

CHAIRMAN'S STATEMENT

This report covers the 17 months since the last audited results for the year ended 31 July 1999. In September 1999, a debt and capital restructuring of the Group was effected.

Since then we have focused on addressing the Group's operational and financial issues, re-building and then expanding customer relationships, and installing new personnel in key management positions.

The period since re-organisation has certainly been a difficult one, as we strove to rebuild the business and bring the Company out of its restructuring phase. Much progress has been made to date, although challenges of course remain.

2000

The year 2000 represented a major turning point in the Group's recent history. For the first time in five years, we recorded an increase in unaudited sales for a twelve month period over the previous year's level. Changes in management were made and new products, including various Digital Enhanced Cordless Telephone ("DECT") models, were introduced.

As explained in the interim report for the first half of 2000, our recovery was hampered by the industry-wide critical shortage of certain electronic components, primarily chipsets. This shortage began in late 1999 and continued well into 2000. The shortage was primarily attributable to the rapid and seemingly unanticipated growth in sales of mobile phones, personal computers and games consoles. The impact was severe: customer commitments were not met - we lost at least HK\$150 million of orders in the first half of the year alone; component prices remained firm or climbed; increased uncertainty of delivery schedules led to greater freight and other transportation costs; and certain new product developments were delayed.

As we write, there are signs that we have reached the end of the component shortage and that the situation will improve.

Nevertheless, our performance saw a significant recovery in the second half of 2000 as can be seen from the table below under the heading "Financial Overview". We introduced new DECT products and opened new markets in France, Germany and Italy and the benefits of operational changes started to manifest themselves. For the first time in 3 years, the Company recorded an unaudited operating profit in a half year. The audited operating loss after finance costs for the 17 months ended 31 December 2000 of HK\$69.6 million can be broken down (on an unaudited base) into, loss of HK\$24.3 million for the 5 months ended 31 December 1999, loss of HK\$47 million for the 6 months ended 30 June 2000 and profit of HK\$1.7 million for the six months ended 31 December 2000.

We recorded an overall operating loss after finance costs of HK\$69.6 million for the whole 17 month period. This compares very favourably with the operating loss after finance costs of HK\$174.2 million in the year ended 31 July 1999, and the operating loss after finance costs of HK\$254.8 million in the year ended 31 July 1998.

OUR BUSINESS

The Company focuses on the design, manufacturing and supply globally of telecommunications products, both fixed line and wireless, under its own brand, under the brand names of its customers and pursuant to contract manufacturing arrangements.

Product areas

Our current product range consists of:

- corded telephones;
- cordless telephones;
- DECT; and
- other telecom products.

Customer base

Our customer base continues to be made up of prime telecom operating companies and telecom product distributors in Europe and Asia Pacific. We have been able to establish excellent working relationships with these groups which have been extremely beneficial in assisting the Company's recovery after the 1999 re-organization. Our thanks must go to those customers and suppliers who supported us during this period.

Our limited resources immediately pre- and post the re-organization, and our desire to maximize customer satisfaction, dictated a strategy of concentrating on a very limited number of customers at that time. This situation persisted until the end of the first half of 2000. Since then we have aggressively broadened our revenue base and continue to do so. In Paris, we have successfully opened channels with a number of new customers. We are also either selling to or in active discussions with a number of other new European customers for a wide range of products. In addition, we have recently signed our first memorandum to supply a major Indian telecom group.

Chairman's Statement

China is a market that offers great potential, but one where we are progressing cautiously, emphasising for the time being our contract manufacturing capability there.

Contract manufacturing

We upgraded our PRC production facility in order to handle GSM phone manufacture and we have successfully started to receive orders to manufacture GSM phones for both local and overseas markets. Our license from the PRC government (which is one of a selected few that have been issued to permit the manufacture and domestic sale of mobile phones) greatly aids us in this effort.

We are also seeking to manufacture under contract arrangement an expanded range of telecom and media products.

