

The directors present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2000.

PRINCIPAL ACTIVITY

The principal activity of the Group consisted, primarily, of investment holding with the objective of achieving long term capital appreciation through investing in enterprises primarily in the Guangdong Province of the People's Republic of China (the "PRC"), largely by taking significant minority interests in unlisted equity and contractual joint ventures.

Subsequent to the balance sheet date, at the Extraordinary General Meeting of the Company held on 23 February 2001, special resolutions were passed to widen the Company's powers of distribution and to amend the investment policies. Accordingly, the Group will thereafter intend not to make any further investments of a long term nature.

Assets and liabilities

As at 31 December	Total liabilities		Capital and reserves US\$	Net asset value per share US cents
	Total assets	and equity minority interest		
	US\$	US\$		
1996	104,968,167	11,061,725	93,906,442	97
1997	104,056,081	10,114,822	93,941,259	97
1998	87,812,003	3,308,450	84,503,553	87
1999	70,068,635	5,612,581	64,456,054	67
2000	75,159,531	4,149,842	71,009,689	73

NET ASSET VALUE

The net asset value per fully paid ordinary share at 31 December 2000 was US73 cents.

RESULTS AND DIVIDENDS

The Group's return for the year ended 31 December 2000 and its state of affairs at that date are set out in the financial statements on pages 24 to 50.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2000.

SUMMARY OF FINANCIAL INFORMATION

A summary of the revenue and return/(loss) and of the assets and liabilities of the Group for the last five financial years as extracted from the audited financial statements and reclassified as appropriate is set out below:



SUMMARY OF FINANCIAL INFORMATION (CONTINUED)

Revenue and return/(loss)

Year ended 31 December	Total revenue US\$	Return/(loss) attributable to equity shareholders US\$	Return/(loss) per equity share US cents	Dividend for the year US\$	Dividend per share US cents
1996	11,127,139	6,364,968	6.6	5,814,000	6.0
1997	10,185,290	4,879,817	5.0	4,845,000	5.0
1998	8,567,278	(9,437,706)	(9.7)	—	—
1999	5,923,959	(20,047,499)	(20.7)	—	—
2000	10,505,706	6,553,635	6.8	—	—

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 7 to the financial statements.

LONG TERM INVESTMENTS

At 31 December 2000, unlisted long term investments were valued at US\$43,305,097 (1999: US\$47,753,769). Details of the long term investments are included in note 8 to the financial statements.

SHARE CAPITAL

Details of the Company's share capital are set out in note 11 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 12 to the financial statements.

The Company had no reserves available for distribution.

DIRECTORS

The directors of the Company during the year were:

CHU Lap-Lik, Victor

CHAN Yu Lam

LAU Wah Sum*,

GBS, LLD, JP

LEE York Wo, Richard

Faisal Hamad Mubarak

AL-AYYAR

KWAN Yee Fai

(appointed on
30 May 2000)



DIRECTORS (CONTINUED)

HO Man Yi	(appointed on 30 May 2000)
Beat M. MULLER*	(appointed on 30 May 2000)
KANG Dian	(resigned on 31 October 2000)
Simon MURRAY*	(resigned on 2 June 2000)

* *Independent non-executive directors*

Mr. Mohammad Haroon was appointed as an alternate director to Mr. Faisal Hamad Mubarak Al-Ayyar to attend board meetings on 20 April 2000, 22 September 2000, 31 October 2000 and 8 November 2000 on Mr. Al-Ayyar's behalf. Mr. Haroon ceased to act in such capacity after the meetings.

Subsequent to the balance sheet date, on 18 January 2001, Mr. Leung Yau Wan, John was appointed as a director. On the same date, Mr. Mohammad Haroon was appointed as an alternate director to Mr. Faisal Hamad Mubarak Al-Ayyar to attend a board meeting on Mr. Al-Ayyar's behalf. Mr. Haroon ceased to act in such capacity after the meeting.

