

As at 31 December 2000, Guangdong Development Fund Limited had unlisted long-term investments of US\$43.31 million, representing 61% of its net asset value on book. These investments constituted a major part of the Fund's income, amounting to US\$8.92 million, or 85% of the total income. Of these long-term investments, infrastructure projects continued to be the major source of income.

By the end of 2000, the Fund had US\$2.77 million, or 4% of its net assets invested in listed investments. Income generated from listed investments during the year was US\$0.48 million, accounting for 5% of the Fund's total income. Working capital increased with cash and bank deposits amounted to US\$21.12 million, equivalent to 30% of the net asset value. During the year, the Fund recorded an amount of US\$1.11 million interest income from its bank deposits, representing 11% of the Fund's total income.

## INFRASTRUCTURE PROJECTS

### Pak Kong Transco Limited ("Pak Kong")

#### – Two Beijiang bridges in Qingyuan

The Fund has a 14% stake in Pak Kong, with a total investment of US\$4.70 million. The Fund will receive 17.6% of the distributable profit until its investment in Pak Kong is paid back. Thereafter, the Fund will receive 13.2% of the distributable profit. The concession period for this project will end by 2023.

	FY 2000	FY 1999	%Change
Investment income of the Fund	US\$0.79 million	US\$0.73 million	8%
Total toll revenue	US\$7.23 million	US\$6.53 million	11%
Daily traffic flow	15,000	13,800	9%

### Huizhou City Huiguang Highway & Bridges Company Limited ("Huiguang") – Huizhou section of Provincial Highway No. 1925

The Fund has a 40.2% stake in Huiguang, with a total investment of US\$8.00 million. The Fund sold its entire interest to the Chinese partner for the consideration of US\$8.00 million which contributed a profit of US\$2.02 million for the year ended 31 December 2000. As of 31 March 2001, the Fund has an outstanding receivable of US\$0.96 million against the Chinese partner, the balance is expected to be settled later in 2001.

	FY 2000	FY 1999	%Change
Investment income of the Fund	US\$2.66 million**	US\$1.44 million	85%
Total toll revenue	US\$2.36 million	US\$2.29 million	3%
Daily traffic flow	5,400	5,500	-2%

\*\* Amount included a gain on disposal of US\$2.02 million

**Guangdong Heyuan Tong Hua Investment Limited  
("Tonghua") – Heyuan section of  
National Highway No. 205**

The Fund has a 24.2% stake in Tonghua, with a total investment of US\$4.82 million. This project continued to generate stable income for the Fund and the Chinese partner has guaranteed to the Fund annual returns of US\$0.94 million until July 2001. Because of the change in traffic flow pattern, Tonghua's toll revenue sustained at the level of last year although the traffic flow increased by 6% in 2000. The Investment Manager expects the income of the project in 2001 will substantially decline after the fixed return period expires. The concession period for Tonghua will end by 2013.

	FY 2000	FY 1999	%Change
Investment income of the Fund	US\$0.94 million	US\$0.94 million	–
Total toll revenue	US\$1.80 million	US\$1.80 million	–
Daily traffic flow	5,300	5,000	6%

**Yuehui Highway and Bridges Development  
Company Limited ("Huizhang")– Huizhou  
section of the Huizhang Highway**

The Fund has a 20% stake in Huizhang, with a total investment of US\$4.82 million. The Investment Manager is still in negotiation with the Chinese partner regarding amendment of the original joint venture agreement to tie in with the guideline issued by the Guangdong Provincial Government in mid 1999.

	FY 2000	FY 1999	%Change
Investment income of the Fund	US\$0.96 million	US\$0.96 million	–
Total toll revenue	US\$4.19 million	US\$3.92 million	7%
Daily traffic flow	11,000	10,000	10%



## INDUSTRIAL PROJECTS

### Foshan Tongbao Company Limited ("Tongbao") – Thermostat manufacture

The Fund has a 29.85% stake in Tongbao, with a total investment of US\$7.94 million. In turn, Tongbao owns 50% interest in Hualu Company Limited ("Hualu").

	FY 2000	FY 1999	%Change
Tongbao turnover	US\$22.60 million	US\$23.35 million	-3%
Tongbao after-tax profit	US\$3.20 million	US\$3.93 million	-19%
Hualu turnover	US\$36.54 million	US\$27.30 million	34%
Hualu after-tax profit	US\$7.41 million	US\$6.41 million	16%
Investment income of the Fund	US\$0.71 million	Nil	–

In view of Tongbao and Hualu's strong market positioning, both continued to play leading roles in the thermostat and four-way-valve manufacturing industries respectively. However, in view of the saturation of Tongbao's thermostat sales, the management is seeking other investment opportunities to further improve its profit performance by aiming to invest in advanced technology-oriented businesses such as noble metal manufacturing.

The imminent admission of China into the WTO is expected to help Tongbao to increase its exports in the future.

During the year, Tongbao has been working towards its listing on the PRC Stock Exchange. It is expected that the China Securities Regulatory Commission will give Tongbao the green light for its debut trading in 2001.

