

# DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31st December, 2000.

## PRINCIPAL ACTIVITIES

The Company is an investment company designed principally to enable investment in companies and other entities established or having significant operations in or business with the People's Republic of China ("PRC"). The investment emphasis of the Company has been placed on the Greater Shanghai Region, primarily in existing or newly established Sino-foreign equity joint ventures or co-operative joint venture enterprises, joint stock companies, wholly foreign-owned enterprises or other vehicles authorised under the applicable laws for foreign investments in the PRC.

## RESULTS AND DIVIDENDS

The loss for the year amounted to US\$3,396,614. This represents a loss per share of US\$0.38.

During the year, a special dividend of US\$3.00 per share was paid to the shareholders from share premium of the Company.

The Directors propose the payment of a final dividend of US\$0.30 per share to the shareholders.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities for the past five financial years are set out on page 46.

## RESERVES

Movements in reserves of the Company during the year are set out in notes 13 and 14 to the financial statements. As at 31st December, 2000, the Company's share premium and accumulated profits after the above dividend distribution less negative capital reserve, amounted to US\$59,843,600, is available for distribution to shareholders.

## SHARE CAPITAL

Details of movements during the year in the Share Capital of the Company are set out in note 12 to the financial statements.

# DIRECTORS' REPORT *(Cont'd)*

## DIRECTORS

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

*Executive Directors:*

|                   |                                    |
|-------------------|------------------------------------|
| Dr. Fung Kin Ming | (appointed on 13th July, 2000)     |
| Mr. Lin Bin       | (appointed on 1st September, 2000) |
| Mr. Qu Chengkang  | (resigned on 1st September, 2000)  |
| Mr. Tan Song Wee  | (resigned on 1st December, 2000)   |

*Independent Non-Executive Directors:*

Mr. Ong, Ka Thai  
Dr. Treichler, Thomas Peter  
Mr. Yick, Wing Fat Simon

*Other Non-Executive Directors:*

Mr. Cai, Nongrui  
Mr. Chao, Hsihsiang  
Mr. Chiang, Chingyee  
Dr. Hsu, Chihchang  
Mr. Hu, Jinggang  
Mr. Nakagawa, Norikazu  
Mr. Sun, Taotsun  
Dr. Wang, Chang Hong  
Madam Yin, Wong Yeefan  
Mr. Zhou, Youdao

All Directors were subject to retirement by rotation in accordance with the Company's Articles of Association. Subject to the above, the Independent Non-Executive Directors were each appointed for a term of two years.

No Director proposed for re-election at the forthcoming annual general meeting of the Company has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

In accordance with Articles 93 and 98(b) of the Company's Articles of Association, Dr. Fung Kin Ming, Mr. Lin Bin, Dr. Treichler, Thomas Peter, Mr. Hu, Jinggang, Madam Yin, Wong Yeefan, Mr. Sun, Taotsun and Mr. Nakagawa, Norikazu, retire and, being eligible, offer themselves for re-election.

# DIRECTORS' REPORT *(Cont'd)*

## BIOGRAPHICAL DETAILS OF DIRECTORS

### **Dr. Fung, Kin Ming**

*Executive Director*

Dr. Fung, 54, was appointed Director of the Company in July 2000 and President of the Investment Manager in the same year. Dr. Fung graduated from Loyola University of Chicago with a Master of Business Administration in Finance and holds a Doctorate in Business Administration at the Hong Kong Polytechnic University. He worked at Irving Trust, Bank of New York and ABN AMRO Bank and has over 25 years' experience in commercial banking, investment banking and private banking. Dr. Fung is currently President of SinoPac Capital Limited, a wholly-owned subsidiary of Bank SinoPac, a listed banking group in Taiwan.

### **Mr. Lin Bin**

*Executive Director*

Mr. Lin, 45, was appointed Director of the Company in September 2000 and was appointed Vice President of the Investment Manager in the same year. Mr. Lin holds an MBA degree from China-Europe International Business School (CEIBS), and a degree from University of Illinois at Champaign Urbana, USA. Since 1984, he joined SITICO and served in various positions including General Manager of SITICO Trading Pudong Inc.; Deputy General Manager of Financial Division II and Trust Division of SITICO. Mr. Lin has more than 15 years of experience in corporate finance and trust investment in the PRC.

