

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL RESULTS

Turnover of the Group for the first six months ended 30 June 2001 was HK\$1,330,141,000 representing approximately a 159.4% increase as compared to that of the corresponding period in year 2000. Loss for the period was HK\$443,217,000 versus a net profit of HK\$1,316,118,000 owing to the absence of an exceptional gain on realisation of non-trading investment for the current period. An exceptional gain of HK\$1,707,851,000 was recorded in the corresponding period in year 2000.

### REVIEW OF OPERATIONS

The ups and downs of the general economic condition and investment climate in Hong Kong and overseas had seriously affected the operating and financial performance of the Group. During the period under review, the Group's mobile handset distribution business in Hong Kong was significantly affected by the sluggish consumer market condition and the unforeseen delay in the launching of suppliers' new products. As a result, the business turnover of the Hong Kong mobile handset distribution had not reached the target as originally expected. In this regard, Star Telecom Limited ("Star Telecom"), the Company's wholly-owned subsidiary and the Group's mobile handset distribution arm in Hong Kong, had responded promptly and successfully in sourcing and adding such new products as PDA, DECT (Digital Enhanced Cordless Telecommunication) phone, wireless and digital peripherals and telecom accessories to the product portfolio.

As part of the Group's strategic investment in the distribution network business in the People's Republic of China (the "PRC"), 上海星際通電子通訊產品連鎖銷售有限公司 (Shanghai Tristar Telecom Co., Ltd.), the Company's subsidiary and the Group's mobile handset distribution arm in the PRC, is conducting mobile handset and accessories distribution business in the major cities of the PRC. A turnover of HK\$97,269,000 was recorded during the period under review.

Of the Group's intelligent building system integration operation in the PRC, 上海得信佳通信設備有限公司 Shanghai Tricom Telecom Equipment Co., Ltd., the Company's subsidiary, had recorded a revenue of HK\$8,636,000 generated from several projects of intelligent building system integration in certain major cities of the PRC during the first half of year 2001.

The turnover of trading and investment in financial instruments of the Group during the period amounted to HK\$1,198,259,000. The Group's investment performance continued to be adversely affected by the stock markets turmoil in the US market and the Hong Kong market that started from the third quarter of the year 2000. The downturn in the US and Hong Kong economy further caused the Group's investment portfolio to record unsatisfactory performance.

As at 30 June 2001, the Group has invested for long term purpose an aggregate of 300,618,000 shares of Millennium Group Limited (an associate of the Group) ("MGL"), 246,380,000 shares of Sun Hung Kai & Co. Limited ("SHK & Co") and 71,848,000 shares of Takson Holdings Limited ("THL"), representing approximately 21.7%, 16.4% and 18.1% in the issued share capital of MGL, SHK & Co and THL, respectively. MGL has recorded a turnover of HK\$63,341,000 and loss attributable to shareholders of HK\$75,462,000 for the year ended 31 March 2001. SHK & Co has recorded a turnover of HK\$369,993,000 and profit attributable to shareholders of HK\$154,204,000 for the six months ended 30 June 2001. THL has recorded a turnover of HK\$514,357,000 and loss attributable to shareholders of HK\$69,836,000 for the year ended 31 March 2001.

## **LIQUIDITY AND FINANCING**

The Group's non-current assets comprised mainly of investment properties of HK\$35 million, property, plant and equipment of HK\$29 million, interests in associates of HK\$52 million, long term investments of HK\$368 million. These non-current assets were principally financed by shareholders' funds. As at the period ended date, the Group has a net current assets of HK\$1,176 million.

All of the Group's borrowings are arranged on short term basis and repayable within one year. As at the period ended date, the Group's borrowing amounted to HK\$384,000, representing a decrease of HK\$265,135,000 as compared with that as at 31 December 2000.

As at 30 June 2001, the Group continued to maintain an insignificant gearing ratio, calculated on the basis of the Group's net borrowing (after deducting cash and bank balances) over shareholders' funds.

The Group has little foreign exchange exposure and the borrowings were all denominated in Hong Kong Dollars.

## **CHARGE ON ASSETS**

The Group had no pledged assets as at 30 June 2001.

## **CONTINGENT LIABILITY**

In respect of the disposal of a subsidiary in prior years, the Group has given an indemnity to the purchaser against all liabilities, losses, costs and expenses suffered and/or incurred by the purchaser in relation to or arising out of the assignment of certain of the subsidiary's business contracts.

## **EMPLOYEES**

The Group, including its subsidiaries but excluding associates, employed approximately 605 employees as at 30 June 2001. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

## **PROSPECTS**

There is no doubt that the market conditions will continue to be highly competitive and challenging in the second half of year 2001 and ahead. Being one of the leading telecommunication products distributors in Hong Kong, Star Telecom is competitive and hoping to conclude further distribution rights of some top brands in the near future. Further diversification of product lines which includes service connection for various telecom network, computer products and accessories, and other trendy digital products such as MP3 player, camera and memory items, is planned to pave way for the Group's success in the future multimedia era.

The number of mobile phone users in the PRC has increased from 43 million in year 1999 to 100 million in the first quarter of year 2001 which, together with the fact that the PRC will become a member of the World Trade Organization later this year, foreign-based manufacturers and traders are watching closely of this tremendous opportunity. Now that the Group has already secured its presence in the PRC's mobile handset distribution market, the Group plans to expand into the retail chain networking business of mobile handset and accessories in the PRC. It will be the task of the Group in the second half of year 2001 to secure a market share and strengthen the market position in the PRC retail market.

After the tragic events happened in New York and Washington this September, there is a heating up concern over the slowing down of the US economy, the tumbledown of the US financial markets, the accelerating political and military tension worldwide and their rippling effects on the already-fragile Asian economies and the stock markets including Hong Kong, the management expects there still will be downward corrections in the performance of the Group's investment portfolio. Given the difficult period that the Group has just gone through, and with no sign of ending in the short run, the management will exercise a relentless control on costs in the business without sacrificing the above planned objectives.