



# YUE FUNG INTERNATIONAL GROUP HOLDING LIMITED

裕豐國際集團控股有限公司\*

(Incorporated in Bermuda with limited liability)

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MAY 2002

### RESULTS

The directors of Yue Fung International Group Holding Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 May 2002 together with the comparative figures for previous year as follows:

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
TURNOVER	1	425,666	338,534
Cost of sales		<u>(357,602)</u>	<u>(262,687)</u>
Gross profit		68,064	75,847
Other income		2,853	10,089
Selling and distribution costs		(2,981)	(3,929)
General and administrative expenses		(30,567)	(25,474)
Impairment of goodwill	2	–	(37,981)
Other operating expenses		<u>(445)</u>	<u>(779)</u>
PROFIT FROM OPERATING ACTIVITIES	3	36,924	17,773
Finance costs		<u>(8,102)</u>	<u>(10,979)</u>
PROFIT BEFORE TAX		28,822	6,794
Tax	4	<u>(5,780)</u>	<u>(3,586)</u>
PROFIT BEFORE MINORITY INTEREST		23,042	3,208
Minority interest		<u>–</u>	<u>5</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>23,042</u>	<u>3,213</u>
EARNINGS PER SHARE	5		
Basic		<u>HK\$ 1.24</u>	<u>HK\$ 0.83</u>
Diluted		<u>HK\$ 1.24</u>	<u>HK\$ 0.82</u>

NOTES:

**1. TURNOVER AND SEGMENTAL INFORMATION**

Turnover represents the invoiced value of goods sold during the year, net of trade discounts and returns, after elimination of intra-group transactions.

**(a) Business segments**

The following table presents revenue and results information for the Group's business segments.

	Calculators, PDAs and others		Digital cameras		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:						
Sales to external customers	382,377	315,891	43,289	22,643	425,666	338,534
Other revenue	732	2,308	7	6	739	2,314
	<u>383,109</u>	<u>318,199</u>	<u>43,296</u>	<u>22,649</u>	<u>426,405</u>	<u>340,848</u>
Segment results	<u>29,393</u>	<u>46,116</u>	<u>6,417</u>	<u>2,065</u>	35,810	48,181
Interest income and unallocated gains					2,114	7,775
Impairment of goodwill					–	(37,981)
Unallocated expenses					<u>(1,000)</u>	<u>(202)</u>
Profit from operating activities					36,924	17,773
Finance costs					<u>(8,102)</u>	<u>(10,979)</u>
Profit before tax					28,822	6,794
Tax					<u>(5,780)</u>	<u>(3,586)</u>
Profit before minority interest					23,042	3,208
Minority interest					<u>–</u>	<u>5</u>
Net profit from ordinary activities attributable to shareholders					<u>23,042</u>	<u>3,213</u>

## (b) Geographical segments

The following table presents revenue and results information for the Group's geographical segments.

	Hong Kong		United States of America		Europe		Others		Consolidated	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Segment revenue:										
Sales to external customers	<u>77,131</u>	<u>24,577</u>	<u>154,730</u>	<u>167,715</u>	<u>154,219</u>	<u>113,186</u>	<u>39,586</u>	<u>33,056</u>	<u>425,666</u>	<u>338,534</u>
Segment results	<u>4,915</u>	<u>4,859</u>	<u>13,425</u>	<u>22,986</u>	<u>14,381</u>	<u>16,813</u>	<u>3,089</u>	<u>3,523</u>	<u>35,810</u>	<u>48,181</u>

## 2. PRIOR YEAR ADJUSTMENT

Hong Kong Statement of Standard Accounting Practice (“HKSSAP”) 30 “Business combinations” and HKSSAP 31 “Impairment of assets” are effective for the first time in the preparation of the current year's financial statements. HKSSAP 30 prescribes the accounting treatment of business combinations, including the treatment of goodwill on acquisition. HKSSAP 31 prescribes the recognition and measurement criteria for impairments of assets.

In accordance with the requirements of HKSSAP 31 and the transitional provisions of HKSSAP 30, an adjustment has been made concerning the impairment of goodwill arising prior to the adoption of HKSSAP 30 which was eliminated against reserves. The adjustment, which represents a change in accounting policy, has been applied retrospectively in accordance with HKSSAP 2 “Net profit or loss for the period, fundamental errors and changes in accounting policies”.

Accordingly, goodwill in the amount of HK\$37,981,000, which was impaired in the prior year, has been recognised directly in the prior year's retained profits as brought forward at 1 June 2001. In prior year, the Group's goodwill arising from the acquisition of a subsidiary was eliminated against goodwill reserve. Due to this change in accounting policy, the Group's retained profits as at 31 May 2001 and its net profit from ordinary activities attributable to shareholders for the year then ended were decreased by HK\$37,981,000 to HK\$124,676,000 and HK\$3,213,000, respectively. The goodwill reserve account was then credited by HK\$37,981,000 to nil after the adjustment.

### 3. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Depreciation	26,737	20,926
Amortisation of deferred development costs	1,068	509
Loss on disposal of a listed investee company	395	–
Revaluation surplus of leasehold land and buildings situated in Hong Kong	–	(624)
Revaluation deficit/(surplus) of investment properties	50	(1,050)
Gain on disposal of subsidiaries	–	(3,628)
	<u>          </u>	<u>          </u>

### 4. TAX

	<b>Group</b>	
	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Provision for Hong Kong profits tax for the year	1,500	1,230
Underprovision of Hong Kong profits tax in prior year	–	100
Deferred tax	4,280	2,256
	<u>          </u>	<u>          </u>
Tax charge for the year	<u>5,780</u>	<u>3,586</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

Deferred tax has been provided for, under the liability method, at the rate 16% (2001: 16%) on the significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future.