### Guangdong (Zhanjiang) Medium Density Fiberboard Limited ("MDF") – Medium density fiberboard

The Fund has 11.2% stake in MDF, with a total investment of US\$4.66 million.

	FY 2000	FY 1999	%Change
Turnover	US\$18.12 million	US\$16.23 million	12%
Sales volume	92,000 cubic metres	85,000 cubic metres	8%
After-tax profit	US\$ 1.66 million	US\$2.12 million	-22%
Investment income of the Fund	US\$0.23 million	US\$0.08 million	188%

The profit margin of MDF was 16% in 2000, which was 4 percentage points lower than the last year. The declining profit margin was a result of rising production costs due to the surge in oil prices during the year. Moreover, MDF was subject to 12% income tax for the year 2000 following the expiry of the 2-year tax exemption privilege. As a result, the after-tax profit of MDF decreased by 22% whilst sales revenue increased by 12%.

Given the opportunities that will arise after China's WTO entry, the demand for timber for use in infrastructure and property projects will soar in the long run. As medium density fibreboards are generally not imported because of the expensive

freight costs for its bulky capacity, competition from foreign products is not expected to be keen after China's entry to WTO.

#### **Xinhui Xingwei Building Material Company Limited ("Xingwei") – Ceramic tiles**

The Fund has a 30% stake in Xingwei, with a total investment of US\$4.77 million.

	FY 2000	FY 1999	%Change
Turnover	US\$ 4.87 million	US\$4.02 million	21%
Sales volume	873,000 square metres	633,000 square metres	38%
Loss	US\$0.4 million	US\$1.59 million	–

Xingwei's performance showed a satisfactory improvement during the year. Turnover was 21% more against last year whilst losses were reduced from US\$1.59 million in 1999, to US\$0.4 million in 2000. However, in view of excessive supplies of tiles, it is expected that the pressure on tile prices will continue over the coming year and that the tile market will continue to consolidate. Considering the financial status of Xingwei, the Fund had made full provisions in 1999. In 2000, its US\$2 million bank loan continued to cloud the liquidity of Xingwei. Accompany with China's prospective WTO membership may also lead to fierce competition from foreign competitors, the Fund has no plan to write back its provision made before.

#### **Gaoyao Gaolu Cement Company Limited ("Gaolu") – Cement**

The Fund has an effective stake of 30.6% in Gaolu, with a total investment of US\$7.33 million. This stake is held through an 85%-owned subsidiary – Guangxin Investment Limited – which has invested US\$8.62 million and holds a 36% interest in Gaolu.

Due to the oversupply of cement and the keen market competition, the Fund had made full provision for its investments in Gaolu in previous financial years. As to the low-end products and the financial status of Gaolu, no major improvements are anticipated in the years ahead. To reduce the loss of the shareholders, Gaolu has leased its production lines to a third party for a lease charge, part of which will be returned to the Fund.

#### **Zhaoqing Micro-Fibre Company Limited ("Mankelong") – PET/PA-6 microfilament**

The Fund has a 20% stake in Mankelong, with a total investment of US\$4.75 million. Under its investment agreement, the Fund should receive an annual return in US dollars, guaranteed by GDE, of 18% of its total investment. In 1999, the Fund exercised the exit option to sell its stake to GDE. However, GDE's financial difficulties and subsequent restructuring required the Fund to make provisions of US\$1.40 million in 1998 and US\$1.73 million in 1999, equivalent to 65% of the Fund's total investment in this project.

Under the restructuring of GDE, the Fund committed to receive an amount in cash of US\$0.13 million, interest-bearing notes and credits, and shares of fellow companies of the restructured GDE Group, to



settle the outstanding debts. The Fund therefore recorded a gain of US\$2.17 million during the year.

**Guangdong Zhanhai Instrument and Meter Company Limited ("Zhanhai") – Flowmeters**

The Fund has a 36% stake in Zhanhai, with a total investment of US\$3.79 million.

	FY 2000	FY 1999	%Change
Turnover	US\$ 1.26 million	US\$1.10 million	15%
Loss	US\$0.29 million	US\$0.23 million	–

The Fund made full provisions of US\$0.60 million in 1998 and US\$3.19 million in 1999 to write off its investment in the project.

During the year, Zhanhai's turnover remained stagnant due to increasing competition from more advanced products, such as the mass flowmeters. The situation is expected to further deteriorate after China's admission into the WTO.

**GD Decorative Material (Zhongshan) Company Limited ("Zhongshan Factory") – Decorative materials**

The Fund has an 18% stake in Zhongshan Factory, with a total investment of US\$2.17 million.

	FY 2000	FY 1999	%Change
Turnover	US\$20.52 million	US\$14.27 million	44%
Sales volume	2.92 million square metres	1.92 million square metres	52%
After-tax profit	US\$3.50 million	US\$1.55 million	126%
Investment Income of the Fund	US\$0.31 million	Nil	–

With a successful market positioning, Zhongshan Factory's brand name "PACO" is widely recognised as a leading brand in the market. Taking advantage of its extensive sales network in China's major markets and the stimulated local economy, Zhongshan Factory's turnover in 2000 recorded significant growth of 44% and 52% in sales revenue and volume respectively.

