

## 1. GENERAL

The Company was incorporated with limited liability in Jersey on 12 January 1994 under the Companies (Jersey) Law 1991. The Company's ordinary share capital was listed on the London Stock Exchange on 23 February 1994. The Company obtained a secondary listing of its ordinary share capital on The Stock Exchange of Hong Kong Limited on 23 July 1996.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of principal accounting policies, all of which have been applied consistently throughout the current and preceding years, is set out below.

### Basis of preparation

The financial statements have been prepared in US dollars under the historical cost convention. The financial statements have been prepared in accordance with generally accepted accounting principles in the United Kingdom ("UK GAAP").

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired during the year are consolidated from their effective dates of acquisition. All significant intra-group transactions and balances within the Group are eliminated on consolidation.

### Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

### Interests in long term investments

Interests in unlisted investments are classified as long term where, in the opinion of the directors, they are made with the expectation that realisation will not be in the near future or where there are restrictions on their immediate realisation.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Interests in long term investments (continued)

All unlisted investments are valued by the directors, initially at cost unless adverse factors indicate that a permanent reduction in value has taken place and a provision should be made. Thereafter, the directors' valuation takes into account the investee's historical or projected earnings or asset value or the price at which transactions in the investee company's equity have taken place or an offer has been made, as appropriate. In the opinion of the directors, the carrying value of the investments equates to fair value.

Unlisted investments operating in the form of joint ventures, whereby the residual interests in the joint venture projects are to be transferred to the various PRC joint venture parties at the end of the contractual periods in accordance with the terms of the contract, are stated at cost less accumulated amortisation, computed to write off the cost less any residual value of the joint ventures over the underlying joint venture contract terms. Amortisation of interests in long term investments are dealt with in the revenue section of the statement of total return.

Capital gains and losses on the investments, whether realised or unrealised, are dealt with in the capital section of the statement of total return.

### Associates

Associates are companies, not being subsidiaries, in which the Group holds a participating interest representing 20% or more of the equity capital and over which it is in a position to exercise significant influence.

In accordance with the provisions of Financial Reporting Standard No. 9 "Associates and Joint Ventures" relating to investment funds, the Group includes all investments at cost less any provisions for permanent diminutions in values, where appropriate, and accumulated amortisation, even where the Group has significant influence over the investees, because these investments are held as part of the Group's investment portfolio. The directors consider that, because these investments are held with a view to the ultimate realisation of capital gains, equity accounting would not give a true and fair view of the Group's interest in these investments which is better measured by dividends and interest. Further details of these investments are included in note 8 to the financial statements.

### Listed investments

Listed investments are classified as short term and are stated at the lower of cost and market value.

Capital gains and losses on the investments, whether realised or unrealised, are dealt with in the capital section of the statement of total return.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currency transactions

Foreign currency transactions during the year are translated into United States dollars at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into United States dollars at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the revenue section of the statement of total return.

### Revenue recognition

Interest income is recognised on an accruals basis. Investment income is recognised when the right to receive payment is established. The sale of listed investments is recognised when the relevant contract notes are executed.

### Investment management fee

The investment management fee represents amounts paid/payable to Guangdong Investment Management Limited ("Investment Manager") in connection with investment, administrative and accounting services provided to the Company. The investment management fee is charged by the Investment Manager for those services and is calculated quarterly based on an annual rate 2.5% of the Group's assets invested in unlisted companies and 0.75% of the Group's remaining assets.

### Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

## 3. TAXATION

The Group is not subject to profits tax in any jurisdiction. Taxation for the year represents withholding tax in respect of the investment income of the Group.

## 4. OTHER ADMINISTRATIVE EXPENSES

	Group	
	2000	1999
	US\$	US\$
Directors' remuneration	105,552	79,200
Auditors' remuneration	111,255	105,000
Legal and professional fees	224,914	191,396
General and administrative expenses	233,565	323,209
	675,286	698,805

## 5. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS

Details of remuneration payable by the Group to the directors of the Company are as follows:

	2000	1999
	US\$	US\$
Fees: Executive	—	—
Non-executive	48,000	25,000
Independent non-executive	57,552	54,200
	105,552	79,200

## 5. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID INDIVIDUALS (CONTINUED)

The remuneration of the above directors fell within the following band:

	Number of directors	
	2000	1999
Nil - US\$129,199 (equivalent to Nil - HK\$1,000,000)	10	9

The five highest paid individuals during the year were all directors, details of whose remuneration are set out above.