### 5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$23,042,000 (2001: HK\$3,213,000) and the weighted average of 18,573,000 (2001: 3,877,000) ordinary shares in issue during the year, adjusted to reflect the rights issue during the year and the share consolidation after the balance sheet date, further details of which were disclosed under the heading "Capital Reorganisation" below.

The calculation of diluted earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$23,042,000 (2001: HK\$3,213,000) and the weighted average of 18,588,000 (2001: 3,916,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation, adjusted for the effects of dilutive potential ordinary shares outstanding during the year.

Had the calculations of basic and diluted earnings per share not adjusted to reflect the share consolidation after the balance sheet date, as described above, they would have been HK0.6 cent (2001: HK0.4 cent) and HK0.6 cent (2001: HK0.4 cent), respectively.

## **PERFORMANCE REVIEW**

For the year ended 31 May 2002, 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.

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.

## **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.

During the year, the Hong Kong Inland Revenue Department challenged the appropriateness of the filing of tax returns by several subsidiaries on various inter-company service fee arrangements for the years of assessment 1995/96, 1996/97 and 1997/98 (the “Prior Years”). The final assessment of the Prior Years had not yet been issued, and the potential net tax liabilities, to the best estimate of the directors, is estimated to be not more than HK\$5 million. Based on the information available at the date of this announcement, the directors are of the opinion that the subsidiaries have a valid defence to the challenge and, accordingly have not provided for the liabilities at the balance sheet date.

## **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.

## **FINAL DIVIDEND**

The directors do not recommend the payment of any final dividend for the year ended 31 May 2002 (2001: Nil).

## **SHARE OPTION SCHEME**

During the year, all of 23,200,000 share options granted in prior year to non-director employees of the Group were either lapsed or cancelled.

## **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) throughout the year covered by the annual report, except that the independent non-executive directors of the Company were not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s bye-laws.



## **AUDIT COMMITTEE**

The Company has an audit committee (the “Committee”) which was established in accordance with the requirements of the Code, for the purpose of reviewing and providing supervision on the financial reporting process and internal control of the Group. The Committee comprises two independent non-executive directors. The work of the Committee has covered the full financial year ended 31 May 2002.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

There was no purchase, redemption or sale by the Company or any of its subsidiaries of the Company’s listed securities during the year.

## **PUBLICATION OF RESULTS ON THE STOCK EXCHANGE’S WEBSITE**

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange website – [www.hkex.com.hk](http://www.hkex.com.hk) in due course.

By Order of the Board  
**Lee Wing Kan**  
*Chairman and Managing Director*

Hong Kong, 27 September 2002

\* *For identification purposes only*

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an Annual General Meeting of the Members of Yue Fung International Group Holding Limited (the “Company”) will be held at Plume, Hotel Inter-Continental Hong Kong, 18 Salisbury Road, Kowloon, Hong Kong on 13 November 2002 at 3:00 p.m. to transact the following ordinary business:

1. to receive and consider the audited financial statements and the reports of the directors and auditors for the year ended 31 May 2002;
2. to elect the directors of the Company, and to authorise the board of directors to fix the directors’ remuneration;
3. to re-appoint auditors of the Company, Messrs. Ernst & Young, and authorise the board of directors to fix their remuneration; and
4. to consider as special business and, if thought fit, pass with or without amendments, the following resolutions each as an Ordinary Resolution:

**A. THAT:**

- (a) subject to sub-paragraph (c) of this Resolution, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in sub-paragraph (a) of this Resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in sub-paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue (as defined below), (ii) the exercise of any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of the cash payment for a dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and

- (d) “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:
- (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable law to be held; and
  - (iii) the revocation or variation of this resolution by an ordinary resolution of the shareholders in general meeting.

“Rights Issue” means an offer of shares or other securities of the Company open for a period fixed by the Directors to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlement’s or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside the Hong Kong Special Administrative Region of the People’s Republic of China).

**B. THAT:**

- (a) subject to sub-paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period of all the powers of the Company to repurchase shares of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the shares of the Company may be listed and recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange under the Hong Kong Code on Share Repurchases (“Recognised Stock Exchange”) subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time (the “Listing Rules”) or that of any other Recognised Stock Exchange, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares of the Company which may be purchased pursuant to the approval in sub-paragraph (a) of this Resolution shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of passing of this Resolution and the said approval shall be limited accordingly.

- C. **THAT** conditional upon Resolution A and Resolution B set out in the notice convening this meeting of which this Resolution forms part being passed, the aggregate nominal amount of the shares of the Company which are repurchased by the Company after the date of the passing of this Resolution (up to a maximum of 10% of the aggregate nominal amount of the share capital of the Company as stated in Resolution B set out in the notice convening this meeting of which this Resolution forms part) shall be added to the aggregate nominal amount of share capital that may be allotted and issued or agreed conditionally or unconditionally to be allotted by the Directors pursuant to Resolution A set out in the notice convening this meeting of which this Resolution forms part.

By Order of the Board  
**Lo Wing Ming, Kevin**  
*Company Secretary*

Hong Kong, 27 September 2002

*Notes:*

1. Any member entitled to attend and vote at the meeting shall be entitled to appoint another person (who must be an individual) as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed herewith.
2. The form of proxy shall be under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under its seal or under the hand of any officer, attorney or other person authorised to sign the same.
3. In order to be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power of authority, must be deposited at the Company's branch share registrars, Tengis Limited of 4/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time fixed for holding the meeting.
4. Delivery of the form of proxy will not preclude a member from attending and voting in person at the meeting convened and in such event, the form of proxy shall be deemed to be revoked.
5. Where there are joint holders of any share of the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders are present at the meeting, the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

“Please also refer to the published version of this announcement in The Standard”.