has been carrying out the strategy of "Prospering Shenyang through Science and Technology" keeping public-run education and civilian-run education co-existing with pre-school education, basic education, vocational education, higher education and after-work education developing harmonically. By the end of 2008, the net enrollment rate of primary school age children

attained as high as 100% and all graduated successfully. There are 566 primary schools with an enrollment of about 364,000 students. 99.98% of the junior secondary graduated and the gross enrollment rate of high education was 89%. From these figures, it is evident that the prospect of education industry is good in Shenyang City.

## **SOURCE OF INFORMATION**

For the purpose of our valuation, we have been furnished with the financial and operational data related to Shenyang Education, which were given by the senior management of the Company.

The valuation of Shenyang Education required consideration of all pertinent factors affecting the economic benefits of Shenyang Education and its abilities to generate future investment returns. The factors considered in the valuation included, but were not limited to, the following:

- The business nature of Shenyang Education;
- The financial and operational information of Shenyang Education; and
- The specific economic environment and competition for the market in which Shenyang Education is exposed to.

## **SCOPE OF WORKS**

In the course of our valuation work for Shenyang Education, we have conducted the following steps to evaluate the reasonableness of the adopted bases and assumptions provided by the senior management of the Company:

- Obtained all relevant financial and operational information of Shenyang Education;
- Performed market research and obtained statistical figures from public sources;
- Examined all relevant bases and assumptions of both the financial and operational information of Shenyang Education, which were provided by the senior management of the Company;
- Prepared a business financial model to derive the indicated value of Shenyang Education; and
- Presented all relevant information on the background of Shenyang Education, valuation methodology, source of information, scope of works, major assumptions, comments and our conclusion of value in this report.

## VALUATION ASSUMPTIONS

Given the changing environment in which Shenyang Education is exposed to, a number of assumptions have had to be established in order to sufficiently support our concluded opinion of value of Shenyang Education. The major assumptions adopted in our valuation were:

- There will be no major changes in the existing political, legal, and economic conditions in the jurisdiction where Shenyang Education is currently or will be exposed to, which will materially affect the revenues attributable to Shenyang Education;
- There will be no major changes in the current taxation law in the jurisdiction related to Shenyang Education, that the rates of tax payable remain unchanged and that all applicable laws and regulations will be complied with;
- The financial information in respect of Shenyang Education has been prepared on a reasonable basis, reflecting estimates that have been arrived at after due and careful considerations by the senior management of the Company;
- Economic conditions will not deviate significantly from economic forecasts; and
- Exchange rates and interest rates will not differ materially from those presently prevailing.

## VALUATION METHODOLOGY

Three generally accepted valuation methodologies have been considered in valuing Shenyang Education. They are the *market approach*, the *cost approach* and the *income approach*.

The *market approach* provides indications of value by comparing the subject to similar businesses, business ownership interests, and securities that have been sold in the market.

The *cost approach* provides indications of value by studying the amounts required to recreate the business for which a value conclusion is desired. This approach seeks to measure the economic benefits of ownership by quantifying the amount of fund that would be required to replace the future service capability of the business.

The *income approach* is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits from the same or a substantially similar business with a similar risk profile.

We have considered that the *income approach* is not appropriate to value Shenyang Education, as there are insufficient forecasted financial data of Shenyang Education. The *cost approach* is also regarded inadequate in our valuation, as this approach does not take future growth potential of Shenyang Education into consideration. Thus, we have determined that the *market approach* is the most appropriate valuation approach for our valuation.

Details of the market values of the assets and liabilities of Shenyang Education are as follows:

