

Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. The subsidiaries of the Company are primarily engaged in the distribution in Hong Kong of live and fresh foodstuffs produced in and exported from Guangdong; operation of supermarket chains; trading; industrial investment as well as livestock farming.

The analysis of the Group's turnover by principal activities and geographical locations and loss from operations by principal activities of the Company and its subsidiaries during the financial year are set out in note 4 on the accounts.

RESULTS AND DIVIDENDS

The Group's consolidated results for the year ended 31st December, 2000 are set out in the consolidated profit and loss account on page 26.

The Directors resolved not to make the payment of interim dividend (1999: Nil) and do not recommend the payment of a final dividend (1999 : Nil) for the year.

PROVISION FOR BAD AND DOUBTFUL DEBTS

For the year ended 31st December, 2000, the Group recorded a provision for bad and doubtful debts of about HK\$51.7 million (1999: HK\$182.0 million).

FIXED ASSETS

Details of movements in the fixed assets of the Group and the Company during the year are set out in notes 14(a) and 14(b) on the accounts respectively.

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the Company's principal subsidiaries and associates as at 31st December, 2000 are set out in notes 34 and 35 on the accounts respectively.

BORROWINGS AND INTEREST CAPITALISED

Details of borrowings of the Group are set out in note 21 on the accounts. No interest was capitalised by the Group during the year.

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SHARE CAPITAL

By an ordinary resolution passed at the Company's extraordinary general meeting held on 4th December, 2000, the Company's authorised share capital was increased to HK\$1,500 million by the creation of an additional 13,500 million ordinary shares of HK\$0.1 each, ranking pari passu in all respects with the existing shares of the Company.

Details of the share capital of the Company are set out in note 23 on the accounts.

SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company (the "Share Option Scheme") adopted on 21st November, 1994 and expiring on 20th November, 2004, the Directors may at their discretion grant options to directors and/or employees of the Company and its subsidiaries to subscribe for shares of the Company.

The price per share payable on the exercise of an option under the Share Option Scheme to be determined by the Directors will be a price being not less than the higher of the nominal value of the shares and an amount of 80% of the average of the closing prices of the shares as stated in the daily quotation sheets of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the five trading days immediately preceding the date of grant of the option.

During the year, no option was granted nor exercised.

Details of the Company's outstanding share options are set out in note 23(b) on the accounts.

CONVERTIBLE BONDS

During the year, the convertible bonds with an aggregate principal amount of US\$100 million (the "Bonds") issued in June 1997 by Guangnan Finance (Cayman) Limited, a then wholly-owned subsidiary of the Company, matured on 30th June, 2000. The Bonds were listed on the Luxembourg Stock Exchange. Holders of the Bonds had on 30th November, 2000 passed extraordinary resolutions to be bound by the exchange offer on the terms set out in the exchange offer memorandum which formed part of the restructuring of indebtedness of the group of companies of Guangdong Enterprises (Holdings) Limited, which included the Group. The restructuring was complete on 22nd December, 2000.

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RESERVES

Movements in the reserves of the Group and the Company during the year are set out in notes 24(a) and 24(b) on the accounts respectively.

RETIREMENT BENEFITS SCHEME

Details of the Group's retirement benefits scheme are set out in note 30 on the accounts.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2000, the turnover attributable to the aggregate of the five largest customers of the Group contributed less than 30% of the Group's turnover and the purchases attributable to the aggregate of the five largest suppliers contributed less than 30% of the Group's total purchases.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five years ended 31st December, 2000 is set out on pages 75 and 76.

DIRECTORS

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

Executive Directors

YE Xuquan	(Appointed on 1st November, 2000)
LI Li	(Appointed on 31st May, 2000)
CHEN Lizhong	(Appointed on 1st December, 2000)
WOO King Hang	(Appointed on 27th June, 2000 and resigned on 4th April, 2001)
LIU Zhongsheng	(Resigned on 1st December, 2000)
KANG Dian	(Resigned on 1st November, 2000)
CAI Jinghua	(Resigned on 31st May, 2000)
WANG Xiangyuan	(Resigned on 31st May, 2000)
CEN Tingbiao	(Resigned on 31st May, 2000)
JIANG Lujun	(Resigned on 31st May, 2000)
FU Xiaoping	(Resigned on 31st May, 2000)
LI Fu Kay, Frankie	(Resigned on 27th March, 2000)