OUR STRATEGY

Our strategy continues to be to return the Company to a sound profitable operating basis. We will seek to do this by leveraging what we see are our key strengths:

- a successful, high quality manufacturing capability in a low cost environment;
- extensive marketing relationships across Europe and Asia Pacific; and
- a substantial operating base in China affording us a growing penetration of the domestic market.

Our plans are: to extend our penetration of the European market for our original design manufacture ("ODM") products, both through a wider range of products and an expanded customer base; to step up our sales activities in China; to focus more on contract manufacturing, particularly for GSM phones, but also on newer areas such as set-top boxes, smart card readers and other telecom related areas; and to further increase our operating efficiencies, through both cost reduction programs and improvements in our overall processes.

FINANCIAL OVERVIEW

(UNAUDITED)	1.8.1999 to 31.12.1999 (5 months) HK\$'000	1.1.2000 to 30.6.2000 (6 months) HK\$'000	1.7.2000 to 31.12.2000 (6 months) HK\$'000
Turnover	89,409	140,540	287,544
Profit / (loss) from operations after finance costs before taxation and minority interests	(24,350)	(46,965)	1,722
EBITDA	(4,334)	(24,675)	21,729

The profit for the period under review of HK\$202.1 million was primarily attributable to the waiver of bank borrowings under the corporate re-organisation. As stated above, we have dramatically reduced the operating loss after finance costs of the Company from HK\$174.2 million in the previous period to HK\$69.6 million in the current period. In looking at our results we believe that the most appropriate analysis involves focusing on the change in performance from the first half to the second half of 2000. We believe that this analysis highlights the improvements the Company has made since restructuring. Unaudited sales for the twelve months in the year 2000 were HK\$428 million. As can be seen from the results, we had a much stronger second half, achieving unaudited sales of HK\$287.5 million which was 105% above the first half level.

Overall margins improved in the second half, which is attributable primarily to our operating at a higher sales level and certain operating efficiencies thereby being generated. Our operational earnings improved dramatically in the second half, with unaudited earnings before interest, tax, depreciation and amortization ("EBITDA") moving from a negative HK\$24.7 million in the first half of 2000 to a positive HK\$21.7 million in the second half. We managed to achieve a turnaround in our net results from an unaudited operating loss after finance costs of HK\$47 million in the first half of 2000 to a small operating net profit after finance costs of HK\$1.7 million in the second half.

Chairman's Statement

SUNCORP INFORMATION TECHNOLOGIES (ASIA) LIMITED ("SITAL")

Coolspeak is a software and operating system we have further developed since its acquisition by SITAL in early 2000 of a software company in California which had developed the system. As presently configured Coolspeak now encompasses four separate technologies: Unified Messaging System (UMS), Instant Messaging System (IMS), Real-Time Status Monitoring and Voice over Internet Protocol (VOIP). This system, known as Unified Digital Communications (UDC), aims to address the requirements of an all-in-one messaging, email, voice mail and text and voice chat and VOIP related solutions. Coolspeak utilizes the Internet and the Public Switched Telephone Network (PSTN).

We expect that we will shortly be launching the service and system in Hong Kong and in China through a new partnership arrangement.

Our business model for Coolspeak is based on providing a communication solution for larger corporations, small to medium enterprises, small office and home office users. There will also be a public subscription service available.

Now that new versions of the solution are ready for imminent release and with expansion of its territorial coverage into the PRC and other territories being planned, we believe that Coolspeak will see significant progress in the coming year.

OUTLOOK

In short, we are cautiously optimistic, despite the slowdown in the US economy and the challenges of our balance sheet.

We continue to see strong demand for our ODM business (corded, cordless and DECT) in Europe. We are primarily focused on the European residential phone market, which continues to grow and has not suffered from the recently well publicized challenges of the mobile phone market. Sales progress in the year to date has been very encouraging.

We will continue to focus on improving our operational efficiency and also our balance sheet. In addition, we may need to pursue the feasibility of raising equity funding where circumstances permit.

Peter Francis AMOUR

Chairman

Hong Kong, 18 April 2001