

THE COMING BACK

Pearl Oriental Holdings Limited



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In moving forward, the Company should adopt a decisive and flexible investment strategy with an endeavour to build a traditional business portfolio to cope with the ever-changing market environment of Hong Kong. Diversified investment strategies which synergise the well-blended business of both the new and old economies will be the principle of the Group's continued development.

Wong Kwan

Chairman & Chief Executive

C HAIRMAN'S STATEMENT

BUSINESS REVIEW AND PROSPECT

Business Environment

Amidst the dramatic changes in the global Internet and telecom industries, the failure of the Internet businesses to realise profit from their business models has dragged these pioneers of the new economy into an intricate and formidable future. Stiff competition has resulted in throat-cut reduction in prices of telecom services. This coupled with the flabby market sentiment, caused a temporary paralysis of the fund raising function of the capital market. The operators, confronting such big challenges, have to struggle for survival.

With respect to the property market, the HKSAR Government, recognising the long lasting implication of a stable property market to the local economy, has implemented measures to stabilise the property market. However, it takes time for the recovery of investment confidence and purchasing power.

Results

The loss attributable to shareholders for the year ended 31st December, 2000 was approximately HK\$1,111.21 million with loss per share of HK\$0.083. Under such circumstances, the Directors do not recommend the payment of final dividend.

Financial Summary

The turnover of the Group for the year ended 31st December, 2000 recorded an amount of approximately HK\$328.08 million, representing around four times increase in comparing with the previous year. Rental income and the disposal of property contributed about HK\$215.29 million. The Internet and telecom businesses accounted for approximately HK\$98.71 million while the hotel business contributed approximately HK\$13.53 million to the turnover. The Group's total provision for impairment in value of properties and collateral properties under its doubtful loan receivables amounted to approximately HK\$877.3 million which constitutes the major loss factor. The drastic continuous plunge of the market prices of telecom services has temporarily rendered our telecom business non-profitable.

Property and Hotel

The sales of Pearl Seaview Hotel and Pearl Garden Hotel at HK\$338 million have been completed in the first quarter of 2001. The sale of Hontalie Commercial Building, a collateral property under our lending portfolio, will be completed by 31st May, 2001 at a consideration of HK\$36.8 million. Currently, the Group's valuable assets include Skyhigh, Genesis and Pearl Grand Parc & Hotel service apartments. It is scheduled that the disposal plan of majority of the aforesaid properties will be accomplished before the end of this year and it is envisaged that sales agreements can be concluded in the near future.

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Internet

In light of the burst of the Internet and technology bubbles in the market worldwide, the Directors have decisively implemented prompt remedial measures which include the suspension of those Internet operations which could not realise profit from its business models; terminating investment in the ZhongGuanCun project, cancelling the equity investment in Global eForce e-commerce engineering business; non-participation in the rights issue of Hkstock.com; switching the B2C business model of the Ebid online auction portal to traditional business by forming strategic alliance with mobile handset distributors to provide sales services; and teaming China Sanjiu Medical Group with Healthphone.com to set up instant Chinese herbal medicine distribution chain stores and medical centres in Canada. Through series of business consolidations, it is anticipated that the entire Internet business portfolio will see a breakthrough in the growth of its revenue and income.

The management deeply believes that the continuing evolution of Internet technology and market will not only impose radical change to the people's way of living, but also would contribute to the enhancement of economic growth. However, it is expected that the immature Internet market will drag on for a few more years. In order to substantially reduce the operating costs, the Group's Internet operating arm, Grandcyber Corporation, has downsized its management team by 90%. Severe cost re-engineering exercises on other Internet operations have been carried out and the number of employees has decreased from the highest of 185 to below 50. Further to prudently writing off the entire goodwill and deducting the operating losses, the Group's Internet

investments no longer carry any book value. Given the Group's strategy to suspend new investment activity alongside with the implementation of an intensive cost control, it is believed that the Group will not entice significant loss further in this area in future.

Telecom

Despite the loss resulted from the mounting competition in the telecom market, both Asia Business Communications, Inc. ("ABC") in United States and AIC Asia International Services Group ("AIC") in Canada have recorded increase in their traffic volume and turnover. In particular, ABC which focuses its wholesale business in the Greater China markets has recorded turnover leapfrog 100% to HK\$35.74 million. An encouraging growth was also noted in the first quarter of this year. The Group is currently studying the feasibility of merging ABC with AIC for a spin-off listing in NASDAQ. The Group also considers inviting participation of strategic investors to invest into the businesses.