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DIRECTORS (continued)

Non-executive Directors

LUO Fanyu	(Appointed on 31st May, 2000)
HOU Zhuobing	(Appointed on 31st May, 2000)
LU Qianli	(Appointed on 31st May, 2000 and resigned on 4th April, 2001)
JIANG Guoqiang	(Appointed on 31st May, 2000 and resigned on 4th April, 2001)
WU Wai Chung, Michael	(Appointed on 9th April, 2001)

Independent Non-executive Directors

Gerard Joseph McMAHON
TAM Wai Chu, Maria
LI Kar Keung, Caspar

In accordance with Article 92 of the Company's Articles of Association, Messrs. Ye Xuquan, Chen Lizhong and Wu Wai Chung, Michael shall retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

In accordance with Article 101 of the Company's Articles of Association, Messrs. Li Li and Luo Fanyu shall retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

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DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES

As at 31st December, 2000, the following Directors had interests in shares and/or rights to subscribe for shares of the Company and its associated corporations that are required to be recorded in the register kept by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules"):

(I) SHARE

(i) Guangdong Investment Limited

Name	Number of Ordinary Shares held
Li Li	520,000
Chen Lizhong	300,000
Hou Zhuobing	100,000
Lu Qianli (resigned as a Director on 4th April, 2001)	100,000

(ii) Guangdong Brewery Holdings Limited

Name	Number of Ordinary Shares held
Luo Fanyu	70,000

(iii) Guangdong Tannery Limited

Name	Number of Ordinary Shares held
Hou Zhuobing	10,000
Luo Fanyu	70,000

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DIRECTORS' INTERESTS IN SHARES AND RIGHTS TO SUBSCRIBE FOR SHARES (continued)

(II) SHARE OPTION

The Company

Name	Number of share options held on 31st December, 1999	Share options granted during the year	Share options granted during the year	Period during which share option is exercisable	Consideration paid per share option granted HK\$	Price per share to be paid on exercise of share option HK\$	Number of share options exercised during the year	Number of share options held on 31st December, 2000
Jiang Guoqiang (resigned as a Director on 4th April, 2001)	300,000	-	-	28/05/98 to 26/05/2001	-	9.60	-	300,000
	300,000	-	-	12/02/99 to 10/02/2002	-	4.08	-	300,000

Save as disclosed above and other than certain nominee shares in subsidiaries of the Company held by the Directors in trust for the Company, as at 31st December, 2000, none of the Directors and chief executive of the Company had or was deemed to have any interest in any securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which requires notification pursuant to section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under section 31 or part 1 of the schedule to the SDI Ordinance) or which is required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, and none of the Directors and chief executives of the Company, or their spouse or children under the age of 18, had any right to subscribe for any securities of the Company, or had exercised any such right.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Except for the share options held by a Director as mentioned above and by two directors resigned during the year, at no time during the year was the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Pursuant to two letters dated 22nd March, 1999 and 29th May, 2000, the Company appointed BNP Paribas Peregrine Capital Limited (“BNP Paribas Peregrine”) as its financial advisors in respect of the Restructuring. Mr. Li Kar Keung, Caspar, an independent Non-executive Director, became a deputy managing director of BNP Paribas Peregrine in September 2000. The restructuring was complete on 22nd December, 2000.

Save as aforesaid, no contracts of significance to which the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies was a party or were parties and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

Mr. Ye Xuquan, Director of the Company, is also a director of Guangdong Yue Gang Investment Holdings Company Limited and certain of its subsidiaries, namely GDH Limited, 深圳東深投資控股有限公司 and Guangdong Investment Limited. Guangdong Yue Gang Investment Holdings Company Limited and its subsidiaries (the “Yue Gang Group”) have a wide range of business interests which include, inter alia, manufacturing, trading, wholesaling and retailing etc. The aforementioned business interests of the Yue Gang Group cover the same or similar areas as some of those of the Group. However, the Directors of the Company do not believe that any of the businesses of the Yue Gang Group compete either directly or indirectly in any material respect with those of the Group.