There was no arrangement under which a director of the Company waived or agreed to waive any remuneration during the year.

The Group did not incur any salaries, allowances, or benefits in kind and did not have a pension scheme for its employees during the year as the Group's investment management and administrative work were performed by the Group's Investment Manager. Details of the work provided by the Investment Manager are set out in the section under "Management and Administration" of the directors' report.

## 6. RETURNS/(LOSSES) PER ORDINARY SHARE

The revenue return per ordinary share is based on the revenue return attributable to equity shareholders of US\$2,431,741 (1999: US\$594,166) and on the 96,900,000 (1999: 96,900,000) ordinary shares in issue during the year.

The capital return per ordinary share is based on the net realised and unrealised capital return of US\$4,121,894 (1999: capital loss of US\$20,641,665) and on the 96,900,000 (1999: 96,900,000) ordinary shares in issue during the year.

The diluted return/loss per ordinary share has not been calculated as no diluting events existed during the year.

## 7. INTERESTS IN SUBSIDIARIES

	2000 US\$	1999 US\$
Unlisted shares, at cost	16	16
Due from subsidiaries	86,825,476	88,572,546
Due to subsidiaries	(10,992,876)	(9,758,204)
	75,832,616	78,814,358
Less: Provisions for amounts due from subsidiaries	(34,497,869)	(31,725,049)
	41,334,747	47,089,309

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries, which were incorporated in the British Virgin Islands, are as follows:

Name	Nominal value of issued share capital	Percentage of equity attributable to the Company	Principal activities
GDF (Xinhui) Limited	US\$1	100%	Investment holding
GDF (Tongbao) Limited	US\$1	100%	Investment holding
GDF (International) Limited	US\$1	100%	Investment holding
GDF (New Beijiang) Limited	US\$1	100%	Investment holding
GDF (Zhanhai) Limited	US\$1	100%	Investment holding
GDF (Gaoyao) Limited	US\$1	100%	Investment holding
GDF (Zhongfang) Limited	US\$1	100%	Investment holding
GDF (Ningbo) Limited	US\$1	100%	Investment holding

## 7. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Nominal value of issued share capital	Percentage of equity attributable to the Company	Principal activities
GDF (Zhanxia) Limited	US\$1	100%	Investment holding
Guangyong Development Limited	US\$1	100%	Investment holding
GDF (Heyuan) Limited	US\$1	100%	Investment holding
GDF (Huizhou) Limited	US\$1	100%	Investment holding
GDF (Mankelong) Limited *	US\$1	100%	Investment holding
GDF (Guangmai) Limited	US\$1	100%	Investment holding
GDF (Boluo) Limited	US\$1	100%	Dormant
GDF (Hui Zhang) Limited	US\$1	100%	Investment holding
GDF (EBS) Limited	US\$1	100%	Investment holding
Guangxin Investment Limited **	US\$100	85%	Investment holding

\* GDF (Mankelong) Limited ("GDF (Mankelong)") is a subsidiary of Guangyong Development Limited.

\*\* Guangxin Investment Limited ("Guangxin") is a subsidiary of GDF (Gaoyao) Limited.

Except for Guangxin and GDF (Mankelong), all of the above subsidiaries are directly held by the Company.

## 8. INTERESTS IN LONG TERM INVESTMENTS

	Group	
	2000	1999
	US\$	US\$
Unlisted investments:		
At beginning of year:		
At cost	85,106,459	86,018,450
Provisions for permanent diminutions in values	(32,609,157)	(13,391,030)
Accumulated amortisation	(4,743,533)	(3,614,984)
Valuation at beginning of year	47,753,769	69,012,436
Movements during the year:		
Additions, at cost	6,913,489	4,057,971
Disposals	(7,646,635)	(4,817,620)
Repayment of shareholders' loan	(115,615)	(152,342)
Provisions for permanent diminutions in values	(589,820)	(19,218,127)
Write-back of a provision for permanent diminution in value	115,615	—
Provision for bank guarantee payment made in prior year	(2,183,000)	—
Amortisation charged	(942,706)	(1,128,549)
	(4,448,672)	(21,258,667)
Valuation at 31 December	43,305,097	47,753,769
At 31 December:		
At cost	79,493,680	85,106,459
Provisions for permanent diminutions in values	(32,546,616)	(32,609,157)
Accumulated amortisation	(3,641,967)	(4,743,533)
	43,305,097	47,753,769

The balances with investee entities are unsecured. Apart from an amount due from an investee entity of US\$54,589 (1999: US\$90,524) which is interest bearing and repayable within one year, the remaining balances with investee entities are interest-free and have no fixed terms of repayment. The amounts due from investee entities are arrived at after charging provisions for doubtful debts of US\$575,354 (1999: US\$2,216,044) as at the balance sheet date.