**Market Values of the Assets & Liabilities of  
Shenyang Education as at 31 December 2007:**

|                                           | <b>Market Value</b><br>(RMB) |
|-------------------------------------------|------------------------------|
| <b>Non-Current Assets:</b>                |                              |
| Property and equipment                    | 165,000,000.00               |
| Prepaid lease payments on land use rights | 86,752,239.33                |
| Investment in associates                  | 18,256,407.66                |
|                                           | <hr/>                        |
| Total Non-Current Assets:                 | 270,008,646.99               |
| <b>Current Assets:</b>                    |                              |
| Inventories                               | 341,526.00                   |
| Amount due from/(to) fellow subsidiary    | (67,549,641.12)              |
| Prepaid lease payments on land use rights | 2,564,000.00                 |
| Prepayments                               | 1,974,358.00                 |
| Other receivables                         | 845,589.36                   |
| Bank balances and cash                    | 45,102.52                    |
| Amount due from/(to) parent company       | (192,319,565.43)             |
|                                           | <hr/>                        |
| Total Current Assets:                     | (254,098,630.67)             |
| <b>Total Assets:</b>                      | <b>15,910,016.32</b>         |
|                                           | <hr/> <hr/>                  |
| <b>Current Liabilities:</b>               |                              |
| Accounts payables                         | 2,636,934.42                 |
| Other payables and accrued charges        | 61,252,377.12                |
| Receipts in advance                       | (31,260.03)                  |
| Bank loans – repayable within one year    | 42,000,000.00                |
|                                           | <hr/>                        |
| Total Current Liabilities:                | 105,858,051.51               |
| <b>Non-Current Liabilities:</b>           | <hr/> 0                      |
|                                           | 0                            |
| <b>Total Liabilities:</b>                 | <b>105,858,051.51</b>        |
| <b>Net Assets Value (N.A.V.)</b>          | <b>(89,948,035.19)</b>       |
|                                           | <hr/> <hr/>                  |

The 30% equity interest in Shenyang Education is:

$$(RMB89,948,035.19) \times 30\% = (RMB26,984,410.56)$$

**VALUATION COMMENTS**

For the purpose of this valuation and in arriving at our opinion of value, we have referred to the information provided by the senior management of the Company to estimate the value of Shenyang Education. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied.

To the best of our knowledge, all data set forth in this report are true and accurate. Although gathered from reliable sources, no guarantee is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others, which have been used in formulating this analysis.

**REMARKS**

Unless otherwise stated, all money amounts stated are in Renminbi (RMB).

**CONCLUSION OF VALUE**

Our conclusion of value is based on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of a lot of uncertainties, not all of which can be easily ascertained or quantified.

Further, whilst the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, Shenyang Education or us.

Based on our investigation and analysis outlined in this report, the market value of the 30% equity interest in Shenyang Education as at 31 December 2007 was approximately (RMB27,000,000) (RENMINBI NEGATIVE TWENTY SEVEN MILLION ONLY). It is our opinion that the equity interest in question has no commercial value.

We hereby certify that we have neither present nor prospective interest in the Company, Shenyang Education or the value reported.

Yours faithfully,

For and on behalf of

**Malcolm & Associates Appraisal Limited**

**Li Wing Kang**

*BSc.(Est Man), MRICS, MHKIS, RPS(GP)*

*Associate Director*

*Note:* Mr. Li Wing Kang, MHKIS, MRICS, RPS(GP), is a qualified valuer and in the List of Registered Business Valuers of the Hong Kong Business Valuation Forum. He has over 5 years' experience in valuing similar assets or companies engaged in similar business activities as that of Shenyang Education worldwide.

*Set out below is the text of the letter, a summary of value and a valuation certificate received from Malcolm & Associates Appraisal Limited, an independent property valuer, prepared for the purpose of incorporation in this circular, in connected with its valuation as at 31 December 2007 of the property located in the PRC.*



**MALCOLM & ASSOCIATES APPRAISAL LTD**  
**建盟顧問有限公司**

Suite 1203, 12/F, Shanghai Industrial Investment Bldg.,  
60 Hennessy Rd., Wanchai, Hong Kong  
香港灣仔軒尼詩道60號上海實業大廈12字樓1203室  
Tel 電話 : (852) 2294 0303 Fax 傳真 : (852) 2294 0063  
Email 電郵 : info@malcolmappraisal.com.hk  
Website 網址 : www.malcolmappraisal.com.hk

23 May 2009

The Directors

**Shenyang Public Utility Holdings Company Limited (the “Company”)**

14/F, Jin Mao International Apartment,

No.1 Xiao Dong Road,

Dadong District,

Shenyang, Liaoning Province

The People’s Republic of China

Dear Sirs,

**Re: An education park located at Zhong Yang Da Jie 20 Jia No.1-4, Economic Technology Development District, Shenyang City, Liaoning Province, the People’s Republic of China (the “PRC”) (the “Property”)**

**1. INSTRUCTIONS**

In accordance with your instructions for us to value the property held by Shenyang Development Beida Education Science Park Company Limited (“Shenyang Education”) located in the PRC, we confirm that we have performed an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the Property as at 31 December 2007 (the “date of valuation”).

