MANAGEMENT DISCUSSION & ANALYSIS

OPERATION REVIEW

Operating Environment

Hong Kong experienced double-digit growth in GDP in the year 2000. The growth was driven by external sectors such as export of goods and services. Despite the sharp rebounce in the external sectors, domestic demand was poor. Consumer confidence was impaired by the decline in nominal wages and prevailing chronically high unemployment. There was no sustained recovery of the property market. The confidence in investment in property has not yet recovered. This has resulted in an over supply situation in the property market. Hong Kong's interest rate during the year remained high while prime lending rate of the banks hovered at near to double-digit year round. This has not provided a stimulus to the investment sentiment.

Property & Hotel Business

The property and hotel businesses in Hong Kong as a whole have continued to be sluggish during the year. Transaction volume of property market in Hong Kong has dropped to a very low level. The carrying of the property and hotel portfolio have stressed the financial resources of the Group. In order to maintain a more liquid position and to reduce financial burden of the Group, the board of Directors has decided to unload part of its property and hotel portfolio and focus on those investment activities which have a potential for generating income and appreciation in value.

During the year, the Group has disposed of 35th floor of West Tower of Shun Tak Centre, 25th floor of Pearl Oriental Centre and most of the residential units of Pearl Vista in Sheung Shui.

PROPERTY

MANAGEMENT DISCUSSION & ANALYSIS

Subsequent to year-end 2000, the Group has further reduced its hotel and property portfolio by disposing of Pearl Seaview Hotel and Pearl Garden Hotel.

The redevelopment of Skyhigh is still in progress despite the litigation initiated by a neighbour adjacent to the site who has filed an injunction forbidding the appointed building contractor to use vehicles of more than 5.5 tons on the right of way. Lately, the court of the HKSAR has ruled in our favour that the right of using the right of way is restored. This injunction formerly imposed has rendered a delay in the construction progress. Concurrently, the Group is seeking investors to participate in the redevelopment of Skyhigh and Genesis. Some investors have indicated their interest in participating into this project and the board of Directors is now evaluating various opportunities and will choose the best alternatives in the interest of the shareholders.

Rental income generated from the Group's investment properties has not increased significantly as some of the existing tenants which are IT related have rescinded their rental contracts. The Group is actively seeking tenants for the investment properties so as to increase the rental revenue.

Telecom Business

The Group started to develop telecom business far back in 1997 with a view to capture the expanding market potential and to explore new market opportunities in developing countries. Since then Pearl Oriental Telecom and Technology Limited ("PT&T") has been established as a flagship for business development towards this direction.

The Group's investments in telecom business include Mobile One Limited ("M1"), a wholly owned subsidiary which provides trunked radio service for fleet management operators in Hong Kong; 65% equity interest in Asia Business Communications, Inc. ("ABC"), a USA company specialises in traffic terminating services between USA and the Greater China Region and 50% equity interest in Lancelot Holdings Limited ("LHL"), a company which holds two business cooperation agreements signed with Korea Posts and Telecommunications Corporation ("KPTC") of the Democratic People's Republic of Korea. Apart from the above, during the year, the Group has increased its equity stake from 30% to 51% in Asia International Services Corporation Group ("AIC") which is a retail telecom operator based in Canada.

M1 is one of the major trunked radio operators in Hong Kong. In order to control its operating costs and to enjoy the benefit of economies of scale in the transportation segments, M1 is in the discussion with a major operator for a cooperation in a bid to further enhance its operation efficiency and to expand its customer base.

ABC provides many telecom operators with high quality data and voice terminating services mainly between USA and Greater China. The traffic volume of year 2000 has increased by 430% over that of year 1999 with total voice traffic recorded at 54.5 million minutes. ABC has recently achieved average monthly voice traffic of over 10 million minutes in the first quarter of 2001 and expects to handle over 20 million minutes per month of voice and data bandwidth traffic in the second half of 2001.

