

R E P O R T O F T H E D I R E C T O R S

The Directors would like to present their annual report together with the audited financial statements of Pearl Oriental Cyberforce Limited (the "Company") and subsidiaries (the "Group") for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in property investment and development, hotel operations, financial, telecommunications, Internet and information technology businesses.

The Group's turnover by principal activity and by geographical location, together with their respective contributions to loss after taxation for the year ended 31st December, 2000 is analysed as follows:

	Turnover <i>HK\$'000</i>	Loss after taxation <i>HK\$'000</i>
a. By principal activity —		
Property investment and development	215,287	(612,846)
Hotel operations	13,525	(108,753)
Financial services	564	(282,368)
Telecommunication services	65,847	(68,878)
Internet related services	32,858	(68,340)
	<u>328,081</u>	<u>(1,141,185)</u>
	Turnover <i>HK\$'000</i>	
b. By geographical location —		
Hong Kong	260,404	
United States of America	35,739	
Canada	23,965	
Mainland China	7,973	
	<u>328,081</u>	

PRINCIPAL ACTIVITIES *(Continued)*

No analysis of loss after taxation by geographical location is presented as it is generally in line with the distribution of turnover as set out above.

CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2000, the five largest customers accounted for approximately 43.45% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 46.36% of the Group's total purchases. In addition, the largest customer accounted for approximately 30.45% of the Group's turnover while the largest supplier to the Group accounted for approximately 37.02% of the Group's total purchases.

None of the directors, their associates, or any shareholders (which, to the knowledge of the Company's Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st December, 2000 are set out in the consolidated income statement on pages 34 to 35 of this annual report.

The Directors do not recommend the payment of a dividend, and recommend that the accumulated deficit of HK\$1,582,032,000 at 31st December, 2000 be carried forward.

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 26 to the accompanying financial statements.

RESERVES AND ACCUMULATED DEFICIT

Movements in reserves of the Group and the Company during the year are set out in Note 28 to the accompanying financial statements. Movements in accumulated deficit of the Group during the year are set out in the consolidated income statement on pages 34 to 35 of this annual report.

As at 31st December, 2000, the Company's reserves of approximately HK\$160,670,000 (subject to provisions under The Companies Act 1981 of Bermuda) were available for distribution to the Company's shareholders.

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PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31st December, 2000 and up to the date of this report.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates are set out in Notes 14 and 15 to the accompanying financial statements.

PROPERTIES AND EQUIPMENT, INVESTMENT PROPERTIES AND DEVELOPMENT PROPERTIES

Details of movements in properties and equipment, investment properties and development properties during the year are set out in Notes 11, 12 and 13, respectively, to the accompanying financial statements.

INTEREST CAPITALISED

During the year ended 31st December, 2000, the Group capitalised interest expenses of approximately HK\$85,556,000 under development properties.

BANK BORROWINGS

Particulars of bank borrowings as at 31st December, 2000 are set out in Notes 21 and 23 to the accompanying financial statements.

RETIREMENT SCHEMES

Details of the retirement schemes are set out in Note 32 to the accompanying financial statements.

SUBSEQUENT EVENTS

Details of subsequent events are set out in Note 34 to the accompanying financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report are:

Executive directors

Mr. Wong Kwan, *Chairman and Chief Executive*

Mr. Yuen Hon Ming, Edwin

Mr. Wong Wai Hay (Appointed on 20th April, 2001)

Mr. Siu Miu Man (Resigned on 30th April, 2000)

Non-executive director

Ms. Tsui Yan Ting, Jennifer (Resigned on 20th April, 2001)

Independent non-executive directors

Mr. Wen, Carson (Appointed on 18th May, 2000)

Mr. Wong Yau Kuen

Mr. Cheung, Haywood (Resigned on 18th May, 2000)

In accordance with clause 86(2) of the Company's Bye-laws, Mr. Wong Wai Hay shall hold office until the forthcoming annual general meeting and will retire and, being eligible, will offer himself for re-election. Mr. Wong Yau Kuen will retire by rotation in accordance with clause 87 of the Company's Bye-laws and, being eligible, will offer himself for re-election at the forthcoming annual general meeting. All other remaining directors continue in office.