**2. BASIS OF VALUATION**

Our valuation of the Property is our opinion of the Market Value which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

### 3. VALUATION METHODOLOGY

In valuing the Property, we have adopted the Depreciated Replacement Cost Approach. This approach requires an estimate of the market value of the land parcel in the existing state by the comparison approach and an estimate of the new replacement cost of the buildings and other site works, from which deductions are then made to allow for the age, condition, economic or functional obsolescence and environmental factors etc; all of these might result in the existing property being worth less than a new replacement. This basis has been used due to the lack of an established market upon which to base comparable transactions. However, this approach generally furnishes the most reliable indication of value for assets without a known used market.

### 4. TITLE INVESTIGATION

We have been provided with extracts of title documents relating to the Property. We have not, however, searched the original documents to verify ownership or to ascertain any amendments, which do not appear on the copies handed to us. Therefore, in the course of our valuation, we have relied on the advice and information given by the Company and its PRC legal adviser, Kai Wen Law Firm (凱文律師事務所) regarding the title of the property. All documents have been used for reference only.

In valuing the Property, we have relied on the advice given by the Company and its PRC legal adviser that Shenyang Education has valid and enforceable title to the property which is freely transferable, and has free and uninterrupted rights to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

### 5. VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the Property is sold in the open market without the benefit of deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to affect the value of the Property.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting the sale of the Property and no forced sale situation in any manner is assumed in our valuation.

### 6. VALUATION CONSIDERATIONS

We have inspected the exterior and wherever possible, the interior of the Property. However, no structural survey has been made nor have any tests been carried out on any of the services provided in the Property. In the course of our inspection, we did not note any serious defects. We are not, therefore, able to report that the Property is free from rot, infestation or any other structural defects.

In the course of our valuation, we have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company in such matters as approvals or statutory notices, easements, tenure, particulars of occupancy, site/floor areas, identification of the Property and other relevant information.

Except otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Company and are therefore approximations.

Unless otherwise stated, we have not able to carry out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the Property but have assumed that the site/floor areas shown on the documents handed to us are correct.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company and the Company has also advised us that no material facts have been omitted from the information so supplied. We consider that we have been provided with sufficient information for us to reach an informed view.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the Property nor for any expenses or taxation, which may be incurred in effecting a sale or purchase.

Unless otherwise stated, it is assumed that the Property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

Our valuation is prepared in accordance with the “First Edition of The HKIS Valuation Standards on Properties” published by The Hong Kong Institute of Surveyors and in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## 7. REMARKS

We hereby certify that we neither have any present nor any prospective interest in the Company or the appraised property or the value reported.

Unless otherwise stated, all monetary amounts stated are in Renminbi (RMB) and no allowances have been made for any exchange transfer.

Our summary of value and the valuation certificate are attached herewith.

Yours faithfully,  
For and on behalf of  
**Malcolm & Associates Appraisal Limited**  
**Li Wing Kang**  
*BSc.(Est Man), MRICS, MHKIS, RPS(GP)*  
*Associate Director*

*Note:* Mr. Li Wing Kang, MHKIS, MRICS, RPS(GP), is a qualified valuer and has over 27 years’ experience in valuations of properties in Hong Kong and over 11 years’ experience in valuations of properties in the People’s Republic of China.

## SUMMARY OF VALUE

| Property                                                                                                                                                      | Market Value<br>in existing state<br>as at 31 December 2007<br>RMB |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------|
| An education park located at<br>Zhong Yang Da Jie 20 Jia Nos. 1-4,<br>Economic Technology Development District,<br>Shenyang,<br>Liaoning Province,<br>The PRC | 165,000,000                                                        |
| Total:                                                                                                                                                        | <hr/> 165,000,000 <hr/>                                            |

