

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of the Company (the "Board"), I have pleasure to report on the financial results, operations and other aspects of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005.

FINANCIAL RESULTS

For the year ended 31 December 2005, the Group's turnover decreased by 73.7% to HK\$223,086,000 (2004: HK\$847,491,000) and net profit attributable to equity holders of the Company decreased by 48.6% to HK\$104,511,000 (2004: HK\$203,274,000) mainly due to reduced securities trading and mobile handsets distribution activities. However, as a result of our share repurchase (mentioned herein below under the section "Financial Resources, Borrowings, Capital Structure and Exposures to Fluctuations in Exchange Rates"), the earnings per share of the Company for 2005 decreased by a lesser scale of 39.7%, compared to that of the net profit, to HK\$0.35 (2004: HK\$0.58).

As at 31 December 2005, the Group's net asset value per share was HK\$4.3 (2004: HK\$4.1).

DIVIDENDS

An interim dividend of HK\$0.01 per share was paid during 2005 (2004: HK\$0.01). The Directors recommend the payment of a final dividend of HK\$0.04 per share (2004: HK\$0.04) amounting to approximately HK\$11,879,000 to shareholders whose names appear on the Register of Members of the Company on Thursday, 1 June 2006. Dividend warrants are expected to be dispatched on or before Friday, 30 June 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 29 May 2006 to Thursday, 1 June 2006, both days inclusive, during which no share transfer will be effected.

REVIEW OF OPERATIONS

2005 was a challenging year for Star Telecom Limited ("STAR"), which operates the Group's mobile handsets distribution business. STAR recorded a substantial drop in turnover to HK\$66,309,000 (2004: HK\$237,205,000) and a loss of HK\$2,086,000 (2004: Profit of HK\$21,791,000) as a result of a highly competitive market environment. The rivalry in the 2G mobile handsets market became increasingly fierce mainly due to the price war among market players of all sizes and the impact from the growing acceptance of 3G mobile handsets together with the highly aggressive promotion campaigns of the telecom services providers. Since the second quarter of 2005, while the market has become more dynamic, the product life cycle of mobile handsets has been significantly shortened. In order to enhance our ability to quickly respond to new market conditions, we have been very cautious in our vendor selection and distribution strategy and had adopted a stringent inventory control policy. We had actively pursued and developed new business partnerships to explore new revenue sources. During the last quarter of 2005, STAR had been successful in winning the distributorship of products of BenQ, a company which has become the 5th largest mobile handsets manufacturer in the world as a result of their recent acquisition of Siemens Mobile.

CHAIRMAN'S STATEMENT

For the trading and investment in financial instruments, the Group recorded a turnover of HK\$142,361,000 (2004: HK\$592,055,000) and a profit of HK\$104,524,000 (2004: HK\$191,026,000) for the year ended 31 December 2005. Continuing with the trend of the first half of 2005, the stock market remained volatile resulting in the reduction of securities trading activities of the Group.

The Group's money lending business contributed a turnover of mainly interest income of HK\$11,693,000 (2004: HK\$15,787,000) and a profit of HK\$11,528,000 (2004: HK\$15,747,000) during the year under review.

For 2005, the Group's investment properties in Hong Kong and the People's Republic of China ("China") achieved a turnover of HK\$2,723,000 (2004: HK\$2,444,000) and a profit of HK\$12,166,000 (2004: HK\$6,321,000) attributing mainly to the gain from fair value changes on its property portfolio. During the first half of the year, the Group acquired a 75% interest in a company in China ("Property Holding Subsidiary") which holds a piece of land located at Buji Town, Shenzhen, China ("Investment Property"), together with the acquisition of the related shareholder's loan for a total consideration of HK\$58,491,000. The site area of the Investment Property, with the foundation works already completed, is about 5,241.3 square metres. In order to finance the payment for the expenses related to the provision of urban facilities by the local government authorities, the registered capital of the Property Holding Subsidiary was increased from RMB26 million to RMB46 million during the second half of 2005.

FINANCIAL RESOURCES, BORROWINGS, CAPITAL STRUCTURE AND EXPOSURES TO FLUCTUATIONS IN EXCHANGE RATES

As at 31 December 2005, the Group continued to maintain a strong financial position in our non-current assets consisting mainly of investment properties of HK\$136,526,000 (2004: HK\$44,640,000); property, plant and equipment of HK\$51,825,000 (2004: HK\$3,884,000); prepaid lease payments of HK\$2,483,000 (2004: HK\$2,542,000) and long term investments of HK\$258,438,000 (2004: HK\$314,447,000). These non-current assets were principally financed by shareholders' funds. As at 31 December 2005, the Group had net current assets of HK\$857,849,000 (2004: HK\$858,139,000) and current ratio of 6.8 times (2004: 22.3 times) calculated on the basis of the Group's current assets over current liabilities.