LHL holds exclusive right granted by KPTC to develop the international gateway facilities ("IGF") for international telephone service and a business agreement to build a CDMA mobile phone network for the country of the Democratic People's Republic of Korea. During the year, delegation from KPTC visited Hong Kong and technical standards for IGF were confirmed. In exchange, technical staff of LHL together with representatives from the facility vendor company visited Pyongyang to perform CDMA radio coverage prediction test. A number of international operators have shown keen interests to invest in these lucrative projects and negotiations are underway.

TELECOMMUNICATIONS

MANAGEMENT DISCUSSION & ANALYSIS

AIC holds various telecom licenses in many countries covering North America, Europe and Asia. Having its long establishment and a large customer base in Canada, AIC has expanded into the ISP business for both 56K and broadband access to capture this fast growing market. AIC is also looking for strategic partners which will produce synergy to extend its territory by adding more Points of Presence (POPs) worldwide to further broaden its business scope.

The Group reckons that leveraging on the superior management team and the state-of-the-art technology deployed coupling with a right market approach, the telecom operations under its portfolio will continue to forge ahead. It is believed that some of these telecom companies will be ready for public listing through initial public offering either on the GEM Board or the NASDAQ. The Group is also studying the feasibility of merging ABC with AIC. The synergy created will make the blended business more lucrative.

Internet Business

The Internet business worldwide has suffered a downward cycle in the year 2000. Suddenly, the market has lost its faith in the influence of the Internet. The investment sentiment in Internet business has been exceptionally poor in the later half of year 2000. It has been difficult for the Internet operators to obtain new funding to reinforce their Internet related activities.

One of the associated companies, CariPAC.com International Ltd. which is an Internet device and infrastructure provider, has applied for a listing on the GEM Board under an initial public offering. The application has been approved by The Stock Exchange of Hong Kong Limited. Unfortunately, due to the poor investment sentiment, the public floatation suffered a procrastination.

In order to rationalize the investments in the Internet business, the Group has chosen a pragmatic approach in reducing costs by executing a downsizing of the personnel and suspending investment in some Internet companies which have less potential in migrating towards a revenue generating model. Some of the Internet operations in the PRC have been closed.

Nevertheless, some of the Internet investments have begun to shed some lights in their new business directions. E-Tech Canada Limited in which the Group has 70% interest has formed joint-venture with China Sanjiu Medicine Group of the PRC in developing instant herbal medicine distribution business in Canada and healthphone.com will be used to promote its business activities. Pearl Jiu Information Technology will embark on a more aggressive marketing program in distributing

FINANCE

its hospital management system in the PRC in the year 2001. Ebid.com.cn, an online auction portal, has transformed itself from online B2C e-commerce to traditional solid business to provide sales services through strategic alliance with product distributors and IT solutions on online sales platforms to retail business entities.

Financial Business

The Group continued to maintain Margaux Finance Limited, a money lending operation and Margaux Capital Asia Limited ('MCAL"), an investment adviser company with the operations reduced to a lean and mean level. The Directors have also taken cautious steps in making relevant provisions on loans extended to customers who had suffered from the aftermath of the Asia financial crisis.

It is foreseen that the flourishing business development of China and its expected admittance into the World Trade Organisation in 2001 will have a positive impact on the financial industry of Hong Kong given its advantageous position as an important international financial centre. To leverage on the investment adviser licence secured by MCAL years ago, the Group plans to expand its investment advisory business to capture the best of the business opportunities emerging therefrom.

MANAGEMENT DISCUSSION & ANALYSIS

CAPITAL

Following the rapid global downturn of the Internet and technology stocks in the second quarter of 2000, the trend of inflow of new capital funds into the stock market came to a halt. Under such adverse market situation, the Company has not raised any capital through issue of new shares for cash. Nevertheless, a total of 167,500,000 new shares were issued during 2000 as consideration for completing acquisition of new businesses committed in 1999. Details of movement in share capital and share premium were presented in Notes 26 and 28 to the financial statements respectively.

