

# **REPORT OF THE DIRECTORS**

The Directors have pleasure in presenting their annual report and the audited financial statements of the Company for the year ended 31 December 2000.

## **PRINCIPAL ACTIVITY**

The Company is an investment company, incorporated as an exempted company in the Cayman Islands, and invests in companies with significant business involvement in the People's Republic of China. There were no changes in the nature of the Company's principal activity during the year.

## **SEGMENTAL INFORMATION**

The operations outside Hong Kong contributed less than 10% of turnover and less than 10% of operating profit, and accordingly an analysis of such activities is not shown.

## **RESERVES**

Movements in the Company's reserves during the year are set out in note 14 to the financial statements on page 35.

## **RESULTS AND DIVIDENDS**

The Company's profit for the year ended 31 December 2000 and the state of the Company's affairs at that date are shown in the financial statements set out on pages 21 to 37.

An interim dividend of US\$0.15 per ordinary share was declared on 5 September 2000 and paid on 28 September 2000. The Directors recommend the payment of a final dividend of US\$0.08 per ordinary share in respect of the year to shareholders on the register of members on 29 May 2001. This recommendation has been incorporated in the financial statements.

## **SUMMARY OF FINANCIAL INFORMATION**

A summary of the results and of the assets and liabilities of the Company for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 10. This summary is not part of the audited financial statements.

## **DISTRIBUTABLE RESERVES**

Article 120 of the Company's Articles of Association originally stated that surpluses arising from the realisation of investments were not available for distribution. Pursuant to a special resolution passed at an extraordinary general meeting on 22 January 1999, Article 120 of the Company's Articles of Association was amended so that the Company's surpluses arising from the realisation of investments became available for distribution with effect from 22 January 1999.

There are no prohibitions on distributions of the Company's share premium account in the form of dividends by the Company's Articles of Association or the laws of Cayman Islands, provided that the Company is solvent before and after the dividend payments. At 31 December 2000, the Company's reserves available for distribution, calculated in accordance with the provisions of the legislation of the Cayman Islands, amounted to US\$10,062,313.

Movements in retained profits during the year are set out in note 13 to the financial statements on page 34.

## **DIRECTORS**

The Directors during the year and up to the date of this report were:

**Donald P H Liao, CBE, JP (Chairman and independent non-executive director) - appointed on 28 May 1992 .**

Donald P H Liao, CBE, JP, aged 71, is the Chairman of the Company. He is a senior adviser of Mitsui & Company (Hong Kong) Limited.

**Paul M Y Chow (Executive director) - appointed on 14 April 1997.**

Paul M Y Chow, aged 54, is a director of HSBC Asset Management (Asia Pacific) Limited and HSBC Asset Management (Bahamas) Limited and is the chief executive of HSBC Asset Management (Hong Kong) Limited. He is also a director of HSBC Investment Bank Asia Limited.

**Nigel S Tulloch (Independent non-executive director) - appointed on 28 May 1992.**

Nigel S Tulloch, aged 54, was previously deputy chairman of the Listed Portion Investment Adviser and chief executive of the Investment Manager until September 1992 when he retired. He is a director of The China Fund Inc.

**Eddie T S Wang (Executive director) - appointed on 1 May 1995.**

Eddie T S Wang, aged 52, is the Chief Executive China Business of The Hongkong and Shanghai Banking Corporation Limited.

**Sir Alan Donald, KCMG, LLD (Independent non-executive director) - appointed on 25 October 1994.**

Sir Alan Donald, KCMG, LLD, aged 69, retired as British Ambassador to China in 1991. Sir Alan is a director of Fleming Asian Investment Trust and The China Fund Inc.

**Dr K S Lo (Independent non-executive director) - appointed on 28 May 1992.**

Dr K S Lo, aged 54, graduated with a B.Sc from McGill University and an M.D. from Cornell University, certified in Cardiology. He has more than 21 years' experience in property and hotel development, investment and management, both in Hong Kong and overseas. Dr. Lo is also the deputy chairman and managing director of Great Eagle Holdings Limited, the non-executive chairman of Panda-Recruit Limited and a director of The Hongkong and Shanghai Banking Corporation Limited, Shanghai Industrial Holdings Limited, City e-Solutions Limited and Phoenix Satellite Television Holdings Limited. He is also a director of Hong Kong Exchanges and Clearing Limited and chairman of the Listing Committee of Growth Enterprise Market, a vice president of the Real Estate Developers Association of Hong Kong, a trustee of the Hong Kong Centre for Economic Research, a member of Long Term Housing Strategy Advisory Committee and a member of the Council of Advisors on Innovation and Technology and chairman of the Hospital Authority.

**Vincent J Warner (Executive director) - appointed on 20 January 2000**

Vincent J Warner, aged 36, is the Finance Director of HSBC Private Equity (Asia) Limited. He holds an MA in Jurisprudence from Oriel College, Oxford, England. Prior to joining HSBC Private Equity (Asia) Limited, Mr Warner worked for AusAsean Management Limited, the direct investment subsidiary of the AusAsean Group in Australia and Lloyds Development Capital Limited, the direct investment subsidiary of Lloyds Bank plc in the UK.

