PERFORMANCE REVIEW

For the year ended 31 May 2002, Yue Fung International Group Holding Limited (the "Company") and its subsidiaries (the "Group") recorded a total turnover of HK$425,666,000, representing a 25.7% increase over the previous year. Revenue growth was partly attributable to increased contribution from our personal digital assistants (the "PDAs"), driven by the success of our pricing strategy to capture a larger share in the consumer electronics market, and last but not least bolstered by our active development of alternative product lines, such as Euro converters to equalize order shrinkage for traditional calculators, especially after the September 11 incident.

Despite turnover growth, the Group experienced a squeeze in profit margin with gross profit for the year down 10.3% to HK$68,064,000, and profit attributable to shareholders for the year amounted to HK$23,042,000. Unfavorable and competitive market conditions had made margin contraction an inevitable epidemic in the industry. Nevertheless, we were able to achieve larger market coverage with our successful pricing strategy.

Basic and diluted earnings per share were HK$1.24 and HK$1.24 respectively.

During the interim period, the Group's unaudited financial statements recorded an unrealised holding gain on a listed equity investment of approximately HK$207 million, which had been offset by the approximately same amount of unrealised loss of the same investment in the second half of the financial year.

CAPITAL REORGANISATION

Subsequent to the balance sheet date, pursuant to a directors' resolution passed on 3 September 2002, the Company proposed a capital reorganisation involving reduction of capital and consolidation of shares which will effect in the following manner:

(i) the issued share capital of the Company will be reduced by HK$45,979,826 from HK$46,210,880 to HK$231,054 by cancelling HK$0.00995 of the issued and fully paid capital per share so that the nominal value of each such share will be reduced from HK$0.01 to HK$0.00005 (the "Reduced Shares"). The credit of approximately HK$45,980,000 arising from such capital reduction will be credited to the contributed surplus account of the Company; and

(ii) the 4,621,088,000 issued Reduced Shares will be consolidated into 23,105,440 shares on the basis of every 200 issued Reduced Shares of HK$0.00005 each consolidated into one share of HK$0.01 each. The issued share capital of the Company will then remain at HK$231,054.

The above capital reorganisation was approved by the shareholders at the special general meeting held on 27 September 2002.

BUSINESS REVIEW

New Dynamics from A-Max

After our newly acquired A-Max Holdings Limited (formerly Kessel International Holdings Limited) ("A-Max") had completed its business restructuring in August 2002, the next strategic task is to align its business plans and strategies with those of the Group to optimize allocation of resources.

A-Max was principally engaged in the manufacture and sale of PDAs, liquid crystal display (the "LCD"), LCD modules (the "LCMs"), LCD panels and telecommunication products at a 50,000-sq m plant in Dongguan, China. The Group now intends to enhance the overall revenue generating capability of A-Max through restructuring of those cost-ineffective operations. The direction for 2003 and beyond is to further build up its niche on LCD and LCM manufacturing businesses and to actively strengthen the relationships with both existing and new multi-national brand-name clients.

Collaboration opportunities in the PDAs operation between A-Max and the Group are being closely explored. At present, the former targets at the more up-market segment, while the latter focuses on the mass market.

Following its debt restructuring, A-Max is now externally debt free and has a net asset value in excess of HK$100 million. The management perceives A-Max as a major growth driver for the Group.

Product Portfolio Diversification

The Group's accomplishments, especially its resilience to adverse conditions, prey heavily on its technological prowess and the management's astute foresight into future market demands. The Group's decision to extend its technical expertise in PDA products to the launch of a new Electronic Learning Aids ("ELA") product line since 2000 proved to be an ingenious growth strategy. Such business re-engineering efforts will lead to increased contributions from PDA and ELA product lines to the Group.

The ELA product line for a top Japanese brand will see further product diversification with launches of new series, leveraging on the growing market demands for ELAs. Introduction feasibility of English and simplified Chinese versions is also being explored.

For the year ended 31 May 2002, the Group recorded a turnover of HK$43,289,000 for its digital cameras segment, representing 10% of the Group's total sales for the year and a 191% increase when compared with such segment sales in last year. New multi-functional digital camera products such as 1.3M models are under development and targeted for the US and Europe customers.