In accordance with article 99 of the Company's articles of association, Mr. Leung Yau Wan, John will retire, and being eligible, will offer himself for re-election at the forthcoming annual general meeting. All the other directors continue in office in accordance with the Company's articles of association.

DIRECTORS' SERVICE CONTRACTS

No director has a service contract with the Company.

DIRECTORS' INTERESTS IN CONTRACTS

The following directors of the Company had beneficial interests in contracts to which the Company or any of its subsidiaries was a party during the year:

Mr. Kang Dian was and Mr. Chan Yu Lam is a director of Guangdong Capital Holdings Limited, a 55% shareholder of Guangdong Investment Management Limited, which received investment management fees in connection with investment, administrative and accounting services provided to the Company pursuant to a management agreement. Mr. Kang Dian was and Messrs. Chan Yu Lam, Chu Lap-Lik, Victor, Lee York Wo, Richard and Kwan Yee Fai are also directors of Guangdong Investment Management Limited.

Mr. Kang Dian was and Mr. Chan Yu Lam is directors of Guangdong Capital Holdings Limited, the holding company of Guangdong Securities Limited, which received brokerage commission for dealings in the listed investments of the Company.

Messrs. Chu Lap-Lik, Victor and Lee York Wo, Richard hold equity interests in First Eastern China Investment Limited, a 45% shareholder of Guangdong Investment Management Limited, which, as explained above, received investment management fees in connection with investment, administrative and accounting services provided to the Company pursuant to a management agreement. Mr. Chu is also a director of First Eastern China Investment Limited.

DIRECTORS' INTERESTS IN CONTRACTS (CONTINUED)

Mr. Chu Lap-Lik, Victor is a senior partner of Victor Chu & Co., which received professional fees for legal services provided to the Company during the year. In addition, Mr. Chu also holds an equity interest in Equity Secretarial Services Limited, which received a service fee during the year in respect of company secretarial services provided to the Company pursuant to a services agreement.

Mr. Chu Lap-Lik, Victor holds equity interests in and Dr. Lau Wah Sum, GBS, LLD, JP is the Chairman of Equity Financial Press Limited, which received printing charges in connection with printing services provided to the Company.

Save as mentioned above, no director had a beneficial interest in any material contract to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

FE Select Investments Limited, of which Mr. Chu Lap-Lik, Victor is a director, acquired 6,600,000 ordinary shares in the Company, representing 6.81% of the Company's issued share capital, on 12 May 2000. As at 31 December 2000, FE Select Investments Limited held 16,600,000 ordinary shares in the Company, representing 17.13% of the Company's issued share capital. Declaration of the relevant interest was made to the London Stock Exchange, The Stock Exchange of Hong Kong Limited and the Chairman of the Company immediately after the acquisition in accordance with the listing rules of both Exchanges.

As at 31 December 2000, Mr. Chu Lap-Lik, Victor, a director of the Company, personally held 50,000 ordinary shares in the Company.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interest in the equity or debt securities of the Company or any of its associated corporations.

At no time during the year has any right been granted to, or exercised by, any director of the Company, nor has the Company or any of its subsidiaries been a party to any arrangement to enable the Company's directors or their associates, to acquire benefits by means of the acquisition of shares in the Company or any other body corporate.

MANAGEMENT AND ADMINISTRATION

The Company entered into a management agreement with Guangdong Investment Management Limited, which in turn has entered into two administrative and accounting services agreements with GDF Management Limited and Guangdong Fund (Hong Kong) Limited, respectively. The appointment of the Investment Manager became effective on 18 February 1994 and will continue in force until further arrangement by either party according to the agreement.