**Jack N Mayer (Non-executive director) - appointed on 16 November 1998.**

Jack N Mayer, aged 48, is a portfolio manager for Gabriel Capital Corp. and its associated entities (substantial shareholder of the Company). He has served on numerous creditor committees in bankruptcy and work-out situations. Prior to that, he was employed by a venture stage technology company and a securities brokerage firm. Mr Mayer is also a director of China North Industries Investment Limited and China Investment Company Limited.

**Charles M W Ng (Alternate director to Jack N Mayer) - appointed on 16 November 1998.**

Charles M W Ng, aged 51, graduated from the London Graduate School of Business Studies in England in 1974 with a master's degree in business administration. He is the managing director of Equitas Capital Limited, an exempt dealer and an exempt investment adviser under the Securities Ordinance of Hong Kong. Mr Ng has over 25 years of experience in corporate finance and investment banking.

**Francis T F Yuen (Independent non-executive director) - appointed on 28 May 1992 and resigned on 16 March 2000.**

Francis T F Yuen, aged 49, is the chairman of the Tien Fung Hong Group of companies and deputy chairman of the Pacific Century Group of companies.

Dr K S Lo and Paul M Y Chow will retire from the board in accordance with Articles 89(B) and 89(C) of the Company's Articles of Association at the forthcoming annual general meeting but, being eligible, will offer themselves for re-election.

## **DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO ACQUIRE SHARES**

As at 31 December 2000, except for Mr Vincent J Warner, who held 4,777 shares in the Company in a personal capacity, none of the Directors or their associates was interested, beneficially or otherwise, in any listed shares of the Company. No rights have been granted to the Directors, their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debt securities of the Company or any other body corporate.

## **MANAGEMENT AGREEMENTS AND DIRECTORS' INTERESTS IN CONTRACTS**

There was in existence during the financial year an Investment Management Agreement made between the Company and HSBC Asset Management (Bahamas) Limited ("AMBL") whereby AMBL was appointed the Investment Manager to the Company for both listed and unlisted investments. The appointment became effective on 8 June 1992 and will continue in force until terminated by either party giving to the other not less than sixty days' notice in writing.

On 8 June 1992, AMBL, the Investment Manager of the Company, entered into a Listed Portion Investment Advisory Agreement and an Unlisted Portion Investment Advisory Agreement with HSBC Asset Management (Hong Kong) Limited ("AMHK") and HSBC Private Equity (Asia) Limited ("PEML"), respectively, whereby AMHK was appointed general adviser to AMBL on the Company's listed investments and PEML was appointed general adviser to AMBL on the Company's unlisted investments. These agreements are terminable by either party to the contract upon giving sixty days' notice in writing to the other party.

Mr Paul M Y Chow is a director of AMBL and AMHK and Mr Vincent J Warner is a director of PEML.

Save as disclosed herein, no contracts of significance to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **DIRECTORS' SERVICE CONTRACTS**

None of the Directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than normal statutory obligations.

## **EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES**

Details of the directors' emoluments are set out in note 5 to the financial statements.

The five highest paid individuals during the year were all directors, details of whose remuneration are set out in note 5 to the financial statements.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS**

As at 31 December 2000, the register kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance showed that the Company had been notified of the following interests, being 10% or more of the Company's issued share capital:-

| <u>Name</u>               | <u>Number of shares</u> | <u>Percentage</u> |
|---------------------------|-------------------------|-------------------|
| Ariel Fund Limited        | 3,404,534               | 13.97%            |
| J. Ezra Merkin            | 5,594,306               | 22.95%            |
| Swiss Reinsurance Company | 4,590,104               | 18.83%            |
| Friends Ivory & Sime Plc  | 2,602,486               | 10.68%            |

Duplication occurs in respect of the above-mentioned shareholdings to the extent that shares in which Ariel Fund Limited was interested form part of the shares in which J. Ezra Merkin was interested.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the year, the Company neither purchased, sold nor redeemed any of its own listed securities.

## **DISCUSSION AND ANALYSIS OF PERFORMANCE AND MATERIAL FACTORS UNDERLYING RESULTS AND FINANCIAL POSITION**

These matters are considered in detail in other sections of this annual report and no further discussion and analysis is required to present a balanced review of the Company's operations for the year.

## **MAJOR CUSTOMERS AND SUPPLIERS**

The Company's revenue is derived from its investments. The Company, therefore, has no major customers and no major suppliers requiring disclosure.

A substantial proportion of turnover is derived from the Company's investments and the disclosure of information regarding customers would not be meaningful.

## **PRE-EMPTIVE RIGHTS**

No pre-emptive rights exist under the laws of the Cayman Islands in relation to the issue of new shares by the Company.

## **AUDIT COMMITTEE**

The Company has established an audit committee in accordance with paragraph 14 of the Code of Best Practice throughout the accounting period covered by the annual report.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE (LISTING RULES APPENDIX 14)**

The Company complied with paragraphs 1 to 13 of the Code of Best Practice as set out in Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report, except that the independent non-executive directors are not appointed for specific terms but are subject to retirement by rotation in accordance with Articles 89(B) and 89(C).

## **AUDITORS**

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the board

**Donald P H Liao**

Chairman

Hong Kong, 6 March 2001