The directors of Guangdong Development Fund Limited (the "Fund" or the "Company") announce that the audited net return attributable to shareholders for the year ended 31 December 2000 was US$6.55 million compared to a loss of US$20.05 million in the corresponding period of 1999. As at 31 December 2000, the Fund's net asset value was US$71.01 million, or US$0.73 per share, an increase of 10% over 1999.

At an extraordinary general meeting held on 23 February 2001, shareholders unanimously passed a number of resolutions to give effect to a restructuring proposal to:

- amend Article 131 of the Articles of Association of the Company to empower the directors to make distributions out of funds from the Company as are permissible under the Jersey law;
- reduce the share premium account of the Fund by US$80 million to approximately US$5 million;
- transfer the surplus arising from such reduction of the share premium account to a special distributable reserve account which shall be available for distribution to shareholders as and when the directors consider appropriate;
- instruct the directors and the Investment Manager to arrange for the timely and orderly disposal of all or substantially all the investment portfolio of the Fund and not to reinvest the proceeds of realised investments in any investments of a long-term nature; and
- authorise the directors to distribute the net proceeds of such disposals and other available cash reserves to shareholders.

On 1 March 2001, the Royal Court of Jersey sanctioned and confirmed the restructuring proposal described above.

The directors have at its meeting held on 6 March 2001 resolved to declare a special distribution of US$0.18 per share to shareholders as registered on 28 March 2001, payable on 9 April 2001. A total amount of US$17.44 million will be distributed.

ECONOMIC ENVIRONMENT

The continuing recovery of China's economy has provided a huge impetus to improve prospects for the Fund. China's Gross Domestic Product grew to 8% in 2000, compared to 7.1% reported last year. This figure represents a material turn around against a sustained period of slow growth recorded during the past seven years.

The Chinese government issued national debts amounting to RMB360 billion to stimulate consumer spending. With the support of favourable government policy, the Consumer Price Index ("CPI") rose 0.4%, while retail sales increased by 9.7%. In December 2000, the CPI had grown 1.5% on a year-on-year basis, the highest since October 1997. This helped to ease weak consumption and deflationary pressures. In addition, China recorded a trade surplus on balance of payments of US$24.1 billion, representing respective increases of 27.8% and 35.8% in export and import against last year. China's industrial output also grew 11.4% in 2000, compared to 8.8% in 1999. In 2001, the Chinese government plans to invest over RMB100 billion in infrastructure projects. It is likely that China will enter a new era of growth.

The long-awaited admission of China into the World Trade Organisation ("WTO") will increase overseas investment and international trade, providing unprecedented opportunities as well as new challenges to China's economy, as this development will also give rise to stronger competition from foreign companies in China's domestic market. Overall the directors believe that China's WTO accession will provide long term benefits to its economy as a catalyst of real economic structural reforms.

OVERVIEW OF PERFORMANCE

Infrastructure projects were still the major source of income for the Fund during the year. The disposal of the Fund's stake in Huizhou section of Provincial Highway No. 1925 realised a profit of US$2.02 million in 2000. Subsequent to this transaction, the Fund's portfolio consisted of three infrastructure projects. The Fund anticipates the Heyuan section of National Highway No.205 will generate less income as the fixed-return period expires in July 2001. For the Huizhou section of Huizhang Highway, the Fund's Investment Manager has been negotiating with relevant authorities regarding a guideline issued by the Guangdong Provincial Government on the scheme of returns relating to highway projects that utilise foreign investment. Meanwhile, Qingyuang Beijang bridges will continue to generate a steady income for the Fund.

No significant improvements were seen in industrial projects for which the directors had made full provisions for diminution in value last year. These projects – including Gaoyao Gaolu Cement Limited, Xinhui Xingwei Building Material Company Limited, Guangdong Zhanhai Instrument and Meter Company Limited – recorded a loss in 2000 due to sluggish market condition.

The malting projects were under scheduled debts repayment arrangement subsequent to the restructuring of Guangdong Investment Limited ("GDI"). For Ningbo Malting Company Limited, the directors had already made a full provision for diminution in value last year. Guangzhou Malting Co., Ltd. and Guangzhou Yangcheng Malting Plant (jointly known as "Guangmai") are not expected to contribute any income to the Fund before paying off its outstanding foreign debts. However, the management of Guangmai is confident that sufficient cash flow would be generated to repay the debts under the GDI restructuring agreement.

About Zhaoqing Micro-Fibre Company Limited, under the financial restructuring of Guangdong Enterprises (Holdings) Limited ("GDE"), the Fund received a combination of cash, interest-bearing notes and credits, and marketable securities to settle the debts with GDE. As a result, the Fund recorded a gain of US$2.17 million in the disposal.

Foshan Tongbao Company Limited is expected to announce its listing on either the Shenzhen or the Shanghai Stock Exchange in the near future once the China Securities Regulatory Commission gives the green light.

In 2000, Guangdong (Zhanjiang) Medium Density Fiberboard Limited, the upstream timber project, suffered from surging oil prices. Although the profit margin dropped by 4 percentage points to 16% due to a price increase in petro-chemical raw materials, it still reported a profit of US$1.66 million for the period. GD Decorative Material (Zhongshan) Company Limited, the downstream timber project, recorded strong growth in 2000. The Chinese government's policy on stimulating consumer spending helped boost sales, leading volume and turnover at 52% and 44% respectively higher than the previous year.

Following an arbitration between Guangdong Nan Fang (Holdings) Company Limited ("Nanfang") and its tenant in August 2000, an award was made in favour of Nanfang, which regained the management of the shopping mall at Guangzhou Exchange Square in November 2000. While continuing to sign tenancy agreements with current sub-tenants, Nanfang is actively seeking new tenants to maximise the occupancy rate.

During the year, the Fund's efforts to identify new projects with positive investment potential led to investment in its first IT related project – EBSBridge International Limited – in May 2000. This was also the first technology-related investment in the Fund's portfolio. EBSBridge, through its subsidiary in China, intends to act as an Internet Application Service Provider to mainland enterprises. Its core business is to offer Internet-related services such as web building and maintenance services, server and web hosting, and e-commerce solutions. With the recent changes of market sentiments for hi-tech investments, EBSBridge has reduced its burn rate and plans to raise a second round of funding later this year. The Fund had made a provision for diminution in value of US$0.5 million for its investment in EBSBridge.

The total market value of the Fund's listed investments increased by US$0.53 million as at 31 December 2000. This resulted from the improved valuation of B shares and the marketable securities received for settlement of the Fund's debts with GDE. The Fund did not make any additional purchase during the year.

OUTLOOK

The directors remain confident in the long term attraction of investing in China. At the same time, they recognise that the investment structure for direct investments in China must be modified to meet investor requirements. Indeed, sentiment towards closed-end investment vehicles with the power to reinvest the proceeds of realised investments has changed in recent years. Shares of the Fund have continuously traded at a considerable discount to its published net asset value. In the shareholders' best interests, the directors endorsed a restructuring proposal presented by a group of major shareholders to enhance liquidity of the Fund's investments, and resolutions designed to effect this restructuring were passed at the extraordinary general meeting held on 23 February 2001. The directors will actively seek opportunities to dispose of the Fund's investments at the best prices reasonably obtainable, and return realisation proceeds to shareholders.

VICTOR LAP-LIK CHU
Chairman
9 April 2001