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## 8. INTERESTS IN LONG TERM INVESTMENTS (CONTINUED)

Details of the Group's long term investments, which are holdings in unlisted associates, are as follows:

Company	Place of	Percentage of equity holding %	Share capital and reserves US\$'000	Attri- butable net assets US\$'000	Capital invested US\$'000	Share- holders' loans US\$'000	Attributable					Principal activities
	incorporation/ registration and operations						Total	earnings/ (share of			Interest income	
								Earnings/ (losses)	losses)	Investment income		
							investment US\$'000	(losses) US\$'000	US\$'000	US\$'000	US\$'000	
Xin Hui Xingwei Building Material Co. Ltd.	PRC	30.0	8,214#	2,464	3,530	1,240	- (net of provision of US\$4,770,000)	(403)#	(121 )	-	-	Production and sale of ceramic tiles
Foshan Tongbao Company Limited	PRC	29.9	29,561*	8,839	7,993	-	7,993	3,914*	1,170	709	-	Production and sale of thermostats and other temperature control devices
Guangdong Zhanhai Instrument and Meter Company Ltd.	PRC	36.0	4,552*	1,639	2,331	1,462	- (net of provision of US\$3,793,000)	(287)*	(103 )	-	-	Production and sale of flow meters
Gaoyao Gaolu Cement Company Limited	PRC	36.0	12,525*	4,509	7,439	1,065	- (net of provision of US\$8,504,000)	(746)*	(269 )	-	-	Production and sale of cement
Guangdong Nan Fang (Holdings) Company Limited	British Virgin Islands/ PRC	43.7	(11,886)#	(5,194 )	29	10,603	- (net of provision of US\$10,632,000)	(2,743)#	(1,199 )	-	-	Property holding
Guangdong Heyuan Tong Hua Investment Limited (f)	PRC	24.2	19,739#	4,777	3,359	-	3,359	30#	7	940	-	Operation of a section of National Highway No. 205

## 8. INTERESTS IN LONG TERM INVESTMENTS (CONTINUED)

Company	Place of incorporation/ registration and operations	Percentage of equity holding %	Share capital and reserves US\$'000	Attri- butable net assets US\$'000	Capital invested US\$'000	Share- holders' loans US\$'000	Total investment US\$'000	Earnings/ (losses) US\$'000	Attributable earnings/ (share of losses) US\$'000	Investment income US\$'000	Interest income US\$'000	Principal activities
Huizhou City Huiguang Highway and Bridges Company Limited (f), (g)	PRC	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	641	Operation of a section of Provincial Highway No. 1925
Zhaoqing Micro-Fibre Co. Ltd. (h)	PRC	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-	-	Production and sale of micro-fibre filaments used in the textile industry
Guangzhou Malting Co. Ltd.	PRC	29.5	15,222*	4,490	7,318	-	7,318	190*	56	-	-	Production and sale of malt
Guangzhou Yangcheng Malting Plant	PRC	29.5	12,809*	3,779	6,266	-	6,266	55*	16	-	-	Production and sale of malt
Yuehui Highway and Bridges Development Co., Ltd. (f)	PRC	20.0	11,226*	2,245	1,637	2,439	4,076	3,127*	625	964	-	Operation of a section of Provincial Highway No.1918,1919
			101,962	27,548	39,902	16,809	29,012	3,137	182	2,613	641	

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## 8. INTERESTS IN LONG TERM INVESTMENTS (CONTINUED)

Details of the Group's long term investments, other than those which are holdings in unlisted associates, are as follows:

Company	Place of	Percentage	Share	Attri-	Attributable							Principal activities
	incorporation/	of equity	capital and	butable	Capital	Share-	Total	Earnings/	(share of	Investment	Interest	
	registration	holding	reserves	net assets	invested	holders'/						
	and operations	%	US\$'000	US\$'000	US\$'000	US\$'000	investment	US\$'000	US\$'000	US\$'000	US\$'000	
Guangdong (Zhanjiang) Medium Density Fiberboard Limited	PRC	11.2	N/A	N/A	1,855	2,808	4,663	N/A	N/A	226	–	Production and sale of medium density fibreboard
Honour Million Industries Limited (e)	Hong Kong /PRC	16.4	N/A	N/A	9	3,929	– (net of provision of US\$3,938,000)	N/A	N/A	–	–	Investment holding
GD Decorative Material (Zhongshan) Co. Ltd.	PRC	18.0	N/A	N/A	893	1,282	2,175	N/A	N/A	309	–	Production and sale of decorative materials
Pak Kong Transco Limited (f)	PRC	14.0	N/A	N/A	743	2,572	3,315	N/A	N/A	789	–	Operation of bridges in Qingyuan
EBSBridge International Limited (e)	HK	10.0	N/A	N/A	38	1,000	538 (net of provision of US\$500,000)	N/A	N/A	–	–	Investment holding
Other investment portfolio (h)	N/A	N/A	N/A	N/A	N/A	N/A	3,602	N/A	N/A	5	–	
			N/A	N/A	3,538	11,591	14,293	N/A	N/A	1,329	–	
			101,962	27,548	43,440	28,400	43,305	3,137	182	3,942	641	

\* Based on the PRC audited financial statements as at 31 December 2000.

# Based on the unaudited management accounts as at 31 December 2000.

## 8. INTERESTS IN LONG TERM INVESTMENTS (CONTINUED)

### Notes:

- (a) All associates are held by subsidiaries of the Company.
- (b) All investments are stated at cost except for those detailed in (e) and (f) below which are stated at cost less accumulated amortisation and/or provisions for permanent diminutions in values. The cost of investment includes loans to investee entities, net of provisions, amounting to US\$9,601,000 (1999: US\$15,496,000).
- (c) Investment income includes dividend income and other related investment income.
- (d) All investment income is derived from the PRC.
- (e) During the year, the directors of the Company considered that there were permanent diminutions in the values of Honour Million Industries Limited and EBSBridge International Limited. Accordingly, provisions for diminutions in values of these investments totalling US\$589,820 have been made in the current year's capital section of the consolidated statement of total return.
- (f) These were contractual joint ventures established by the various subsidiaries of the Company and independent PRC third parties. Under the terms of the joint venture contracts, the residual interests in the joint venture projects are to be transferred to the various PRC joint venture partners at the end of the contractual period in accordance with the terms of the contracts. These investments are stated at cost less accumulated amortisation, computed to write off the cost of the investments over the underlying contract terms.
- (g) On 20 October 1999, an agreement was entered into between the Group and the Chinese partner of Huizhou City Huiguang Highway and Bridges Company Limited ("Huizhou") whereby the Group disposed of its entire interest in Huizhou to the Chinese partner for a cash consideration of US\$8,000,000, resulting in a gain of US\$2,015,863. Such disposal was completed in August 2000. The gain on disposal has been recognised in the current year's capital section of the consolidated statement of total return.
- (h) As part of a condition of the Group's acquisition of Zhaoqing Micro-Fibre Co. Ltd. ("Zhaoqing") in 1996, the Group was granted a put option (the "Option") requiring the other shareholders of Zhaoqing (the "Zhaoqing Shareholders") to purchase the Group's entire interest in Zhaoqing at its original cost of US\$4.8 million during the exercise period from 21 February 1999 to 20 February 2000. The Option was guaranteed by Guangdong Enterprises (Holdings) Limited ("GDE") (the "Guarantee"). Due to the failure of the Zhaoqing Shareholders to fulfil their obligations upon the Group's exercise of the Option in 1999, the Group then called for the Guarantee from GDE. To fulfil GDE's obligations as a guarantor, during the year, the Guarantee was satisfied by the distribution to the Group of certain cash and debt and equity securities issued by GDE affiliates (the "Entitlements"). In the opinion of the directors, the fair values of the Entitlements were valued at US\$3,833,599 based on the face values of the debt securities and the underlying net asset values of the share securities less a discount on certain of them. Taking into account the carrying value of the Group's investment in Zhaoqing of US\$1,662,500, the above settlement resulted in a gain of US\$2,171,099 which has been recognised in the current year's capital section of the consolidated statement of total return.

