

PERFORMANCE REVIEW

For the year ended 31 May 2001, Yue Fung International Group Holding Limited (the “Company”) and its subsidiaries (the “Group”) recorded a total turnover of HK\$338,534,000, a 16.5% increase over the previous year. Revenue growth was mainly attributable to the addition of our new digital-imaging products arm.

Profit attributable to shareholders also increased by 103.6% to HK\$41,194,000. This growth in profit stemmed entirely from operations, and was a direct result of our upgrading of the overall product mix and the introduction of higher-margin production of digital imaging products. Basic and diluted earnings per share were HK5.3 cents and HK5.3 cents, respectively.

For an analysis of the Group’s turnover and contribution to profit from operating activities by principal activity and geographical area of markets, please refer to note 4 to the financial statements.

BUSINESS REVIEW

Calculators

The Group’s core line of electronic products continued to attract steady demand despite the market slowdown. This was attributable to a number of factors. Firstly, fierce competition in the previous year had driven some non-performing competitors out of the market, helping the market to stabilize and resume a more stable course.

The Group’s R&D efforts and capital investment in machinery and facilities have also paid off through the introduction of newer, more sophisticated designs, as well as through the addition of more scientific and graphic functions to the calculators. With these constant product enhancements, the Group has been able to position itself competitively as a prime source for branded ODM or OEM customers tapping the upper end of the market.

The Group’s own **a-max** line of calculators also captured a larger share of the educational market. Its scientific calculators have been specially designated and recommended by several PRC educational bodies, in Jiangsu for example, as one of the few recommended brand names for secondary students in China. The Group looks to leverage its established brand image to tap further into the huge potential of the Mainland market.

The Group is now in productive negotiations with various overseas customers for the OEM manufacturing of new sophisticated scientific calculator models with graphical functions. Management expects this operation to continue to generate steady revenue and profitability.

Digital Imaging Products

The Group's first production line for these products commenced operations in December 2000. During the year, the Group successfully transplanted advanced digital imaging processing technology from the US. Our in-house software engineers are now utilizing the technology to produce high-performance digital cameras for the upper end of the market, as well as lines of trendy multi-functional digital cameras for the mass market.

This new business line demonstrated strong performance in its first year of operation. Having received the first batch of orders from certain well-known brands, the Group is now in discussion with several major Japanese brands regarding the production of new lines of digital cameras. In addition to ODM operations, the Group also commenced the distribution of its own **amax** line of digital cameras in several markets.

Armed with leading-edge technology from the US, and with a cost-effective manufacturing base in Mainland China, the Group now enjoys a unique competitive advantage. Management is pleased with the results of this new business line, and has full confidence in its future growth.

Personal Digital Assistants

The Group is now upgrading to the production of more sophisticated PDA models, featuring PC connectivity and other functions on OEM basis. The Group is now in negotiation with certain overseas customers for the OEM manufacturing of new PDA models. Management continues to see strong growth prospects for this operation and will actively pursue more new customers in this sector.

Investments

One of the Group's investments, Gold Wo International Holdings Limited ("Gold Wo") (SEHK: 90), a major silicon keypad and melamine products manufacturer, has registered rewarding return. Gold Wo reported a net profit of HK\$33.6 million for the year ended 31 March 2001 and was successfully listed on the Stock Exchange of Hong Kong in April 2001. As of the date of this report, Gold Wo had a market capitalization of approximately HK\$1,210,000,000, in which the Group held a 20.5% stake.

The management is considering strategy to maximize synergy among the Group's investments and is identifying new business opportunities. For details of other investments, please refer to note 13 to the financial statements.

Financial Resources and Liquidity

In addition to internal resources, the Group aims to diversify its funding sources through utilization of both the capital and banking markets.

The Group raised net proceeds of approximately HK\$8,300,000 in August 2000 from a placing of 60,000,000 shares in the Company. In October 2000, the Group raised a further HK\$20,000,000 through the issue of convertible notes to its major shareholder, Simply Noble Limited.

Funds raised during the year were employed in R&D in calculators, PDAs and digital imaging products, and to expand facilities and upgrade machinery.

The Group's performance and business re-alignment efforts have enjoyed strong support from banks. Its pledged deposits with banks for banking facilities were significantly reduced from last year's HK\$18,821,000, to the current year's HK\$10,030,000 as of 31 May 2001. At the same time, total available banking facilities increased from last year's HK\$183,413,000 to the current year's HK\$212,413,000. The Group's bank borrowings at 31 May 2001 amounted to HK\$110 million, which are secured by certain Group's fixed deposits, all of the Group's leasehold land and buildings and investment properties situated in Hong Kong.

The gearing ratio of the Group at 31 May 2001 calculated as interest-bearing bank borrowings to total assets is approximately 20% and the current ratio was maintained at a healthy level of approximately 113%.

To take the advantage of prevailing low interest rates and to increase the Group's cash reserves for long-term expansion, management is studying the feasibility of arranging long-term financing with certain major bankers.

Business Re-alignment and Prospects

In the coming year, the Group will step up its efforts to re-allocate its resources to higher-margin, high value-added product lines, with a view to restructuring or discontinuing certain low-margin or under-performing divisions. The profitability and growth potential of the Group will be strengthened further as a result. To enhance its overall business mix, management will also undertake a thorough operational re-organization of Group activities to achieve more efficient operation and management.

The coming year will see the Group focus on the development of its digital imaging and PDA operations. This, coupled with an anticipated steady revenue from the core calculator production, contributes to management's optimistic view of the Group's overall performance in the year ahead.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 May 2001, the Group employed 46 and approximately 1,800 employees in Hong Kong and the PRC, respectively. The Group remunerates its employees largely based on industry practice. Remuneration packages comprised salary, commissions and bonuses based on individual merits.

The Company has also established a share option scheme whereby employees of the Group may be granted options to acquire shares of the Company.