None of the directors has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation (other than statutory compensation).

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DIRECTORS' INTERESTS IN SHARES

As at 31st December, 2000, the directors of the Company had the following beneficial interests in the shares of the Company and its subsidiaries within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

(i) The Company

Name	Note(s)	Number of shares	Percentage of shares outstanding
Mr. Wong Kwan	<i>a & b</i>	6,687,429,112	49.840%
Mr. Yuen Hon Ming, Edwin	<i>c</i>	8,968,000	0.067%
Ms. Tsui Yan Ting, Jennifer	<i>d</i>	300,000	0.002%

Notes:

- Charcon Assets Limited held 6,650,580,390 shares of the Company. The entire issued share capital of Charcon Assets Limited is beneficially owned by Mr. Wong Kwan. These interests of Mr. Wong Kwan in such shares are accordingly "corporate interests" as described in Practice Note 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").
- Mr. Wong Kwan held 36,848,722 shares of the Company. These interests of Mr. Wong Kwan are "personal interests" as described in Practice Note 5 of the Listing Rules.
- Mr. Yuen Hon Ming, Edwin held 8,968,000 shares of the Company. These interests of Mr. Yuen Hon Ming, Edwin are "personal interests" as described in Practice Note 5 of the Listing Rules.
- Ms. Tsui Yan Ting, Jennifer, held 300,000 shares of the Company. These interests of Ms. Tsui Yan Ting, Jennifer are "personal interests" as described in Practice Note 5 of the Listing Rules.

(ii) Subsidiary - Pearl Glorious Investment Limited

Mr. Wong Kwan held 198 non-voting deferred shares at par value of HK\$100,000 each in Pearl Glorious Investment Limited, which are subject to an option granted to Pearl Oriental (B.V.I.) Limited to purchase the said non-voting deferred shares for a consideration of HK\$1 each, exercisable within a period of ten years from 23rd September, 1993.

DIRECTORS' INTERESTS IN SHARES *(Continued)*

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance as at 31st December, 2000.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

On 30th December, 1993, the Company adopted a share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company. Details of the scheme are set out in Note 27 to the accompanying financial statements. As at 31st December, 2000, Mr. Wong Kwan and Mr. Yuen Hon Ming, Edwin were granted share options to subscribe for 25,000,000 and 12,000,000 shares respectively in the Company at HK\$0.234 per share exercisable during the period from 1st July, 2000 to 30th June, 2002.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2000, the following person (not being a director or chief executive of the Company) had or was deemed to have interests, being 10% or more in the issued share capital of the Company recorded in the register kept by the Company under Section 16(1) of the SDI Ordinance:

Name	Number of issued shares	Percentage holding
Charcon Assets Limited	6,650,580,390	49.56%

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SUBSTANTIAL SHAREHOLDERS *(Continued)*

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as at 31st December, 2000.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

CODE OF BEST PRACTICE

In the opinion of the Directors, 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 year covered by this annual report, except that the non-executive directors are not appointed for specific terms. However, the non-executive directors are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's Bye-laws.

AUDIT COMMITTEE

In line with the requirements set by The Stock Exchange of Hong Kong Limited, the Group set up its audit committee in June 1999. The committee consists of two independent non-executive directors, Mr. Cheung, Haywood as Chairman and Mr. Wong Yau Kuen and the non-executive director, Ms. Tsui Yan Ting, Jennifer as members. Subsequent to the resignation of Mr. Cheung, Haywood as independent non-executive director and thus the Chairman of the audit committee of the Company on 18th May, 2000, Mr. Wen, Carson who was appointed as independent non-executive director of the Company on even date, was also appointed as the Chairman of the audit committee to fill the said vacancy. On 20th April 2001, Ms. Tsui Yan Ting, Jennifer resigned as non-executive director and thus member of the audit committee. The scope of the audit committee's responsibilities is defined and approved by the Directors in relation to various internal control and audit matters with a view to further improving our corporate governance.

SUMMARY FINANCIAL INFORMATION

A summary of the Group's financial information for the last five financial years is set out on page 3 of this annual report.

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for their re-appointment as the Company's auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors,

WONG KWAN

Chairman and Chief Executive

Hong Kong, 20th April, 2001.