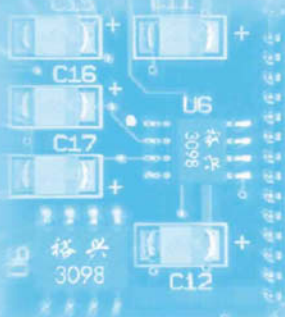




# Yuxing InfoTech Holdings Limited

裕興電腦科技控股有限公司\*

(Incorporated in Bermuda with limited liability)



**1 9 9 9**

**ANNUAL REPORT**

\* for identification purpose only

## *Important Notice*

### **Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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## Corporate Information

### Board of Directors

#### *Executive Directors*

Zhu Wei Sha (*Chairman*)

Chen Fu Rong

Shi Guang Rong

Wang An Zhong

#### *Independent Non-executive Directors*

Wu Jia Jun

Zhong Peng Rong

Chen Man Fai, Steven

### Company secretaries

Di Yu Zeng

Lai Yang Chau, Eugene, *Solicitor*

Ira Stuart Outerbridge III

*(Mr. Outerbridge resigned as secretary in Bermuda of the Company following the listing of the shares on GEM)*

### Qualified accountant

Yuen Wai Man, Shirine

*Associate Member of the Association of Chartered Certified Accountants*

*Associate Member of*

*Hong Kong Society of Accountants*

### Compliance officer

Shi Guang Rong

### Authorised representatives

Zhu Wei Sha

Chen Fu Rong

### Bermuda resident representatives

John Charles Ross Collis

Anthony Devon Whalery (*Deputy*)

### Sponsor

ICEA Capital Limited

### Audit committee

Chen Man Fai, Steven

Wu Jia Jun

### Legal advisers to the Company

Livasiri & Co. (*on Hong Kong Laws*)

Jingtian Associates (*on PRC Laws*)

Conyers Dill & Pearman (*on Bermuda Laws*)

### Auditors

PricewaterhouseCoopers

*Certified Public Accountants*

### Registered office

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

### Places of business

#### *In Hong Kong*

Unit 1808, 18th Floor

Tower III, Enterprise Square

9 Sheung Yuet Road

Kowloon Bay

Kowloon

#### *In the PRC*

No. 5, De Wai Da Jie

Xi Cheng District

Beijing

## *Corporate Information*

### **Share registrars and transfer offices**

#### *Principal registrar*

The Bank of Bermuda Limited  
6 Front Street  
Hamilton  
Bermuda

#### *Branch registrar*

Central Registration Hong Kong Limited  
17th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

### **Principal bankers**

The Industrial and Commercial Bank of China  
The Agricultural Bank of China

### **Stock code**

8005



## Financial Highlights and Calendar

### Financial Highlights

	<b>1999</b>	1998	Change
	<b>HK\$'000</b>	HK\$'000	%
<b>Revenue</b>			
Turnover	<b>496,157</b>	127,118	290.3
<b>Profitability</b>			
Operating profit	<b>106,694</b>	29,187	265.6
Profit before taxation	<b>162,961</b>	51,972	213.6
Profit attributable to shareholders	<b>109,031</b>	34,113	219.6
<b>Net worth</b>			
Shareholders' funds	<b>180,630</b>	71,869	151.3
<b>Per share</b>			
Earnings per share	<b>36.3 cents</b>	11.4 cents	218.4
Net assets per share	<b>60.2 cents</b>	24.0 cents	150.8
<b>Turnover period</b>			
Trade receivable turnover period	<b>2.0 days</b>	2.4 days	
Inventory turnover period	<b>108.2 days</b>	127.2 days	

### Financial Calendar

Results for the year	Announcement on 23rd March 2000
Annual report	Despatched to shareholders in late March 2000
Annual general meeting	12th May 2000

## Chairman's Statement



Mr. Zhu Wei Sha, the chairman of the Board and the president of the Company

Yuxing InfoTech Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in the research and development, design, marketing and sales of information appliances. Looking forward, the Group will position itself as an active market player in the web-based information technology and distance computer education arena.