Mr. Li Li, Director of the Company, is also a director and president of Macau Wholesale Market Nam Yue, Ltd and general manager of Nam Yue Food Stuff & Aquatics Co. Ltd., the businesses of which are the operation and management of a wholesale market in Macau for certain live and fresh foodstuffs and the distribution of live and fresh foodstuffs in Macau respectively. Since the aforesaid businesses of the two companies are conducted in Macau, the Directors of the Company do not believe that the businesses of the two companies compete either directly or indirectly in any material respect with those of the Group.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation (other than statutory compensation).

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TRANSACTIONS DISCLOSED IN ACCORDANCE WITH THE LISTING RULES

Details of the transactions disclosed in accordance with the Listing Rules are set out on pages 73 to 74.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interest required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance:

Name	Note	Number of ordinary shares beneficially held
Guangdong Yue Gang Investment Holdings Company Limited ("Yue Gang")	(a)	518,918,247
GDH Limited ("GDH")	(b)	518,918,247
Guangdong Trust Limited ("GD Trust")	(c)	517,778,247
Guangdong Assets Management Ltd. ("GAM")	(d) &(e)	517,678,247
Guangdong Assets Management (BVI) No. 15 Limited ("GAM 15")	(d)	517,678,247
Guangdong Assets Management (BVI) No. 16 Limited ("GAM 16")	(d)	517,678,247
Guangnan Hong (Group) Limited ("Guangnan Hong")	(f)	517,678,247
Guangdong Assets Management (BVI) No. 43 Limited ("GAM 43")	(e)	455,953,567
Guangdong Assets Management (BVI) No. 44 Limited ("GAM 44")	(e)	455,953,567
Guangnan International (B.V.I.) Limited ("GN Int'l")		455,953,567

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SUBSTANTIAL SHAREHOLDERS (continued)

Notes:

- (a) The figure includes 518,918,247 shares deemed to be held by GDH which is a wholly-owned subsidiary of Yue Gang.
- (b) The figure includes: (i) 517,778,247 shares deemed to be held by GD Trust which is a wholly-owned subsidiary of GDH; and (ii) 1,140,000 shares held by a wholly-owned subsidiary of Guangdong Investment Limited which is a subsidiary of GDH.
- (c) The figure includes: (i) 517,678,247 shares deemed to be held by GAM which is a wholly-owned subsidiary of GD Trust; and (ii) 100,000 shares held by Guangdong Asia Insurance Company Limited.
- (d) The figure includes 517,678,247 shares deemed to be held by Guangnan Hong. Guangnan Hong is a direct wholly-owned subsidiary of GAM 16 which is in turn a direct wholly-owned subsidiary of GAM 15. GAM 15 is a direct wholly-owned subsidiary of GAM.
- (e) The figure includes 455,953,567 shares deemed to be held by GN Int'l. GN Int'l is 46% directly owned by GAM 44. GAM 44 is a direct wholly-owned subsidiary of GAM 43 which is in turn a direct wholly-owned subsidiary of GAM.
- (f) The figure includes 455,953,567 shares deemed to be held by GN Int'l which is 54% directly owned by Guangnan Hong.

Save as disclosed herein, the Directors are not aware of any shareholders who had interests of 10% or more of the issued share capital of the Company as at 31st December, 2000.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the convertible bonds with an aggregate principal amount of US\$100 million (the "Bonds") issued in June 1997 by Guangnan Finance (Cayman) Limited, a then wholly-owned subsidiary of the Company, matured on 30th June, 2000. The Bonds were listed on the Luxembourg Stock Exchange. Holders of the Bonds have on 30th November, 2000 passed extraordinary resolutions to be bound by the exchange offer on the terms set out in the exchange offer memorandum which formed part of the restructuring of indebtedness of the group of companies of Guangdong Enterprises (Holdings) Limited, which included the Group. The restructuring was complete on 22nd December, 2000.

Save as aforesaid, during the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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PUBLICATION OF FURTHER INFORMATION ON THE HONG KONG STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Hong Kong Stock Exchange's website in due course.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year except that the Non-executive Directors are not appointed for specific terms as they are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's Articles of Association.

Complying with the Code of Best Practice, the Company has established an audit committee and the three Independent Non-executive Directors are members of the audit committee. Eight audit committee meetings were held throughout the year under review.

AUDITORS

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting. There was no change in auditors of the Company in any of the preceding three years.

On behalf of the Board
Ye Xuquan
Chairman

Hong Kong, 9th April, 2001