### **Mr. Ong, Ka Thai**

*Independent Non-Executive Director*

Mr. Ong, 46, was appointed Independent Non-Executive Director of the Company in June 1997. Mr. Ong is currently the Chairman of a number of companies including Ong First Chicago Holdings Co. Ltd., Ong First Chicago Futures Pte. Ltd., Ong Commodities Pte. Ltd. and Ong Pacific Capital Ltd. A Bachelor of Arts (Economics) graduate from the University of California at Los Angeles, Mr. Ong had served as the CEO for a number of multinational joint-ventures. Mr. Ong is also a director of Singamas Container Holdings Ltd., a company listed on the Hong Kong Stock Exchange. Mr. Ong has over 20 years of experience in manufacturing, corporate and trade finance, regional equity, futures and commodities trading, investment banking and corporate advisory services, as well as direct and private equity investment.

# DIRECTORS' REPORT *(Cont'd)*

## BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

### **Dr. Treichler, Thomas Peter**

*Independent Non-Executive Director*

Dr. Treichler, 56, was appointed Independent Non-Executive Director of the Company in January 1995. He is the founder and chief executive officer of Orient Financial Corporation, a San Francisco based investment banking firm. His many years of wide ranging experience in the United States, Asia, Australia and Europe have encompassed corporate governance, investment banking and venture capital investing. Dr. Treichler currently serves on the board of directors of a Dallas, Texas based listed company, Sport Supply Group, Inc., an affiliated company of Emerson Radio Corporation, as well as on the board of several private firms in the United States and Asia. In 1985, he helped Kwang Hua to structure and syndicate the Formosa Fund listed on the London Stock Exchange.

### **Mr. Yick Wing Fat, Simon**

*Independent Non-Executive Director*

Mr. Yick, 43, was appointed Independent Non-Executive Director of the Company in July 1999. Mr. Yick graduated from the Chinese University of Hong Kong with a Bachelor's degree in Business Administration, majoring in Accounting. He is an associate member of the Hong Kong Society of Accountants and a fellow member of the Chartered Association of Certified Accountants in England. He is currently an executive director of a Taiwan-based securities brokerage and corporate finance house in Hong Kong. Mr. Yick has over 18 years of experience in audit, direct investment, investment banking and corporate advisory services.

### **Mr. Cai, Nongrui**

*Non-Executive Director*

Mr. Cai, 52, was appointed Director of the Company in December 1997. He is also a director of the Investment Manager. Mr. Cai joined SITICO and worked for various positions including Deputy General Manager of General Office; Deputy General Manager of Accounting and Planning Division; General Manager of Accounting Division; General Manager of Finance Division I; Senior Vice President cum Vice Chief Economist; Chief Economist.

### **Mr. Chao, Hsihsiang**

*Non-Executive Director*

Mr. Chao, 72, was appointed Director of the Company in January 1994. Mr. Chao is presently the Chairman of Ruentex Construction & Development Co. Ltd. ("Ruentex Construction"), a company listed on the Taiwan Stock Exchange. Mr. Chao has more than twenty years of valuable experience in construction and business development. He currently holds a 1.31% interest in Ruentex Construction.

# DIRECTORS' REPORT *(Cont'd)*

## BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

### **Mr. Chiang, Chingyee**

*Non-Executive Director*

Mr. Chiang, 68, was appointed Director of the Company in January 1994. Mr. Chiang graduated with a degree in Scientific Technology and has been in the can manufacturing business for twenty-eight years. He is currently Director of China Can Printing & Metal MFG., Co., Ltd. Since 1967, he has been the Chairman of Great China Metal Ind., Co., Ltd. ("Great China"), Mr. Chiang has a 7.44% beneficial interest in Great China which in turn has a 1% shareholding in the Company.