Currently, floorboards are the major source of income of Zhongshan Factory. Sales of wallboards remain stagnant because of customer reluctance to accept the products. The wallboard market is a potential one targeted to be developed by the management.

The decoration materials market after China's WTO entry is expected to become more competitive. However, Zhongshan Factory, based on its strong sales network and PACO's prominent brand name, expects to continue in its role as a leading player.

#### Ningbo Malting Company Limited ("Ningbo Malting") – Beer malt

The Fund has a 10% stake in Ningbo Malting, with a total investment of US\$3.94 million.

	FY 2000	FY 1999	%Change
Turnover	US\$33.48 million	US\$27.25 million	23%
Sales volume	113,000 tons	96,000 tons	18%
Loss	US\$1.17 million	US\$2.38 million	–

In 2000, the Fund had funded an additional US\$0.09 million to Ningbo to pay the interests on bank loan guaranteed by the Shareholders. As at the end of 2000, the Fund's contingent liability in the joint venture stood at US\$1.26 million.

Subsequent to the successful restructuring of GDI, Ningbo Malting is under a loans repayment schedule. If Ningbo Malting is unable to generate enough cash to repay the bank loans, the Fund as a guarantor, will have to realize its contingent liability and to meet the shortfall according to the proportion specified in the guaranty.

In the year 2000, Ningbo Malting shows improvement with a loss less than the last year. Revenue and sales volume were 23% and 18% higher, respectively. Although a better result is recorded this year, liquidity is still the major problem that Ningbo Malting faces in coping with its debt repayment in the coming years. It is expected that the heavy and prolonged trade receivable problem will be resolved after consolidation of the beer industry.

During the year 2000, Ningbo Malting took advantage of the standstill arrangement of GDI and ceased to repay the principal of its bank loan. However, upon completion of GDI's restructuring, Ningbo Malting will resume loan repayments.

The Fund made full provisions of US\$3.85 million in 1998 and 1999 as well as the interest payment of US\$0.09 million in 2000.

#### Guangzhou Malting Company Limited/ Guangzhou Yangcheng Malting Plant (jointly known as "Guangmai") – Beer malt

The Fund has a 29.5% stake in Guangmai, with a total investment of US\$13.58 million.

	FY 2000	FY 1999	%Change
Turnover	US\$45.53 million	US\$40.14 million	13%
Sales volume	150,000 tons	136,000 tons	10%
After-tax profit	US\$0.24 million	US\$1.12 million	-79%



Following the restructuring of GDI, Guangmai has to repay its foreign bank loans over the coming three years under arrangement. With tighter credit control, Guangmai believes that it will generate sufficient cash flow to cope with its debt repayment needs.

The price of malt held steady in 2000, compared to last year, and the reduction in profit was mainly due to reduced tax refunds during the year.

## REAL ESTATE PROJECT

**Guangdong Nan Fang (Holdings) Company Limited ("Nanfang") – Shopping mall at Guangzhou Exchange Square**

The Fund has a 43.7% stake in Nanfang, with a total investment of US\$10.63 million. The Fund had made a full provision in 1999.

Following an arbitration between Nanfang and its tenant in August 2000, an award was made in favour of Nanfang, which then took back the management of the shopping mall at Guangzhou Exchange Square in November 2000. While continuing to sign tenancy agreements with its current sub-tenants, Nanfang is actively seeking tenants to maximise the occupancy rate. The expected rental income for 2001 over the property is US\$0.66 million. Although full provision has been made, it is expected there will be some recovery of the investment made by the Fund as the property market continues to improve.

Notwithstanding excess market supply, China's imminent WTO admission will create demand for property, especially in the commercial sector, once foreign enterprises establish offices in China.

## IT PROJECT

**EBSBridge International Limited ("EBSBridge") – Internet Application Service Provider**

The Fund has a 10% stake in EBSBridge, with a total investment of US\$1 million.

To realise investments and identify new projects with positive investment potential, the Fund invested in EBSBridge in May 2000. The Company, 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. This is the Fund's first IT related project and the first technology-related investment in its portfolio.

The burn rate of EBSBridge has been reduced from US\$100,000 per month, at its beginning, to approximately US\$36,000 per month recently, due to the launch of its products. With the current cash position, EBSBridge can sustain its operation until June 2001. Following incubation, EBSBridge is looking for its second round of funding to support the marketing promotion needed for further development.

Due to the global pessimistic sentiment towards IT sector, the Fund has decided to make a provision of US\$0.5 million on its investment to EBSBridge.

## LISTED INVESTMENTS

As at 31 December 2000, the Fund's listed investments amounted to US\$2.77 million, representing approximately 4% of its net assets.

As at 31 December 2000, the market value of the Fund's listed investments portfolio increased by US\$0.53 million against last year, which was due to the rise in price of B shares and the marketable securities received for settlement of the Fund's debt with GDE.