VALUATION CERTIFICATE

| Property                                                                                                                                       | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Particulars of occupancy | Market Value<br>in existing state<br>as at 31 December 2007<br>RMB |                               |        |                   |        |                 |        |             |        |               |       |        |                |                                                                           |             |
|------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------------------------------------------------|-------------------------------|--------|-------------------|--------|-----------------|--------|-------------|--------|---------------|-------|--------|----------------|---------------------------------------------------------------------------|-------------|
| An education park located at Zhong Yang Da Jie 20 Jia Nos. 1-4, Economic Technology Development District, Shenyang, Liaoning Province, The PRC | <p>As per information provided by the Group, the property comprises a parcel of land with a site area of approximately 133,306.47 sq.m. upon which various buildings and structures with a total gross floor area (the “GFA”) of approximately 101,041 sq.m. completed in about 2005, were erected.</p> <p>The major buildings include halls of residence, training centre, arts centre and sports centre. The details of the GFA are as follows:</p> <table><tr><th>Use</th><th>GFA<br/>(sq.m.)</th></tr><tr><td>Nos.1 and 2 Student Dormitory</td><td>34,168</td></tr><tr><td>Teacher Dormitory</td><td>10,706</td></tr><tr><td>Teaching Centre</td><td>32,967</td></tr><tr><td>Arts Centre</td><td>17,200</td></tr><tr><td>Sports Centre</td><td>6,000</td></tr><tr><td>Total:</td><td><u>101,041</u></td></tr></table> <p>The land use rights of the property have been granted for a term expiring on 3 November 2042 for commercial and service purposes.</p> | Use                      | GFA<br>(sq.m.)                                                     | Nos.1 and 2 Student Dormitory | 34,168 | Teacher Dormitory | 10,706 | Teaching Centre | 32,967 | Arts Centre | 17,200 | Sports Centre | 6,000 | Total: | <u>101,041</u> | The property was occupied by the Shenyang Education as an education park. | 165,000,000 |
| Use                                                                                                                                            | GFA<br>(sq.m.)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                          |                                                                    |                               |        |                   |        |                 |        |             |        |               |       |        |                |                                                                           |             |
| Nos.1 and 2 Student Dormitory                                                                                                                  | 34,168                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                          |                                                                    |                               |        |                   |        |                 |        |             |        |               |       |        |                |                                                                           |             |
| Teacher Dormitory                                                                                                                              | 10,706                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                          |                                                                    |                               |        |                   |        |                 |        |             |        |               |       |        |                |                                                                           |             |
| Teaching Centre                                                                                                                                | 32,967                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                          |                                                                    |                               |        |                   |        |                 |        |             |        |               |       |        |                |                                                                           |             |
| Arts Centre                                                                                                                                    | 17,200                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                          |                                                                    |                               |        |                   |        |                 |        |             |        |               |       |        |                |                                                                           |             |
| Sports Centre                                                                                                                                  | 6,000                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                          |                                                                    |                               |        |                   |        |                 |        |             |        |               |       |        |                |                                                                           |             |
| Total:                                                                                                                                         | <u>101,041</u>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                          |                                                                    |                               |        |                   |        |                 |        |             |        |               |       |        |                |                                                                           |             |

Notes:

- Pursuant to a State-owned Land Use Rights Certificate (國有土地使用權証), Shen Kai Guo Yong (2004) Zi Di No. 0000094 (瀋開國用(2004)字第0000094號), dated 23 August 2004, the land use rights of the property with a total site area of 133,306.47 sq.m. have been granted to Shenyang Education for a term expiring on 3 November 2042 for commercial and service uses.
- Pursuant to a Construction Project Planning Permit Notice (建設工程規劃許可通知書), Shen Kai Gui Jian Zheng Fu Zi No. (2003) 050 (瀋開規見證附字(2003) 050號) dated 31 July 2003, Shenyang Education was permitted to develop the superstructure construction of the property with a total GFA of approximately 100,318 sq.m.

3. The status of title and grant of major approvals and licenses in accordance with the information provided by the Group is as follows:
 