Electronic calculators remained one of the Group's core business but orders from the US for traditional calculators and schedulers took a nosedive in the aftermath of the September 11 incident in the US. The Group took the contingency tactic to actively pursue orders for Euro converters and managed to sustain the overall order amount.

BUSINESS REVIEW *(Continued)*

Product Portfolio Diversification *(Continued)*

As a follow-up to a business alliance that the Group established with one of the world's leading calculator brand-name manufacturers, this strategic relationship becomes increasingly closer as the business partner has already started outsourcing its manufacturing activities to the Group, with a view to offloading a significant portion of its manufacturing operations to the Group eventually. This development provides the Group with an ensured and stable income source.

Financial Resources and Liquidity

The gearing ratio of the Group as at 31 May 2002, calculated as a ratio of interest-bearing bank borrowings to total assets, is approximately 22% and the current ratio was maintained at a healthy level of approximately 295%.

As at 31 May 2002, the Group had total cash and bank balance of HK$122.4 million, of which HK$3.5 million was pledged, and bank borrowings of HK$161 million, among which 52% is repayable within one year. Most of the cash and bank balances and bank borrowings were in Hong Kong dollars. At the same time, total available banking facilities amounted to HK$379 million. The Group's leasehold land and buildings situated in Hong Kong and investment properties with an aggregate carrying value of HK$30.5 million were pledged to secure certain banking facilities granted to the Group.

In January 2002, the Group successfully secured a HK$80,000,000 three-year loan facility with a syndication of banks to further strengthen our cash-flow position and significantly lower borrowing costs. Banks have always been supportive to the Group's business activities and share the management's confidence in our growth potential. The Group is currently in negotiation with certain banks for the arrangement of another long-term facility with more favourable terms to take advantage of prevalent lower interest rates. Funds raised will be used to further strengthen working capital and to intensify long-term developments at the Group and A-Max.

Investments

It is the strategy of the Group to maximize and review synergy among the Group's investments. The Group will consolidate the investments and would like to focus the financial resources on the core business of the Group and the newly acquired A-Max. Accordingly, the Group disposed all of its equity interest in a listed investee company during the year. Subsequent to the balance sheet date, the Group disposed of certain unlisted investments.

The Group's investments in Fu Cheong International Holdings Limited (SEHK: 916), through an equity interest in its US listed parent, had posted good return for the Group following its flotation on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in March 2002.

BUSINESS REVIEW *(Continued)*

Foreign Exchange and Currency Risks

Since most of the revenue generated from the sale of products and the payment for purchases of materials, components, equipment and salaries are either made in HK dollars, Renminbi, or Hong Kong dollars pegged currencies, no use of financial instruments for hedging purposes is considered necessary and the exposure to exchange rate fluctuations is minimal.

Employees and Remuneration Policy

As at 31 May 2002, the Group employed a total of approximately 1,800 employees. They were remunerated according to the nature of job and market condition. Other employee benefits available for eligible employees included year-end payment, staff canteen, mandatory provident fund, share option and medical insurance scheme.

Contingent Liabilities

As at 31 May 2002, the Company had contingent liabilities in relation to corporate guarantees given by the Company to banks for facilities granted to subsidiaries of the Company amounting to HK$299 million. For other contingent liabilities, please refer to note 30 to financial statements for details.

BUSINESS OUTLOOK

The Group is pleased with the remarkable accomplishments from its business re-engineering initiatives and with A-Max fully on board, the Group is on a much stronger platform to realize its vision of becoming a leading consumer electronics producer with sophisticated product portfolio of higher margins.

It is seeking to restructure its sales teams from the current product-oriented composition to a more dynamic customer-focused sales force. This pro-active approach will enable the Group to innovate new product ideas for the existing clientele.

The management believes that the Group is heading towards the right direction in achieving its goal. The coming years will see the Group focusing on strategic refinement, optimization of resources, further product diversification and new market developments which are the conduits for continued growth and higher profitability.