## 9. LISTED INVESTMENTS

	Group		Company	
	2000	1999	2000	1999
	US\$	US\$	US\$	US\$
Listed investments, at cost:				
PRC	1,567,627	1,567,627	1,567,627	1,567,627
Hong Kong	2,267,413	2,163,603	2,161,583	2,163,603
	3,835,040	3,731,230	3,729,210	3,731,230
Market value of listed investments at 31 December	2,765,260	2,236,526	2,660,593	2,236,526
Movements in listed investments during the year are summarised as follows:				
At beginning of year:				
At cost	3,731,230	4,695,592	3,731,230	4,695,592
Mark-to-market provision	(1,494,704)	(2,172,000)	(1,494,704)	(2,172,000)
Valuation at beginning of year	2,236,526	2,523,592	2,236,526	2,523,592
Movements during the year:				
Non-cash additions	105,830	—	—	—
Disposals				
— proceeds	(3,575)	(499,397)	(3,575)	(499,397)
— net realised gain/(loss) on disposal	1,293	(464,703)	1,293	(464,703)
Write-back of mark-to-market provision at 31 December	425,186	677,034	426,349	677,034
	528,734	(287,066)	424,067	(287,066)
Valuation at 31 December	2,765,260	2,236,526	2,660,593	2,236,526

## 10. DUE TO A RELATED COMPANY

	Group and Company	
	2000	1999
	US\$	US\$
Guangdong Investment Management Limited	1,204,874	1,036,628

The amount due to the related company is unsecured, interest-free and has no fixed terms of repayment.

## 11. SHARE CAPITAL

	Company	
	2000	1999
	US\$	US\$
Authorised:		
150,000,000 ordinary shares of US\$0.01 each	1,500,000	1,500,000
Issued and fully paid:		
96,900,000 ordinary shares of US\$0.01 each	969,000	969,000

## 12. RESERVES

## Group

	Share premium US\$	Capital reserve – realised US\$	Capital reserve – unrealised US\$	Revenue reserve US\$
At beginning of year	84,977,239	7,992,766	(34,994,101)	5,511,150
Provisions for permanent diminutions in values of long term investments	–	–	(589,820)	–
Write-back of provision for permanent diminution in value of a long term investment	–	–	98,273	–
Net realised gain on disposal of interests in long term investments	–	4,186,962	–	–
Net realised gain on sale of listed investments	–	1,293	–	–
Write-back of mark-to-market provision for listed investments	–	–	425,186	–
Capital reserve realised on disposal of interest in a long term investment	–	(3,129,361)	3,129,361	–
Net return retained for the year	–	–	–	2,431,741
At 31 December 2000	84,977,239	9,051,660	(31,931,101)	7,942,891

## 12. RESERVES (CONTINUED)

## Company

	Share premium US\$	Capital reserve – realised US\$	Capital reserve – unrealised US\$	Revenue reserve US\$
At beginning of year	84,977,239	7,810,386	(35,403,015)	6,172,435
Provisions for amounts due from subsidiaries	–	–	(589,820)	–
Net realised gain on disposal of listed investments	–	1,293	–	–
Write-back of mark-to-market provision for listed investments	–	–	426,349	–
Net return retained for the year	–	–	–	4,724,890
At 31 December 2000	84,977,239	7,811,679	(35,566,486)	10,897,325

## 13. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	2000 US\$	Group 1999 US\$
Return/(loss) attributable to equity shareholders	6,553,635	(20,047,499)
Equity shareholders' funds at beginning of year	64,456,054	84,503,553
Equity shareholders' funds at end of year	71,009,689	64,456,054

## 14. NET ASSET VALUE PER ORDINARY SHARE

The Group's net asset value per fully paid ordinary share of US\$0.73 (1999: US\$0.67) has been calculated in accordance with the articles of association. The calculation is based on 96,900,000 shares (1999: 96,900,000 shares) in issue at the year end and the net assets of the Group of US\$71,009,689 (1999: US\$64,456,054) at the year end.

The Company's net asset value per fully paid ordinary share of US\$0.71 (1999: US\$0.67) has been calculated in accordance with the articles of association. The calculation is based on 96,900,000 shares (1999: 96,900,000 shares) in issue at the year end and the net assets of the Company of US\$69,088,757 (1999: US\$64,526,045) at the year end.