In the first quarter of 2000, the Company issued a total of 167,500,000 new shares as consideration for completing acquisition of 65% interest in Rowell Services Limited (the holding company of Starboom Corporation Limited i.e. starboom.com) and 60% interest in Ebid International Limited (i.e. ebid.com.cn). These new shares brought in a total of approximately HK$36.18 million in credit to the share capital and share premium accounts of the Company.

At the end of 2000, all of the options granted to the Executive Directors of the Company and employees of the Group have not yet been exercised and remained outstanding. The options are exercisable within a period of two years from 1st July, 2000.

FINANCE

As mentioned and explained in the Auditors' Report and Note 1.a to the financial statements, the Group is facing pressure to re-arrange its financing. One of the reasons is that capital fund raising from the stock market became very difficult starting from the second quarter of 2000. Another main reason is that the Group's properties portfolio and loans receivable are financed by bank borrowings that are relatively short-term in nature. The persistent depression of property price and lack of market liquidity during 2000 made it very difficult for the Group to dispose of certain properties in order to reduce bank borrowings and provide for additional working capital.

The debt ratio of bank borrowings to total assets increased to 60.59% as compared to 46.33% of 1999. It was mainly due to the drop in total assets caused considerably by provision made for impairment in value and deficit on revaluation of the Group's properties and provision against property based loans receivable and long-term investment. The management is determined to expedite the implementation of the policy to dispose of the Group's properties in an orderly and timely manner to address this issue. This strategy will help to solicit and maintain the continuous support from the banks. On the other hand, the Group seeks to reschedule the maturity of some of the bank borrowings to a longer term in order to release part of the pressure on repayment in the near future. The banks' responses are supportive and helpful.

The Group will continue to look for opportunities of inviting strategic investors to invest in our telecom and Internet projects so as to reduce the Group's financing requirements in this area.

EMPLOYEES

Alongside our strategic priority, the Group recognises that people are our vital asset. In order to outrun this capricious market environment, the Group counts on the ability of well-educated, motivated and dynamic individuals. The Group is proud to have a team of diligent and versatile staff whose loyalty and tenacity have been indispensable in particular at the time of adversities.

The series of business acquisitions and expansion in the telecom and Internet areas have boosted our staff team to the record high of more than 600 persons during year 2000. Following the setback of the Internet and telecom markets worldwide, the suspension of non-performing Internet operations and rationalization of personnel in addition to the sale of one of our hotel businesses have in aggregate trimmed our staff team to approximately 420 persons in March, 2001.

The Group emphasizes on individual staff development and adheres to priority policy of internal promotion. The Group continues to reward its staff with a reasonable remuneration package which has been designed with the view to encourage a culture of performance and commitment. Salary increments are reviewed annually subject to individual performance appraisal. Discretionary bonus is granted on a merit basis. In addition to cash compensation, our remuneration package also includes medical insurance and retirement benefit as well as an employee share option scheme.

PROSPECT

The pegged rate system of the local currency to the US dollar precipitates a significant reduction of interest rate in the recent months. This interest rate environment has created a breathing space for the local entrepreneurs in alleviating its debt burden. This has a positive impact on the Group's financial position. The poor performance of the stock market as well as the weak investment sentiment made it difficult for public companies to raise additional equity funding to implement their business plans. In the wake of this situation, the Group is looking forward to raising funds from overseas investors to finance its projects in the telecom industries. At the same time, the Group is continuing to seek opportunity to dispose of part of its property portfolio to reduce debt burden and to extract liquidity for making further investments which have a higher investment return.

It has been three years since the Group has embarked on the diversification towards high technology and telecom investments. Although the Group experienced some pitfalls during this period, it has been able to land onto some solid recurrent income generating businesses in the telecom and high technology industries which see a future potential for growth. The Group shall continue to look at opportunities in this area and rebuild a strong foundation for future development.