Pursuant to the management agreement, Guangdong Investment Management Limited acts as the Investment Manager of the Company and executes the investment policy as set out in the Listing Particulars issued by the Company in 1994. In addition, it provides administrative and accounting



MANAGEMENT AND ADMINISTRATION (CONTINUED)

services to the Company. A management fee is paid quarterly in arrears by the Company for these services and is calculated at an annual rate 2.5% of the value of assets invested in unlisted companies and 0.75% of the value of the remaining assets. All of the operating costs of the Investment Manager incurred in providing these services to the Company are borne by the Investment Manager. The Investment Manager can either carry on investment business or delegate management functions relating to those of the Company's investments that are listed on The Stock Exchange of Hong Kong Limited to First Eastern Investments Limited, a member of the investment group established by Mr. Chu Lap-Lik, Victor and his family and a registered investment adviser under

the Securities Ordinance of Hong Kong.

The Company has an administration agreement with Barclays Private Bank & Trust Limited, which, among other services, provides a location within Jersey for the registered office of the Company, and maintains the register of directors and secretaries and the minutes of the meetings of shareholders and directors.

SUBSTANTIAL SHAREHOLDINGS

The directors of the Company are aware of the following parties (or their clients) who, as at 19 March 2001, were interested, directly or indirectly, in 3% or more of the issued share capital of the Company:

Number of shares Name	Percentage of	
	fully paid	issued share capital
FE Select Investments Limited	16,600,000	17.13%
Deutsche Bank AG	13,527,000	13.96%
Liverpool Limited Partnership	10,350,000	10.68%
Westgate International, L.P.	10,350,000	10.68%
Alliance Capital Management	10,000,000	10.32%
Guangdong Capital Holdings Limited	10,000,000	10.32%
Morgan Nominees Limited	8,000,000	8.26%
Gartmore Investment Management Limited	5,500,000	5.68%
Bechtel Enterprises Holdings Inc.	5,000,000	5.16%

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

A substantial proportion of the gross revenue is derived from the Group's listed and unlisted investments and the disclosure of information regarding customers would not be meaningful. The Group has no major suppliers requiring disclosure.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the articles of the Company or the laws of Jersey which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

SUBSEQUENT EVENTS

Details of the significant events which occurred subsequent to the balance sheet date are set out in note 22 to the financial statements.

INTERNAL FINANCIAL CONTROL AND CODE OF BEST PRACTICE

The board has entered into contracts delegating to external parties the management of the investment portfolio, the custodial services which include the safeguarding of the assets, and the day-to-day accounting and company secretarial requirements. Each of these contracts was entered into only after proper consideration by the board of the quality and cost of services offered.

The Investment Manager invests the Company's funds in accordance with the investment policy and guidelines as set out in the Listing Particulars when the Company's shares were first launched. The Investment Manager gives, from time to time, full reports on the Company's investment holdings and performance to the board at its meetings. The Investment Manager also reports regularly to the board on the Company's financial position and the custody of its assets.

On 10 May 1999, the Company, pursuant to the Combined Code of Principles of Good Governance of the London Stock Exchange and the Code of Best Practice of the Hong Kong Stock Exchange, established an Audit Committee (the "Committee") comprising two independent non-executive directors and a non-executive director. The role of the Committee is to advise the board by providing independent and objective reviews on the Company's financial reporting process, internal control and audit function; and the compliance and management services of the Investment Manager under the management agreement. The Committee will meet with the Company's auditor, the Investment Manager and employees of the Investment Manager and other third parties from time to time as the Committee considers necessary to ensure an effective control system is in place and to ensure that appropriate compliance procedures are being put in place for the Company and, where needed, make recommendations to the board.

In the opinion of the directors, who have taken into account the above establishments, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the annual report, save that the non-executive directors are not appointed for a specific term.

STATEMENT OF DIRECTORS' RESPONSIBILITIES WITH REGARD TO THE FINANCIAL STATEMENTS

The directors are responsible for the preparation of financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group, and of the net results of the Group for that year. In preparing those financial statements, the directors should:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps to prevent and detect fraud and other irregularities.

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

CHU Lap-Lik, Victor

Chairman

9 April 2001