## 15. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

- (a) Reconciliation of the Group's revenue return on ordinary activities to net cash inflow from operating activities

	2000 US\$	1999 US\$
Revenue return on ordinary activities	2,431,667	594,081
Provisions/(write-back of provisions) against amounts due from investee entities	(35,935)	1,013,150
Amortisation of interests in long term investments	942,706	1,128,549
Decrease in prepayments, deposits and other receivables	64,146	7,349
Increase in amounts due from investee entities	(30,416)	(253,868)
Increase in creditors and accrued liabilities	551,004	254,296
Decrease in amount due to an investee entity	—	(404,139)
Increase in amount due to a related company	168,246	635,810
<b>Net cash inflow from operating activities</b>	<b>4,091,418</b>	<b>2,975,228</b>

- (b) Analysis of sales of listed investments

	2000 US\$	1999 US\$
<b>Sales of listed investments</b>	<b>3,575</b>	<b>499,397</b>

## 15. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### (c) Analysis of changes in net funds

	At beginning of year US\$	Net cash flows US\$	Non-cash change US\$	At 31 December 2000 US\$
Cash	338,147	549,832	–	887,979
Bank overdrafts	–	(19,306)	–	(19,306)
Time deposits	14,976,943	5,258,797	–	20,235,740
Listed investments	2,236,526	(3,575)	532,309	2,765,260
	17,551,616	5,785,748	532,309	23,869,673

### (d) Major non-cash transaction

The transaction detailed in note 8(h) to the financial statements constituted a major non-cash transaction.

## 16. CONTINGENT LIABILITIES

At the balance sheet date, GDF (Ningbo) Limited had the following contingent liability:

	2000 US\$	1999 US\$
Guarantee given in respect of banking facilities granted to Prospect Top Developments Limited, a subsidiary of Honour Million Industries Limited	1,260,000	1,260,000

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## 17. SEGMENTED INFORMATION

An analysis of the Group's revenue and loss by principal activity and geographical area of operations for the year ended 31 December 2000 is as follows:

	PRC (excluding Hong Kong) US\$	Hong Kong US\$	The Cayman Islands US\$	Total US\$
Revenue:				
Investment income	3,941,740	49,911	–	3,991,651
Interest income	752,574	29,950	966,540	1,749,064
	4,694,314	79,861	966,540	5,740,715
Net realised gain on disposal of interests in long term investments	4,186,962	–	–	4,186,962
Net realised gain on sale of listed investments	–	1,293	–	1,293
Write-back of provision for permanent diminution in value of a long term investment	115,615	–	–	115,615
Write-back of mark-to-market/(mark-to- market) provision for listed investments	561,175	(135,989)	–	425,186
Write-back of provision against amount due from an investee entity	35,935	–	–	35,935
	9,594,001	(54,835)	966,540	10,505,706
Less:				
Provisions for permanent diminutions in values of long term investments	(589,820)	–	–	(589,820)
Amortisation of interests in long term investments	(942,706)	–	–	(942,706)
	8,061,475	(54,835)	966,540	8,973,180
Expenses:				
Investment management fee				(1,298,139)
Other administrative expenses				(675,286)
Return on ordinary activities				6,999,755
Taxation				(428,852)
Equity minority interest				(17,268)
Return attributable to equity shareholders				6,553,635

## 18. RELATED PARTY TRANSACTIONS

As described on pages 18 and 19, the Company had transactions paid/payable to parties in which one or more of the directors of the Company have beneficial equity interests, as set out below.

	Notes	2000 US\$	1999 US\$
Investment management fees	(a)	1,298,139	1,629,960
Brokerage commission	(b)	13	400
Legal fees	(b)	64,691	37,636
Secretarial fees	(b)	47,755	23,922
Printing charges	(b)	38,347	—

In the opinion of the directors of the Company, the above transactions were entered into in the ordinary course of the business of the Group.

Notes:

- (a) Investment management fees are calculated quarterly based on an annual rate 2.5% of the Group's assets invested in unlisted companies and 0.75% of the Group's remaining assets.
- (b) The directors consider that brokerage commission, legal fees, secretarial services fees and printing charges were made according to similar prices and conditions offered to other customers.

Details of the amounts with related parties existing at the balance sheet date are shown in the balance sheet.

## 19. VALUES OF FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

### (a) Values of financial instruments

Interests in long term investments and listed investments are carried at the values calculated in accordance with the accounting policy set out in note 2 to the financial statements. The Group's other assets and liabilities include cash and bank balances, time deposits, balances with investee entities, other receivables and payables which are realised or settled within a short period of time. The carrying amounts of these other assets and liabilities approximate to their fair values.