The Group has a strong research and development capability and a well-established market distribution network. At present, its main products for sale in the People's Republic of China ("PRC") market are computer VCDs (multimedia set-top boxes with VCD and basic computer functions including Internet browsing) under the brand name of "裕兴".

On 31st January 2000 the Group successfully listed its shares on the GEM of the Stock Exchange and the dealings in its shares officially commenced.

Currently, the Group is advancing at a fast momentum. With its successful listing on the GEM of the Stock Exchange, the Group has now proved itself appealing to high-calibre people, and is also enjoying the ease of pooling technological resources. The Group has initiated resource integration internally and externally, with a view to gathering momentum for new development as soon as practicable.

All the staff of the Group find the successful listing of the Company most encouraging. With boosted morale, dedicated service and enthusiasm for work, all the Directors and I have every reason to believe that the Group can, as always, enjoy continual rapid growth and be a leading high-tech enterprise.

### Outlook

The arrival of 21st century also means the arrival of a new technology era. In the PRC, Internet and information appliance industry should continue to prosper. As one of the leaders in the PRC's information appliance industry, we believe that the Company will have plenty of opportunities ahead. Currently, we have several plans to capture these opportunities and thus to ensure our strong earning growth in the year 2000. Our plans include:

- (1) Signaled by the entering of Microsoft Corporation ("Microsoft") into the games business, games, entertainment and information technology businesses become closely knitted together. This represents the world's latest trend of business development. Having foreseen the above, the Group has already added functions for dancing and body fitness training to its multimedia set-top box, enabling a close integration of education, entertainment and information in our products. It is another leading and trendy product for the information appliance industry. The product pioneers in terms of international standards in respect of audio-visual technology, infra-red remote control and dancing mat design. The Company intends to transplant such functions onto ordinary computers in near future so as to further expand our market penetration and influence.

## Chairman's Statement

- (2) The Group has established an excellent distribution network with nationwide coverage in the PRC. The distribution network is comprised of more than 30 general distributors, more than 200 secondary distributors and more than 5,000 sales shops. The Group intends to adopt the business-to-business (“BToB”) e-commerce technology to enhance its sales through the network, grasp network information and provide on-line services. It is expected to be ready within the year 2000.
- (3) The Group has approximately 3 million users of its products. At present, building-up of user data bank is under way. It is expected that a data bank of over 600,000 users will be established within the year 2000.
- (4) The Group will cooperate with the Ministry of Education for providing hardware and software products of the Group for primary and secondary schools. Such cooperation is a specific step taken by the Group in its strategy to promote computer education. Implementation of the plan has been commenced.
- (5) The Group will continue to strengthen its business relationship with its major technology providers such as C-Cube Microsystems Inc. (“C-Cube”), Microsoft and Sunplus Technology Co., Ltd. (“Sunplus”). It will also make use of the technology of these companies and the unique expertise of the Group to create products which will better meet the needs of most consumers in the PRC. In joint effort with C-Cube, the Group has set up a broadband research laboratory in the Silicon Valley to explore broadband applications. Operations of the laboratory has already started.
- (6) Since its listing, the Group has been actively recruiting competent people as its staff to cope with our growing operation. We are also expanding our product lines and reducing product design cycle in order to achieve a time-to-market premium on our products.



The shares of the Company were listed on the GEM of the Stock Exchange on 31st January 2000.



## *Chairman's Statement*

With the strong demand in our existing products, expected excellent contribution from our future products, the advancement in our marketing and distribution network, and the dedication of our high-calibre employees, we are expecting a very strong performance for the year 2000. We have every confidence that we will be able to achieve much better results as compared to the year 1999.

### **Acknowledgement**

I would like to take this opportunity to thank the Group's staff for their hard work and contribution in such a rapid growing industry, which has resulted a very successful year for the Group.