|                                             |     |
|---------------------------------------------|-----|
| State-owned Land Use Rights Certificate     | Yes |
| Construction Project Planning Permit Notice | Yes |
4. The opinion of the PRC legal adviser to the Group dated 15 May 2009 contains, inter-alia, the following:
  - a. According to the Land Use Rights Grant Contract (國有土地使用權出讓合同), Shen Jing Tu Chu He Zi (2002) Di No.41 (瀋經土出合字(2002)第41號), entered into between Shenyang Planning and Land Resources Bureau Economic and Technology Development Division (瀋陽市規劃和國土資源局經濟技術開發分局) (“Shenyang Land Resources Bureau”) and Shenyang Education, Shenyang Land Resources Bureau granted two parcels of land located at the South of No. 10 Road of Shenyang Economic Technology Development District to Shenyang Education with site area 483,522.77 sq.m. in a consideration of RMB72,528,415.5. Shenyang Education has settled the aforesaid premium in full;
  - b. Shenyang Education has not obtained the Building Ownership Certificate(s) for the Property. Upon obtaining the Construction Project Planning Certificate, Construction Commencement Permit and Construction Completion Certificate and the approval from the relevant building management authority, there exists no legal impediment for Shenyang Education to obtain the Building Ownership Certificate(s).
  - c. Approvals have been obtained from the relevant local government authority regarding the land use planning and construction project planning of Teaching Centre, Arts Centre, Teacher Dormitory, Nos 1 and 2 Student Dormitory and Sports Centre of the property.
  - d. The property can be leased and freely disposed of in the open market upon obtaining the Building Ownerships Certificate(s).
5. We have prepared our valuations based on the following assumptions:
  - a. Shenyang Education is in possession of a proper legal title to the property and is entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;
  - b. The property was free from any material encumbrances as at the date of valuation;
  - c. The property was not transferred, mortgaged or involved in any dispute as at the date of valuation.
6. Shenyang Education was a wholly-owned subsidiary of the Company as at the date of valuation.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests of Directors, supervisors and chief executives of the Company

As at the Latest Practicable Date, none of the Directors, supervisors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any of such Directors, supervisors or chief executives was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

### (b) Substantial shareholders

As at the Latest Practicable Date, so far as was known to the Directors, the persons (other than a Director, supervisor or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

| Name of<br>substantial<br>Shareholder | Nature of<br>interests | Number of<br>shares of<br>the Company<br>held                   | Approximate<br>percentage of the<br>issued share<br>capital of the<br>Company |
|---------------------------------------|------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------------------|
| Beijing Mingde Guangye                | Beneficial owner       | 600,000,000<br>Domestic shares<br>(unlisted shares)<br>(Note 1) | 58.80%                                                                        |

| Name of substantial Shareholder | Nature of interests                | Number of shares of the Company held                   | Approximate percentage of the issued share capital of the Company |
|---------------------------------|------------------------------------|--------------------------------------------------------|-------------------------------------------------------------------|
| 北京明裕德商貿有限公司<br>(Note 2)         | Interest in controlled corporation | 600,000,000<br>Domestic shares                         | 58.80%                                                            |
| 李鵬 (Note 3)                     | Interest in controlled corporation | 600,000,000<br>Domestic shares                         | 58.80%                                                            |
| 申雲燮 (Note 4)                    | Interest in controlled corporation | 600,000,000<br>Domestic shares                         | 58.80%                                                            |
| HKSCC Nominees Limited (Note 5) | Nominee                            | 418,749,990<br>H shares<br>(listed shares)<br>(Note 6) | 41.04%                                                            |

## Notes:

1. “Domestic Shares” are ordinary Shares which are subscribed for or credited as fully paid up in RMB.
2. 北京明裕德商貿有限公司 is a limited company established in the PRC. It holds 90% equity interest in Beijing Mingde Guangye. Pursuant to section 316 of the SFO, 北京明裕德商貿有限公司 is regarded as holding interests in the shares of the Company held by Beijing Mingde Guangye.
3. 李鵬 is a PRC legal person who holds 10% equity interest in Beijing Mingde Guangye and 60% equity interest in 北京明裕德商貿有限公司, which holds 90% equity interest in Beijing Mingde Guangye. Pursuant to section 316 of the SFO, 李鵬 is regarded as holding interests in the shares of the Company held by Beijing Mingde Guangye.
4. 申雲燮 is a PRC legal person who holds 40% equity interest in 北京明裕德商貿有限公司, which holds 90% equity interest in Beijing Mingde Guangye. Pursuant to section 316 of the SFO, 申雲燮 is regarded as holding interests in the shares of the Company held by Beijing Mingde Guangye.

5. As notified by HKSCC Nominees Limited, as at the Latest Practicable Date, the following participants in the central clearance system had interests amounting to 5% or more of the total issued H shares of the Company as shown in the securities accounts in the central clearance system:
- (i) Tai Fook Securities Company Limited as nominee holds 103,964,000 H shares of the Company, representing approximately 24.73% of the issued H shares of the Company, of which Sino-French Water Development (Liaoning) Company Limited beneficially owned 88,146,000 H shares of the Company, representing approximately 20.97% of the issued H shares of the Company.
  - (ii) The Hongkong and Shanghai Banking Corporation Limited as nominee holds 50,955,000 H shares of the Company, representing approximately 12.12% of the issued H shares of the Company.
  - (iii) Shenyin Wanguo Securities (H.K.) Limited as nominee holds 28,346,000 H shares of the Company, representing approximately 6.74% of the issued H shares of the Company.
6. "H shares" are overseas listed foreign shares of the Company, which are listed on the Stock Exchange and subscribed for and traded in HK\$.

