

CHAIRMAN'S STATEMENT

Even though the Group's turnover for 2001 recorded a 17.17% decrease, the Group's operating loss reduced by 26.20% over the previous year to HK\$22.6 million and the loss attributable to shareholders significantly improved by 43.02% to HK\$123.2 million from HK\$216.3 million in the previous year. The main reasons for these improvements were attributable to effective cost controls, the decrease in provision amounts for inventories and doubtful debts, and a significant reduction in loss in the securities investment in Sina.com, a company listed on the NASDAQ from approximately HK\$196.6 million in 2000 to approximately HK\$38.6 million in 2001.

In 2001, the reform of the PRC's electrical power industry encountered numerous difficulties. The Group therefore made a provision of approximately HK\$25.8 million for its investment relating to the industry. During the year, China Cable Information Network Co., Ltd. ("China Cable") in which the Group has beneficial interests, faced certain difficulties in its business development. In view of the current environment, the Group made a provision of HK\$50.0 million for this investment.

Following the Group's assets reorganization, the principal activities are divided into three arms, i.e. electronic products manufacture and distribution, technology-enabled value-added business (the "value-added business") and media related business.

BUSINESS REVIEW

Electronic products manufacture and distribution

The year 2001 witnessed depreciation of the Japanese Yen and currencies of South East Asia together with a deteriorating global economic environment, the commodity price in the PRC was going down and the overall economy of China scored a slower growth than in 2000. Together with internal factors described below, the Group's overall turnover reduced accordingly. Nevertheless, the Group's major products, i.e. industrial controllers and invoice printers, recorded an increase in sales performance.

During 2001, industrial controller products posted satisfactory sales performance. Turnover amounted to HK\$368.3 million, representing a 1.82% increase over the previous year. The turnover for Stone-OKI invoice printers, a product produced under the Group's own brand, increased by 5.91% to HK\$195.4 million for the year. By strengthening cost control, reorganizing its sales channels for the products and increasing the varieties of such products distributed, it is believed that the Group will maintain its sound growth in these products.

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The State Taxation Bureau began to make improvements to its important Anti-counterfeiting Tax Control Machine ("ATCM") since early 2001. This has consequently affected the Group's ATCM sales. The ATCM has been listed as an important "Gold Tax Project" product, a key item for the state's information-friendly environment construction program. The State Taxation Bureau is expected to complete the improvement process in 2002, and the Group believed that by then a steady growth in sales for its ATCM of the Group will be achieved.

Due to the fact that Matsushita Electric Works, Ltd ("Matsushita") changed its marketing strategy in China and led to the termination of the Group's distribution rights of its products, the Group disposed of its 35% equity interests in Beijing Stone Matsushita Electric Works, Ltd. ("Stone Matsushita"), a company being engaged in the manufacturing of lighting products. In this regard, the turnover from lighting products operation fell markedly to HK\$45.1 million in 2001 from approximately HK\$229.3 million in 2000. Nevertheless, the disposal of the investment generated a cash inflow of approximately HK\$134.9 million for the Group and a compensation of approximately HK\$22.6 million was received for the termination of the distribution right from Matsushita. Meanwhile, during the year, the Group continued to expand the operation of its lighting products under the "Stone" brand aggressively to replace Matsushita products.

In order to strengthen the manufacturing and distribution business in the future, the Group acquired a 12.5% equity interest in Beijing Stone Electronic Technology Co., Ltd. ("Beijing Stone") and increased its equity interest in Beijing Stone from 75% to 87.5%. The equity holding in Beijing Stone was subsequently increased to 100% in January 2002.

Value-added business

During the year, the Group acquired a 25% equity interest in Mitsubishi Stone Semiconductor Company Limited ("MSSC"), a company engaged in assembling and testing of semiconductor integrated circuits. Though the overall semiconductor industry saw an unsatisfactory performance in 2001, MSSC contributed an attributable profit of HK\$3.5 million to the Group.

Shanghai Stone-MTI Computer Engineering Company Limited ("SMTI"), engaged in Geographic Information System ("GIS") solutions for water and power utilities, contributed approximately HK\$6.0 million to the Group's profit in 2000. As the reform in the PRC's electric power industry experienced setbacks, the potential demand for GIS was squeezed, and resulted in SMTI's substantial drop in turnover to approximately HK\$19.4 million in 2001 from HK\$30.5 million in 2000. The Group believes that reforms in the utilities industry in the PRC will succeed in the long run and GIS demand will go unfettered. However, in view of the current environment, the Group made a provision of HK\$25.8 million for its investment in SMTI.

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Media related business

During the year, the Group made an exchange for shares in Sina.com with its trade receivables previously guaranteed by Stone Group Corporation. Thereafter, a subsidiary of the Group, Sun Stone New Media Ltd. ("Sun Stone") was incorporated to hold the equity interests in Sina.com contributed by the Group and Best Universe Group Ltd., a company held by media celebrity, Ms. Yang Lan, Sun Stone increased its stake in Sina.com to 20.6% and became the sole substantial shareholder. Through Sun Stone, the Group will participate in the PRC's media related business and is able to exercise significant influence over financial and operating activities of Sina.com.

During the year, the Group invested approximately HK\$51.6 million in Sun Television Cybernetworks Holdings Ltd. ("Sun TV") as a long-term investment. The Group expects these investments will generate synergies and more shareholder values.

The Group acquired 25% equity interests in China Cable as a long-term investment, at a consideration of approximately HK\$108.4 million during the year. The Group believes that with China's WTO entry, there will be development potential for future cable media business.

OUTLOOK

In 2001, the global economy was volatile. With the lowered exchange rates of neighboring countries and deflation in the PRC, it is expected that the adverse economic situation will continue in 2002.

While the Group continues its principal operations in the manufacture and distribution of electronic products, it will commit to develop fee-based services from value-added business including satellite positioning services, etc. For media related business, it is still in development stage and the management will strive its best to develop the business.

With a strong cash flow and low gearing ratio, I am confident that the Group will overcome difficulties under current economic recession, and bring values for the Group and its shareholders.

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In conclusion, I would like to extend my sincere gratitude to each director for their wise decision and leadership, and to the staff for their diligence and devotion to make the Group's target a reality. I also appreciate our shareholders for their continued supports.

Shen Guojun

Chairman

Hong Kong, 24th April, 2002