

MANAGEMENT DISCUSSION AND ANALYSIS

Consolidated Accounts

The enclosed consolidated financial statements, which were prepared by the Former Directors, included the results of the subsidiaries that form part of the restructured group. The subsidiaries, which are in the course of liquidation for which the appointed liquidators have assumed overall control, are not consolidated according to SSAP 32. In view of the financial status of these subsidiaries, that certain books and records of these remaining subsidiaries have been mislaid and that they do not form part of the restructured group, these subsidiaries were not consolidated in the accounts of the Company for the period ended 30 September 2001 because the cost of obtaining information in relation to these subsidiaries would exceed the value of information to the members of the Group. The non-consolidation of certain subsidiaries of the Group leads to reduction in the turnover, the cost of sales and other operating expenses of the Group for the period ended 30 September 2001, as well as reduction in the amount of non-current assets, current assets, non-current liabilities and current liabilities as at 30 September 2001.

Liquidity and Financial Resources

The total indebtedness of the Group was approximately HK\$171 million as at 30 September 2001. Since there was a negative equity as at 30 September 2001, the calculation of gearing ratio is not applicable.

In respect of the total indebtedness of approximately HK\$171 million as mentioned above, almost all of the amounts were subsequently released and discharged under the Restructuring Agreements and the Creditors' Schemes (as defined in the Composite Document dated 19 July 2002) upon completion of the Group Restructuring on 21 August 2002. Further, the Group's cash position was increased from approximately HK\$1.5 million as at 30 September 2001 to approximately HK\$30 million after completion of the Restructuring Agreements due to the subsequent issue of convertible notes in August 2002. The Group's liquidity has returned to a healthy position.

Working Capital

The ultimate holding company of the Group, Yue Fung International Group Holding Limited (the "Yue Fung") and its controlling shareholder, Simply Noble Limited, have agreed to provide, in equal proportion, a total of HK\$30 million cash to the Group for its working capital requirements through the issuance of the 5 years convertible notes. Such HK\$30 million is currently planned to be applied to restore the operations of Dongguan factory. About HK\$20 million will be used for acquiring and reconditioning machinery and utilities, trial running of materials and consumables as well as procuring materials and the balance of about HK\$10 million for financing operating overheads.

The Whitewash Waiver

Immediately upon the completion of Group Restructuring, A-Max (Asia) Limited, the wholly owned subsidiary of Yue Fung, was interested in about 97% of the enlarged issued share capital of the Company. Pursuant to Note 1 on Dispensations from Rule 26 of the Hong Kong Code on Takeovers and Mergers, A-Max (Asia) Limited is obliged to make a general offer for all the shares other than those already held by A-Max (Asia) Limited and parties acting in concert with it. On 25 July 2002, the waiver application of the obligation to make a general offer for the shares was approved and granted by the Securities and Futures Commission.

Future Plans and Prospects

With the effort of the new management, the mass production has been able to resume in September 2002. The Group will continue to formulate long-term business plans and develop new business strategies. After a thorough review of the restructured Group, the Group intends to focus on the Group's core business of manufacturing and development of the most profitable LCD and LCD modules businesses and restructure those loss-making businesses. As a result, we are confident that the Group will be profitable in the near future.

Segment Information

Analysis by Business Segments

During the period under review, turnover and loss from operations derived from the assembly services rendered to subsidiaries not consolidated was amounted to approximately HK\$13 million and HK\$162 million respectively. Complete information in respect of the Group's turnover and operating loss by business segments for the period under review is not available to the Current Directors.

Analysis by Geographical Segments

No analysis of the Group's segment revenue and results for the period under review by geographical market has been presented as the complete information is not available to the Current Directors.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the period under review.

Employees and Remuneration Policies

Complete information in respect of the number of employees of the Group as at 30 September 2001 is not available to the Current Directors. However, subsequent to the appointment of the Provisional Liquidators (as defined in the Composite Document dated 19 July 2002), most of the employment contracts with the Group's employees have been terminated.