Save as disclosed above, as at the Latest Practicable Date, so far as was known to the Directors, no person (other than a Director, supervisor or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

### 3. DIRECTORS' INTERESTS IN ASSETS, CONTRACT OR ARRANGEMENT

As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interests in any assets which have since 31 December 2008 (being the date to which the latest published audited accounts of the Company were made up) been acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2008, being the date to which the latest audited consolidated financial statements of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2008, being the date to which the latest audited consolidated financial statements of the Company have been made up). As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2008, being the date to which the latest audited consolidated financial statements of the Company have been made up).

#### 4. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group, excluding contracts expiring or determinable by the Group within a year without payment of any compensation (other than statutory compensation).

#### 5. DIRECTORS' INTERESTS IN COMPETING BUSINESS

To the best knowledge of the Directors, none of the Directors or their respective associates (within the meaning of the Listing Rules) had any interests in any business which competed or might compete with the business of the Group as at the Latest Practicable Date.

#### 6. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2008, being the date to which the latest audited consolidated financial statements of the Company have been made up) within the two years immediately preceding the Latest Practicable Date:

- (a) The Debt Transfer and Share Subscriptions Agreement;
- (b) The Equity Interest Transfer Agreement;
- (c) The Share Settlement Agreement; and
- (d) The settlement agreement entered into between the Company and Liaoning Hua Jin Hua Gong Group Company Limited ("**Hua Jin**"), Shenyang Pollon Finance Building Management Company Limited ("**Shenyang Pollon**"), Beijing Beida Jade Bird Company Limited and Shenyang Utility Group Company Limited on 20 June 2008, pursuant to which (a) RMB24,300,000 worth of 69 residential units of Cosmo International Mansion owned by Shenyang Pollon were sequestrated to settle Hua Jin's claim; and (b) the assistance provided by Shenyang Pollon would be eliminated as the Company held 99.99% interest in Shenyang Pollon.

#### 7. LITIGATION

As at the Latest Practicable Date, so far as the Directors were aware, neither the Company nor any member of the Group was engaged in any litigation or claims of material importance which were known to the Directors to be pending or threatened against any member of the Group.

**8. QUALIFICATION AND CONSENT OF EXPERTS**

The following are the qualifications of the experts who have given opinion or advice which is contained in this circular:

| <b>Name</b>                               | <b>Qualification</b>         |
|-------------------------------------------|------------------------------|
| Malcolm & Associates<br>Appraisal Limited | Chartered Surveyors          |
| Lo and Kwong C.P.A.<br>Company Limited    | Certified Public Accountants |

Each of Malcolm & Associates Appraisal Limited and Lo and Kwong C.P.A. Company Limited has given and has not withdrawn its written consent to the issue of this circular with its opinion included in the form and context in which it is included and the references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Malcolm & Associates Appraisal Limited or Lo and Kwong C.P.A. Company Limited had any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did they have any direct or indirect interest in any assets which had been, since 31 December 2008, being the date of the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2008, being the date to which the latest audited consolidated financial statements of the Company have been made up), or were proposed to be acquired or disposed of by or leased to any member of the Group (including any company which will become a subsidiary of the Company by reason of an acquisition which has been agreed or proposed since 31 December 2008, being the date to which the latest audited consolidated financial statements of the Company have been made up).

**9. MISCELLANEOUS**

- (a) The registered office of the Company is at No.1-4, 20A, Central Street, Shenyang Economic and Technological Development Zone, the PRC.
- (b) The principal place of business of the Company is at 14/F, Jin Mao International Apartment, 1 Xiao Dong Road, Da Dong District, Shenyang, the PRC.
- (c) The share registrar and transfer office of the Company in Hong Kong is Hong Kong Registrars Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.

