

MANAGEMENT DISCUSSION AND ANALYSIS

Operational review

The first half of the year saw a continuation of our return to profitability and a major improvement in our overall financial situation compared to the same period last year. Sales grew 35% to reach HK\$279.1 million. We recorded a net profit of HK\$10 million, compared to a net loss of HK\$23.6 million last period. Net cash flow from operating activities greatly improved from a negative HK\$0.9 million last period to positive HK\$15.0 million this period. Earnings per share were 3.74 HK cents, versus a loss per share of 13.96 HK cents in the same period last year.

Our continuing program of implementing cost savings and seeking further operational efficiencies again produced results. Operating performance measures improved over the same period last year. Our gross margin more than doubled from 7.2% to 15%, reflecting better component purchasing and cost control; administrative expenses decreased 30.6%; profit from operations improved dramatically and finance costs reduced by 82%.

Our sales growth has been driven by two principal factors: the introduction of new products to enhance sales to our existing loyal customer base and a targeting of new customers to broaden our customer base. As we mentioned in our 2001 annual report, we have actively invested in new products over the past 12 months and this period under review saw us benefit from this programme. The Digital Enhanced Cordless Phones ("DECT") product category is our current major focus. In 2001 DECT products accounted for 15% of sales. In the first half of this year they accounted for 27% of sales. This percentage is expected to further increase in the second half. DECT with SMS capability is a particularly innovative product which has been well received. In addition, we have been able to materially broaden our customer base, with 18% of our sales this period being to customers who had not been with us at the same period last year. Sales to customers other than our single largest customer accounted for 39% of total sales, up from 26% for the same period last year.

Our sales and marketing plan envisages the continuation of new product development, particularly in the DECT area, and a further broadening of our customer base. Our growth in the period under review is the result of the continued emergence of SunCorp as a significant player in the European and Asia Pacific markets. Our products are now carried by the vast majority of European telecom operating companies' carriers.

A number of trends continue to be key drivers of our business: the growth of the underlying fixed line telephone market, the demand by consumers for multiple residential telephones, and the replacement of analogue products with the better, feature-rich, digital products. According to recent independent market research, SunCorp is now the largest manufacturer of analogue cordless telephones in the UK and in Europe. From a position of almost zero in 2000 we have also started to capture meaningful shares of the UK and European DECT markets. We are targeting to significantly increase these positions in the coming 12 months.

Convertible Notes

On 19 July 2002 we announced that we had reached agreement with the holders of the remaining Convertible Notes that were issued in 1999 to extend repayment until September 2003 of approximately HK\$15.6 million of the balance of approximately HK\$27.6 million currently outstanding. We intend to repay HK\$12 million of the Convertible Notes next month. The extension will enable the Company to use this cash as working capital to assist in meeting the strong sales demand we are seeing. A meeting of shareholders of the Company will be convened on 28 August 2002 to approve the terms of this modification.

Prospects

The global environment remains challenging. However, we continue to see strong demand for our products in our key markets. The first half of the year is traditionally the weaker half for us, given the Chinese New Year period when our manufacturing facility closes and the normally stronger demand generated by the Christmas period in Europe and Australia. Our focus remains our core business of being a world-class, market-focused manufacturer of well-designed and researched high quality telecom products from our competitively located manufacturing base. We will continue to broaden our customer base, and at the same time continue to offer an expanded range of products to our existing customers. In addition, we have set further internal goals for additional improvements in operating efficiencies. Barring unforeseen circumstances, we look forward to reporting at year end on a continuing improvement in sales and profitability of the Group.

Save as disclosed above, the information relating to matters set out in paragraph 32 of Appendix 16 of the Listing Rules has not been changed materially from that disclosed in the annual report of the Company for the year ended 31 December 2001.