### **Dr. Hsu, Chihchang**

*Non-Executive Director*

Dr. Hsu, 42, was appointed Director of the Company in December 1998. He is also a director of the Investment Manager. Dr. Hsu graduated from the Northwestern University with a Ph.D. in Managerial Economics and Decision Sciences. He has been the part-time associated professor of the Department of Financial Management of National Chengchi University. He is now the chief of staff of the Ruentex Group, managing director of the China Development Corporation, and the deputy director of the Yin Shu-tien Clinic of Urology and Ophthalmology.

### **Mr. Hu, Jinggang**

*Non-Executive Director*

Mr. Hu, 49, was appointed Director of the Company in March 1999. He is also a director of the Investment Manager. Mr. Hu is a graduate of the Faculty of International Finance of the Shanghai East China Normal University. Mr. Hu had served in various departments of Shanghai Municipality since 1977. From 1987, he served as the assistant director and later the deputy director and the director of the International Communications Office of China Council for the Promotion of International Trade, Shanghai Subcouncil. Since December 1998, he has been senior vice president of SITICO.

### **Mr. Nakagawa Norikazu**

*Non-Executive Director*

Mr. Nakagawa, 58, was appointed Director of the Company in August 1998. He joined the former Wako Securities Co., Ltd. in 1994. He is currently the Senior Executive Officer and Chief Executive of Capital Market Division of \*Shinko Securities Co., Ltd. Mr. Nakagawa graduated from Keio University of Japan and has over 30 years of experience in banking and finance.

\* (New Japan Securities Co., Ltd. and Wako Securities Co., Ltd. merged on 1st April, 2000 and currently the company's name is Shinko Securities Co., Ltd.)

# DIRECTORS' REPORT *(Cont'd)*

## BIOGRAPHICAL DETAILS OF DIRECTORS *(Cont'd)*

### **Mr. Sun, Taotsun**

*Non-Executive Director*

Mr. Sun, 51, was appointed Director of the Company in January 1994. Mr. Sun graduated from Tamkang University of Taiwan. He is currently Chairman of Pacific Electric Cable & Wire Co. Ltd. ("PECW"), the largest and leading manufacturer of wire and cable in Taiwan. Since 1986, he has held office in a range of diversified and multinational companies. At present, he is a director of over 10 companies affiliated with the PECW group.

### **Dr. Wang, Chang Hong**

*Non-Executive Director*

Dr. Wang, 42, was appointed Director of the Company in March 1999. He joined Nomura International (Hong Kong) Limited in 1994 and is currently executive director of the Corporate Finance Department. Dr. Wang graduated from Nanjing University and holds a Ph.D. and Jurisprudence Doctor degree from the University of Pennsylvania. He is currently an investment advisor registered with the Hong Kong Securities and Futures Commission.

### **Madam Yin, Wong Yeefan**

*Non-Executive Director*

Mrs. Yin, 53, was appointed Director of the Company in January 1994. Mrs. Yin graduated from the Fu Jen Catholic University with a Bachelor of Economics degree. Mrs. Yin is presently the Chairman of Ruentex Industries Limited and a director of Ruentex Construction, in which she holds a 0.015% and 0.006% interest in each company respectively.

*Note: Ruentex Construction and Ruentex Industries each has an equity interest in Kwang Hua Development & Investment Ltd. ("Kwang Hua Development") of 20% and 30% respectively. Kwang Hua Development in turn holds a 3.3% interest in the Company. Besides, Ruentex Construction and Ruentex Industries each directly holds a 2.6% and 2.9% interest in the Company respectively.*

### **Mr. Zhou, Youdao**

*Non-Executive Director*

Mr. Zhou, 62, was appointed Director of the Company in December 1998. He is also a director of the Investment Manager. Mr. Zhou had served with Shanghai Finance Bureau since May 1969 as deputy section chief. In August 1984 he began to serve as deputy director of the Financial and Monetary Division of The Finance and Trade Office of the Shanghai Municipal Government. In December 1985, he became the deputy chairman of Shanghai Finance Bureau and later served as the Chairman. Since April 1998, he has been Chairman and President of SITICO. At present, he serves as the Chairman of SITICO and Shanghai International Group Corporation Limited.

