

Management Discussion and Analysis

Performance Review

The Group's strategies to advance its product mix and to diversify into new growth areas have helped it sustain its business during one of the worst global economic downturns recorded in the past few decades. In the first six months of this financial year, the Group posted a remarkable increase of 11 times in profit attributable to shareholders to HK\$219,288,000, fuelled by excellent return on investment and strong performances recorded in the higher-margin models. Total turnover was HK\$191,703,000, an increase of 11% compared with that of the corresponding period of last year.

Business Review

The Group has advanced its technological development by incorporating its technical and design skill sets established through the production of digital imaging products, MP3 and personal data assistants ("PDA") into a new Education Learning Aid ("ELA") product line. This new ELA series was developed on an ODM basis for a well-known Japanese brand of electronic products and this is expected to further broaden the Group's business scope. Initial orders have been secured from this new client, and the Group expects to develop the line further with the incorporation of other digital elements such as imaging functions.

Electronic calculators remained one of the Group's core businesses, contributing a steady revenue and profit stream to the Group. During the period, the Group achieved considerable success in capturing a larger share of the upper end of the Mainland market with its sophisticated models. Active development of the European market was also carried out during the period, leading to double-digit growth in revenue from this premium market. The strong growth in Europe also helped the Group partially offset the downturn of the US market.

On the other hand, the Group has recently established a business alliance with one of the world's leading calculator brand-name manufacturers. This alliance will involve the sharing of both companies' R&D resources and the utilization of Yue Fung's production capabilities. The co-operation has commenced with the outsourcing of manufacturing to the Group in phases, and is expected to grow into a long-term partnership relationship over time.

The Group's first production line for digital imaging products has achieved satisfactory results. In addition to the ODM production of up-market multi-function digital cameras for world-class branded customers, the Group has launched its own **amax**™ line of trendy toy cameras targeting the mid-range market. The Group has also deployed its digital imaging technologies in the development of speciality products. During the period, the Group has started to work with a Canadian company specializing in digital dentistry to develop and implement solutions on a technology platform that includes the most advanced features of dental CAD/CAM, image-capture devices and vision software.

To keep pace with demand, the Group is catering for the future expansion of production facilities by building a new plant adjacent to existing premises. The facilities are expected to become operational by the end of 2002.

Financial Position

At 30 November 2001, the Group had total cash in hand of approximately HK\$120 million, as well as banking facilities of approximately HK\$343 million as of the date of this report.

In a bid to further strengthen its financial position in support of its long-term growth plans, the Group sealed an additional HK\$80,000,000 three-year loan facility in January 2002 with certain bankers. The syndicated loan will help the Group improve its cash-flow position and significantly lower the borrowing costs. It also represents the banks' support of and confidence in the Group's future development.

Business Outlook

The Group has made continued progress in its business re-engineering, from its initial product re-positioning initiatives to a new phase of business development through alliances with technology-rich and brand-name partners. This will further enhance the Group's growth into a development- and brand-driven consumer electronics manufacturer.

The next half of this fiscal year will continue to see further innovations in its digital imaging, ELA and PDA lines. The Group will also strengthen its technical know-how through the newly established business alliances, while continuing to maintain its production edge by expanding and upgrading existing facilities. Management's efforts to reduce operating expenses and to increase production efficiency will also continue into the coming periods.

It is expected that, over the next twelve months, new manufacturing space will be added to the Group's production base in China. Business-development activities, including participation in major trade shows, partnerships with brand names and constant product developments, will also be accelerated in accordance with this capacity expansion plan.

The Group's investment in Gold Wo International Holdings Limited (SEHK: 90) have reported an excellent return on investment after its flotation on the Stock Exchange of Hong Kong. To maximize returns for our shareholders, the Group will continue to support the listing of other companies in which it has invested.

Management continues to hold an optimistic view of the Group's future, and has full confidence in the Group's developments on various business fronts.