All the Group's borrowings are arranged on a short-term basis, in Hong Kong Dollars, repayable within one year and secured by certain investment properties, marketable securities and bank deposits. As at 31 December 2005, the Group had borrowings of HK\$100,986,000 (2004: Nil) and a gearing ratio of 6.6% (2004: Nil), calculated on the basis of the Group's net borrowings (after deducting cash and bank balances) over shareholders' fund.

During the second half of 2005, the issued share capital of the Company was reduced from HK\$3,018,000 to HK\$2,975,000 as a result of the repurchase of 4,276,000 shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate consideration of HK\$5,568,000.

During the year under review, the Group's assets, liabilities and transactions were mainly denominated in Hong Kong Dollar, Australian Dollar, Renminbi ("RMB") and Malaysian Ringgit. Because of its short-term nature, the Group had not actively hedged risks arising from Australian Dollar denominated assets and transactions. As the exchange rate of RMB had been recently appreciated and the exchange rate of Malaysian Ringgit was relatively stable during the year, the Group was not materially affected by these foreign exchange exposures.

CHAIRMAN'S STATEMENT

CHARGE ON GROUP ASSETS

As at 31 December 2005, the Group's investment properties, investments held for trading (previously "investments in securities" in 2004) and bank balances and cash with respective carrying values of HK\$22,100,000 (2004: HK\$15,000,000), HK\$756,305,000 (2004: HK\$631,924,000) and HK\$10,526,000 (2004: HK\$15,182,000) were pledged to financial institutions to secure the credit facilities granted to the Group.

EMPLOYEES

The Group had 32 employees as at 31 December 2005 (2004: 47). The Group ensures that its employees are remunerated in line with market conditions and individual performance and the remuneration policies are reviewed on a regular basis.

PROSPECTS

The economy of Hong Kong experienced reasonable growth in 2005 with the unemployment rate dropping to a 51-month low of 5.3% at the end of the year and local consumption remaining strong with retail sales volume rising to 5.9%. These positive developments occurred against the backdrop of various favourable "China factors" such as China's accommodative monetary policy, capital inflows attributed to IPOs from various China enterprises and the expectation of the appreciation of the RMB. The Group remains cautiously optimistic about the economic and investment outlook. However, we will continue to monitor any possible adverse impact of factors such as the volatile energy prices, uncertainties of the US and local interest rate movements, possible administrative tightening in China to tackle excessive growth in bank lending and in property prices in major cities, and the escalating political tensions in the region.

Besides BenQ-Siemens, STAR has also secured new distributorship agreements with Pantech (one of the top three Korean brands), Grundig (a famous household German brand) and KBT (a new Korean brand) to market both their 2G and 3G mobile handsets. With a strong product portfolio, balanced product mix, and the unprecedented market opportunities presented by the growing demand for 3G services in addition to the revival of the Hong Kong economy, STAR is cautiously confident that it is poised to optimize its sales performance for greater business benefits. Currently, STAR is the authorized distributor in Hong Kong and Macau of certain strong brand names including NEC, Alcatel, BenQ-Siemens, Pantech, Grundig, KBT and Xcell. STAR will continue to look for products with high potential to distribute in order to continuously enrich its product portfolio and sustain business growth.

Subsequent to the balance sheet date, in view of the negative impact of the possible continued austerity measures to curb the bubble in China's property market, the Group took the opportunity to unwind its investment in the Investment Property as referred to earlier by entering into a conditional framework agreement with a third party to dispose of its entire 75% interest in the Property Holding Subsidiary, the related shareholder loan and the advance to a minority shareholder for a total consideration of RMB99,900,000. Pursuant to such agreement, deposit and first installment payment totaling RMB31,220,000 have been received with the remaining balance of RMB68,680,000 payable within six months from the completion date and bearing interest at the rate of 1% per month.

Further, riding on the sentiment of the buoyant stock market, the Group sold 70,000,000 shares of Tian An China Investments Company Limited from its trading portfolio in March 2006, generated cash proceeds of HK\$257,600,000 for the Group.

CHAIRMAN'S STATEMENT

The Group will constantly review and adjust its business direction, investment strategies and investment portfolio (both financial and property-related) to continuously aim for improvement in our business performance and our financial strength. The Group is well equipped to take advantage of viable business and investment opportunities in China, Hong Kong and the Asia Pacific region to enhance value for its shareholders.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express our gratitude to our shareholders for their continued support, our customers and suppliers for their trust and confidence, and our management and staff for their hard work and dedication to the group during the year.

Chong Sok Un

Chairman

Hong Kong, 13 April 2006