The reconciliation of South and North Korea largely benefits the telecom projects in North Korea. Negotiations are underway with a number of reputable international telecom players and venture funds who have shown great interest in participating in the projects. Contrasting the great consolidation confronted by the American and European markets, telecom business in most Asian countries demonstrates satisfactory growth. The Directors reckon that these telecom projects, with thirty-year operating rights in North Korea for international long distance call services and mobile phone network, will secure huge growth potential. Satisfactory return will be generated therefrom.



Grand opening ceremony of healthphone.com officiated by the Mayor and the Members of Council of the City of Markham, Toronto.

Joint venture signing ceremony of E-Tech and Sanjiu Medicine Group for establishment of 999 E-Tech to develop instant Chinese herbal medicine distribution chain stores and medical centres.



999 E-Tech TCM Research Centre at Toronto, Canada.



All instant Chinese medicines are manufactured through sophisticated process, including low temperature concentration and vapour dissipation, with advanced technology and equipment.



A contrast of Traditional and Modern -999 E-Tech realised the moderisation of traditional Chinese medicines.

C HAIRMAN'S STATEMENT

Financial Management

Through issues of new shares and in some cases by cash, the Group has acquired various telecom, Internet and technology projects in the past two years with total investment of approximately HK\$362.89 million. The Group has adopted a prudent financial management policy. Further to writing off the entire goodwill and the deduction of operating losses, the book value of these investments now only carries a few million Hong Kong dollars.

The consolidated net tangible asset value of the Group as at 31st December, 2000 was HK\$731.66 million. Due to the accounting limitation, the consolidated balance sheet of the Group could not reflect the capital appreciation potential and real value of our telecom businesses. According to an indicative assessment provided by an independent international appraisal firm, the North Korea telecom projects alone have a present market value of US\$100 million.

The Group endeavoured to reduce its debt level during the year with total bank debts decreased from HK\$1,707.05 million to approximately HK\$1,404.6 million as at 31st March, 2001. The falling interest rate in Hong Kong will lessen the Group's interest expenses and operating costs. It is expected that further to completing the planned disposal of majority of property interests, the Group will be, in principal, able to repay all its bank debts. Thereafter, the financial position will be improved and the Group will be capable of carrying out new investment activities.

Business Strategy

The Directors believe that in moving forward the Company should adopt a decisive and flexible investment strategy with an endeavour to build a traditional business portfolio to cope with the ever-changing market environment of Hong Kong.

Following this principal, the Group will assiduously look for further investment opportunities while continuing to drive its high potential telecom business to forge ahead. The Group will resume its focus to property business with expanded horizons in both local and the overseas markets. To leverage on the investment adviser licence secured by Margaux Capital Asia Limited years ago, the Group will foster its financial business to further tap into this core industry of Hong Kong. Without deserting the stupendous potential in the technology business, the Group will selectively invest in good technology projects with an asset trading strategy to capture the fastest returns therefrom.

To better reflect the Group's diversified investment strategies which synergise the well-blended businesses of both the new and old economies, the Directors propose to resume the former name of the Company "PEARL ORIENTAL HOLDINGS LIMITED".



Head Office of AIC Asia International Services Group ("AIC Group") at Vancouver, Canada

AIC Group provides various telecom retail services, including, inter alia, long distance call and broadband Internet access.



NORTH KOREA TELECOM PROJECTS





TOP-LEFT

Lancelot Holdings Limited (“LHL”) and Korea Posts and Telecommunications Corporation (“KPTC”) engineers performing “drive test” to confirm the CDMA network radio coverage

BOTTOM-LEFT

International Communications Centre in Pyongyang of North Korea

MIDDLE

LHL and KPTC engineers setting up test equipment at the radio tower

TOP-RIGHT

KPTC executives attending the CDMA technical seminar conducted by LHL and the equipment vendor

Bottom-Right

Equipment vendor’s engineers installing test equipment for the CDMA trial network

C HAIRMAN'S STATEMENT

People

The Group always emphasizes on nurturing high-calibre persons to join its management team. The Directors are pleased to announce the promotion of Mr. Wong Wai Hay, Tony to be the Executive Director of the Company. While welcoming Mr. Tony Wong to our Board, the management has regrettably to bid farewell to Ms. Tsui Yan Ting, Jennifer who resigned from the position of Non-executive Director of the Company due to her long-term stay in Mainland China. The Company would like to express sincere gratitude to Ms. Tsui who has made great contribution to the Group for years and wish her every success in her future pursuits.

Taking this opportunity, I would like to express my sincere gratitude to the shareholders who have given us their enormous support and also to our diligent and loyal employees for their dedicated services.

Wong Kwan

Chairman and Chief Executive

Hong Kong, 20th April, 2001