## 19. VALUES OF FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (CONTINUED)

### (b) Associated risks

The Group's investment activities expose it to the various types of risk which are associated with the financial instruments and markets in which it invests. The following summary is not intended to be a comprehensive summary of all risks and investors should refer to the memorandum and articles of association and the prospectus for a more detailed discussion of the risk inherent in investing in the Group.

### (c) Credit risk

Financial assets which potentially expose the Group to credit risk consist principally of investments in equities, cash and bank balances, time deposits, amounts due from investee entities and other receivables. The maximum extent of the Group's exposure to credit risk in respect of these financial assets is equal to their carrying value as recorded in the Group's balance sheet.

### (d) Market price risk

Market price risk arises mainly from uncertainty about the future prices of the financial instruments held. It represents the potential loss the investments might suffer through holding market positions in the face of price movements. The Group's Investment Manager performs periodic evaluations of the investment portfolio in order to minimise the risk associated with the investments whilst continuing to follow the Group's investment objective.

### (e) Foreign currency risk

A number of the Group's financial assets are denominated in currencies other than their base currency with the effect that the balance sheet and total return can be affected by currency movements.

### (f) Interest rate risk

The majority of the Group's financial assets are equity shares and other investments which neither pay interest nor have a maturity date. Financial assets that expose the Group directly to interest rate risk consist of bank balances and time deposits.



## 19. VALUES OF FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS (CONTINUED)

### (g) Liquidity risk

The Group's listed investments are traded on recognised stock exchanges. All of the financial liabilities of the Group fall due within one year.

## 20. EXCHANGE RATES

The rates of exchange ruling at 31 December 2000 were:

Hong Kong Dollars	7.80 = US\$1
PRC Renminbi	8.30 = US\$1

## 21. CONSIDERATION OF GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG

There are no material differences that would cause the financial statements of the Group, which have been prepared in accordance with the generally accepted accounting principles in the United Kingdom ("UK GAAP") for the year, to be adjusted to conform with the generally accepted accounting principles in Hong Kong ("HK GAAP"), except for the following:

- (i) The presentation of the statement of total return and balance sheet have been prepared in accordance with Statement of Recommended Practice "Financial Statements of Investment Trust Companies" (the "SORP") issued by the Association of Investment Trust Companies in the UK rather than the Hong Kong Statement of Standard Accounting Practice ("HKSSAP") 1 "Presentation of financial statements";
- (ii) The presentation of the cash flow statement has been prepared in accordance with UK Financial Reporting Standard No. 1 (revised) rather than the HKSSAP 15 "Cash flow statements"; and
- (iii) Equity accounting has not been adopted for the associates. If equity accounting for long term investments had been adopted, based on the PRC audited financial statements/unaudited management accounts as at 31 December 2000, the Group's return attributable to equity shareholders would have decreased by US\$2,448,000 for the year ended 31 December 2000 and the value of long term investments would have decreased by US\$4,861,000 as at 31 December 2000.

## 22. SUBSEQUENT EVENTS

- (a) On 23 February 2001, an Extraordinary General Meeting ("EGM") of the Company was held to approve the proposals to widen the Company's powers of distribution and to amend the investment policies of the Company (the "Proposals").

The Proposals empower the Company (i) to arrange for the timely and orderly disposal of the whole or substantially all of the Company's investment portfolio and not to make any further investments of a long term nature and (ii) to distribute its surplus, uninvested cash and the proceeds from the disposal of existing investments to the shareholders while maintaining sufficient cash for its operations. The Proposals were approved by way of special resolutions passed at the EGM.

Pursuant to a special resolution passed at the EGM on the same date, the Company's share premium account was reduced by US\$80 million to approximately US\$5 million. The surplus arising from such reduction was transferred to a distributable reserve account which is available for distribution to the Company's shareholders. On 1 March 2001, the Royal Court of Jersey confirmed such special resolution.

- (b) Pursuant to the directors' resolutions passed on 6 March 2001, (i) the Company declared the payment of a special dividend of US\$0.18 per share payable on 9 April 2001 to shareholders on the register of members on 28 March 2001; and (ii) the Company will seek to withdraw its secondary listing of its ordinary shares on The Stock Exchange of Hong Kong Limited as soon as practicable.

## 23. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 9 April 2001.