**10. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the principal place of business of the Company, at 14/F, Jin Mao International Apartment, 1 Xiao Dong Road, Da Dong District, Shenyang, the PRC during 9:00 a.m. to 6:00 p.m. on any business day, from the date of this circular up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in the paragraph headed “Material contracts” in this Appendix;
- (c) the accountant’s report on the Group for the three years ended 31 December 2008, the text of which is set out in Appendix I to this circular;
- (d) the report on unaudited pro forma financial information of the Remaining Group prepared by Lo and Kwong C.P.A. Company Limited, the text of which is set out in Appendix III to this circular;
- (e) the valuation report on 30% interest of Shenyang Education prepared by Malcolm & Associates Appraisal Limited, the text of which is set out in Appendix IV to this circular;
- (f) the property valuation report prepared by Malcolm & Associates Appraisal Limited, the text of which is set out in Appendix V to this circular;
- (g) the consent letters from Lo and Kwong C.P.A. Company Limited and Malcolm & Associates Appraisal Limited referred to in the paragraph headed “Qualification and consent of experts” in this Appendix;
- (h) a copy of each circular issued pursuant to the requirements set out in Chapter(s) 14 and/or 14A of the Listing Rules which has been issued since 31 December 2008, being the date to which the latest audited consolidated financial statements of the Company have been made up;
- (i) the annual reports of the Company for each of the two financial years ended 31 December, 2007 and 2008; and
- (j) this circular.

## NOTICE OF EGM



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)**

### NOTICE OF THE FIRST EXTRAORDINARY GENERAL MEETING FOR 2009

**NOTICE IS HEREBY GIVEN** that the First Extraordinary General Meeting for 2009 (“EGM”) of Shenyang Public Utility Holdings Company Limited (the “Company”) will be held at the Conference Room of Lexington Shenyang Rich Gate Hotel, Shenyang, the People’s Republic of China at 11:00 a.m. on 9 July 2009 (Thursday) for the following purposes:

#### **I BY WAY OF ORDINARY RESOLUTIONS:**

To consider, ratify and approve the proposal for disposal of the debt receivable of the Company and its subsidiaries from Shenyang Development Beida Education Science Park Company Limited amounting to RMB256.6 million and 30% shareholding in Shenyang Development Beida Education Science Park Company Limited.

By order of the Board  
**Shenyang Public Utility Holdings Company Limited**  
**An Mu Zong**  
*Chairman*

Shenyang, the PRC, 23 May 2009

#### *Notes:*

1. Each shareholder entitled to attend and vote at the meeting is entitled to appoint in written form one or more proxies to attend and vote at the meeting on his/her behalf. A proxy need not be a member of the Company. Shareholders or their proxies are entitled to attend the meeting and vote.
2. To be valid, the proxy form together with the certified power of attorney or authority (if any) must be delivered to the Company’s H share registrar in Hong Kong, Hong Kong Registrars Limited at Rooms 1806–7, 18/F, Hopewell Centre, 183 Queen’s Road East, Hong Kong or the place of operation of the Company at 14/F, Jin Mao International Apartment, 1 Xiao Dong Road, Da Dong District, Shenyang, the People’s Republic of China not less than 24 hours before the time of the meeting.
3. Shareholders or their proxies shall produce their identity documents when attending the meeting.
4. The register of the members of the Company will be closed from 10 June 2009 to 9 July 2009 (both dates inclusive), during which period no transfers of H Shares will be effected.
5. Shareholders whose names appear on the register of members of the Company on 10 June 2009 will be entitled to attend and vote at the meeting.

## NOTICE OF EGM

6. Shareholders who intend to attend the meeting should complete the reply slip for attending the meeting and return it to the Company's H Share registrar in Hong Kong, Hong Kong Registrars Limited at Rooms 1806-7, 18/F, Hopewell Centre, 183 Queen's Road East, Hong Kong or the place of operation of the Company at 14/F, Jin Mao International Apartment, 1 Xiao Dong Road, Da Dong District, Shenyang, the People's Republic of China on or before 19 June 2009. The reply slip may be delivered by hand, by post or by facsimile at facsimile number (852) 28650990. Completion and return of the reply slip shall not affect the shareholder's right to attend the meeting pursuant to note 5 above.
7. The EGM is expected to last for less than one day. Shareholders and their proxies attending the EGM shall be responsible for their own traveling and accommodation expenses.

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

*Executive directors:* Mr. An Mu Zong, Mr. Wang Zai Xing, Mr. Chow Ka Wo Alex

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

*Independent non executive director:* Mr. Cai Lian Jun, Mr. Wong Kai Tat, Mr. Chan Ming Sun Jonathan