# DIRECTORS' REPORT *(Cont'd)*

## INVESTMENT MANAGEMENT AND ADMINISTRATION AGREEMENT

The investment portfolio of the Company is managed by Shanghai International Asset Management (Hong Kong) Company, Limited (the "Investment Manager") pursuant to the terms of an investment management and administration agreement (the "Management Agreement") date 12th November, 1993. The Management Agreement signed between the parties for the initial five-year term had expired in 1998 and had been continuing on a two months advanced notice basis. A supplemental agreement was signed on 22nd January, 2001 to extend the term of appointment of the Investment Manager for a minimum of five years from 1st January, 2001.

In accordance with the terms of the agreement, the Investment Manager is entitled to receive an aggregate management and administration fee and an incentive fee. The management and administration fee is calculated and payable in US dollars quarterly in advance, at the rate of 0.5% per quarter of the net asset value (calculated before deduction of the fees payable to the Investment Manager, the investment adviser and the custodian for that quarter) of the Company calculated on the last business day of the previous quarter. The incentive fee is calculated and payable on an annual basis for each year ending 31st December at 15% of the amount by which the net asset value of the Company at the end of each accounting period exceeds 115% of the net asset value for the immediately preceding accounting period.

Management and administration fees paid to the Investment Manager for the year ended 31st December, 2000 amounted to US\$1,545,497. No incentive fee has been paid to the Investment Manager for the year.

Mr. Tan, Song Wee and Mr. Hsu Chih Chang have indirect beneficial interests in the Investment Manager during the year.

## DIRECTORS' INTEREST IN SHARES

Save as disclosed under "Biographical Details of Directors" above, none of the Directors of the Company or their associates had any interest in the share capital of the Company or any of its associated corporations as at 31st December, 2000.

## DIRECTORS' INTEREST IN CONTRACTS

Other than the Management Agreement as explained above, 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' REPORT *(Cont'd)*

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or their spouse or children under the age of 18 had any right to subscribe for securities of the Company, or had exercised any such right during the year.

At no time during the year was the Company a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debenture of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, those persons or corporations having an interest of 10% or more in the issued share capital of the Company required to be disclosed pursuant to the Securities (Disclosure of Interests) Ordinance were as follows:

| <u>Name</u>                  | <u>Number of shares</u>   | <u>%</u> |
|------------------------------|---------------------------|----------|
| Ariel Fund Limited ("Ariel") | 1,256,070 <i>(Note 1)</i> | 14.11    |
| Mr. J. Ezra Merkin           | 2,107,500 <i>(Note 2)</i> | 23.67    |

### Notes:

1. The shares are registered in the names of Horsford Nominees Limited and other nominees.
2. Mr. J. Ezra Merkin was deemed, for the purpose of the Securities (Disclosure of Interest) Ordinance, to be interested in the 1,256,070 shares and 851,430 shares owned by Ariel and Gabriel Capital, L.P. ("Gabriel") respectively by virtue of his ownership in the issued share capital of Ariel and Gabriel. The shares of the Company owned by Gabriel are registered in the names of Horsford Nominees Limited and other nominees.

Other than as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31st December, 2000.

## INVESTMENTS

Details of the unlisted investments and the top ten holdings of listed investments as at 31st December, 2000 are set out on pages 9 and 18 respectively.

## PENSION SCHEME AND COSTS

As the Company is managed by the Investment Manager, the Company has no employee and does not have any liability or cost in connection with employees' pension schemes or retirement benefits.



# DIRECTORS' REPORT *(Cont'd)*

## MAJOR CUSTOMERS AND SUPPLIERS

A substantial portion of the Company's income is derived from the Company's investments and bank deposits and the disclosure of information regarding customers would not be meaningful. The Company has no major suppliers requiring disclosure.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited. These shares were subsequently cancelled by the Company. Details of these share purchases are set out in note 12 to the financial statements.

Save as disclosed above, the Company did not purchase, sell or redeem any of the Company's shares during the year.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there are no restrictions against such rights under the laws in the Cayman Islands.

## CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied throughout the year ended 31st December, 2000 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

## AUDITORS

A resolution will be proposed to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

**Fung, Kin Ming**

*Director*

Hong Kong, 27th March, 2001