

Chairman's Statement

Dear Shareholders,

On behalf of the board of directors of the Company (the "Board"), I am presenting the report on the operations and other aspects of the Group for the financial year ended 31 December 2001.

Financial Results

Turnover of the Group for the year ended 31 December 2001 was HK\$2,339,466,000 representing a 12.2% drop as compared to that of the year 2000. The Group recorded a net loss attributable to shareholders of HK\$717,254,000 for the year ended 31 December 2001, versus a net profit of HK\$1,341,762,000 recorded for the year 2000.

Dividends

No interim dividend was paid during the year (2000 : Nil). The directors of the Company do not recommend the payment of a final dividend in respect of the year 2001 (2000 : 0.5 HK cents per share).

Review of Operations

The year 2001 was a difficult year for the Group's mobile handset distribution business in Hong Kong. Owing to the continuing sluggish economic and consumer market conditions, the mobile handset sales dropped by 72.1% to HK\$65,941,000 as compared to that of the year 2000. However, with the launching of new mobile handset models, well-planned marketing programs and the success in extending its product portfolio to trendy DECT series, computer and AV categories, Star Telecom Limited ("Star Telecom"), the Group's mobile handset distribution arm in Hong Kong, has achieved better performance in the second half of the year 2001.

Of the Group's mobile handset distribution arm 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. ("Shanghai Tristar")), has recorded a turnover of HK\$161,695,000 representing a decrease of 15.4% as compared to the year 2000. Operating in an already highly competitive market and with the promulgation of legislations in consumer protection in the PRC, starting from the second half of the year 2001, Shanghai Tristar has embarked a restructuring program of closing down non-performing operations and retail outlets and heading towards the development of its franchising network under its trademark of "Tristar". Shanghai Tristar aims to secure its market position in the highly competitive mobile handset distribution market at a controllable cost structure.

Regarding 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. ("Shanghai Tricom")), has recorded a revenue generated from several projects of intelligent building system integration in certain major cities of the PRC of HK\$14,400,000, representing an increase of 11.9% as compared to last year. Being one of the few intelligent building system integrators in the PRC that holds a Grade A certificate licensed by Ministry of Construction, the PRC, Shanghai Tricom is working towards diversifying into other area of system integrations such as intelligent zone, etc.

The turnover of trading and investment in financial instruments of the Group during the year amounted to HK\$2,097,430,000 representing a decrease of 5.6% as compared to last year. As pointed out in the Company's Interim Report for the six months ended 30 June 2001, the Group's investment portfolio was suffered from the declines in values of the stock markets attributable to the slowing down of the local and global economies, particularly in the USA in the latter part of the year.

The Group's 21.7% associated company, Millennium Group Limited ("MGL") has reported a turnover of HK\$36,253,000 and a loss attributable to shareholders of HK\$8,510,000 for the six months ended 30 September 2001 representing respective decrease of 20.1% and 54.0% as compared to the corresponding period in year 2000. During the six months ended 30 September 2001, MGL's associated company, Jilian (Jilin) Petrochemicals Limited recorded an operating profit before taxation of HK\$29.3 million of which MGL's share was HK\$10.3 million as compared to HK\$5.6 million for the corresponding period.

As at the year end date, the Group has a long term investment portfolio comprising 250,180,000 shares of Sun Hung Kai & Co. Limited ("SHK & Co") and 20,000,000 shares of Takson Holdings Limited ("THL"), representing approximately 16.6% and 5.1% in the issued share capital of SHK & Co and THL, respectively. Of SHK & Co, it has recorded a turnover of HK\$369,993,000 and a profit attributable to shareholders of HK\$154,204,000 for the six months ended 30 June 2001, representing respective increase of 4.7% and decrease of 25.7% as compared to the corresponding period in year 2000.

Liquidity and Financing

The Group's non-current assets comprised mainly of investment properties of HK\$33 million, property, plant and equipment of HK\$25 million, interests in associates of HK\$54 million and long term investments of HK\$265 million. These non-current assets were principally financed by shareholders' funds. As at the year end date, the Group has a net current assets of HK\$943 million.

All of the Group's borrowings are arranged on short term basis, repayable within 1 year and secured by marketable securities. As at the year end date, the Group has no borrowings.

As at 31 December 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 mainly denominated in Hong Kong Dollars.

The Group has given guarantees to banks in respect of general facilities granted to a subsidiary. The extent of facilities utilised by the subsidiary at 31 December 2001 amounted to nil (2000: HK\$122,612,000). Other contingent liabilities are set out in note 33 to the financial statements.

Charge on Group Assets

As at 31 December 2001, the Group had pledged assets with aggregate carrying value of HK\$218,368,000 (2000: HK\$1,425,212,000) to secure general loan facilities.

Prospects

Despite keen competition in the market, Star Telecom has successfully concluded more distribution rights of popular brands including Motorola for its mobile handset, Daewoo for its DECT series and LCD monitors, and Toshiba for its digital camera. Star Telecom on one hand will continue to strengthen its position in the distribution business of mobile handset for Motorola and Alcatel, and, on the other hand, continue to search for profitable product lines including digital cameras and other computer products and accessories.

With the steady and sustained economic growth, low penetration of mobile phone and computer users market, and its entry into the World Trade Organization, the PRC market continues to provide a golden business opportunity for global manufacturers and traders. It will be the task of Shanghai Tristar and Shanghai Tricom in year 2002 to strengthen their market position in the already competitive PRC markets.

The year of 2002 is expected to be another volatile and challenging year, which is symbolized by global economic recession and increasing volatility in stock markets, especially in the USA and the local economy. The Group will continue to further restructure its operations, control its costs and prudently invest in project so as to keep it ahead for the challenges and opportunities lying beyond.

Employees

The Group employed 311 (2000: 610) employees at the year end date. Employees' cost (excluding Directors' emoluments) amounted to approximately HK\$26,915,000 (2000: HK\$22,221,000) for the year. 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.

Appreciation

I take this opportunity to extend our thanks to colleagues on the Board and the staff members of the Group for their hard work, loyal service and continuing support during the year 2001.

Law Wing Kit, Stephen

Chairman

Hong Kong, 9 April 2002