**Zhu Wei Sha**

*Chairman*

Hong Kong, 23rd March 2000



## Review of Operations

### Financial results

The Group achieved a turnover and gross profit of approximately HK\$496.2 million and HK\$185.0 million, respectively, for the year ended 31st December 1999. Sales of computer VCDs (also known as multimedia set-top box) and educational computers amounted to approximately HK\$456.9 million and HK\$21.6 million, respectively, representing approximately 92.1% and 4.4%, respectively, of the Group's total sales for the year. Sales of software applications and others amounted to approximately HK\$17.7 million, representing approximately 3.5% of the Group's total sales for the year. The Group's profit before taxation and profit attributable to shareholders for the year ended 31st December 1999 amounted to approximately HK\$163.0 million and HK\$109.0 million, respectively. Gross profit margin and net profit margin were approximately 37.3% and 22.0%, respectively.

In 1999, the Group has achieved a significant growth in both revenue and net earnings. Sales has reached HK\$496.2 million which translates to a year-on-year growth of 290.3%. Meanwhile, net earnings has also reached HK\$109.0 million, or a year-on-year growth of 219.6%. The strong growth in revenue and net earnings are mainly contributed by the strong sales of our computer VCDs. During the year, sales of our computer VCDs reached 540,000 units which translates to a market share of over 90% of the overall market in the PRC. The Group's products, which incorporate our proprietary information appliance multimedia software development platform ("IAMS DP") software, are currently, among the only few information appliance products in the PRC that are capable of providing functions such as multimedia education, internet accessing, word-processing, spreadsheet, and games.

Our dominant position in the PRC's new information appliance industry is further amplified with strategic alliance with C-Cube, a renowned worldwide MPEG technology provider. Furthermore, in early 1999, the Group also became one of the alliance partners with Microsoft in its Venus Project in the PRC.

The experience that the Group has built up over the past few years ensures the Group to benefit from the PRC's blossoming information appliance industry.

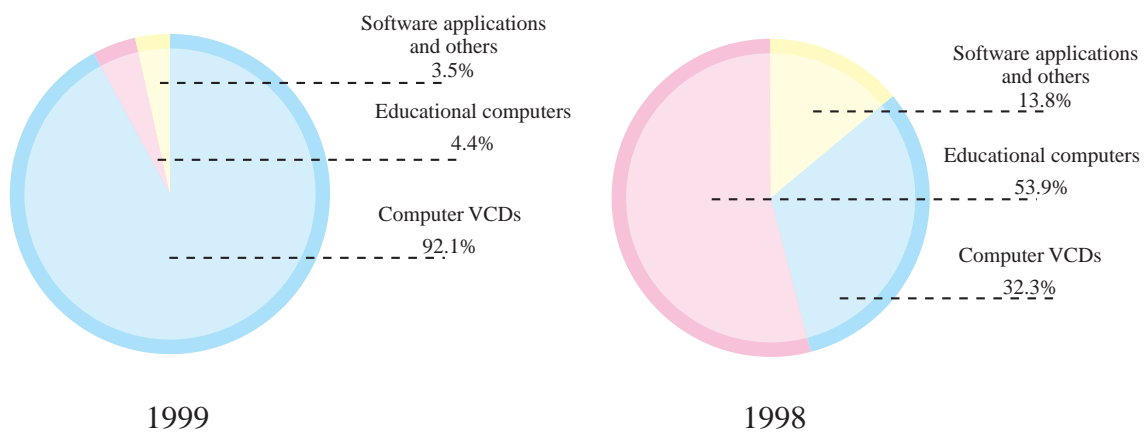


The Group has developed over 200 multi-media softwares designed for VCD with 32 bits. With numerous software and great potential for further development, the Group has a very strong competitive edge.

# Review of Operations

## Financial position

Strong financial position is another key factor attributable to the Group's success. As at 31st December 1999, the Group had net current assets of approximately HK\$171.1 million including approximately HK\$48.9 million cash in hand. Trade receivables were approximately HK\$3.7 million as at 31st December 1999, with a trade receivable turnover of approximately 2.0 days. Year-end inventories were at approximately HK\$155.6 million, with an inventory turnover of approximately 108.2 days.

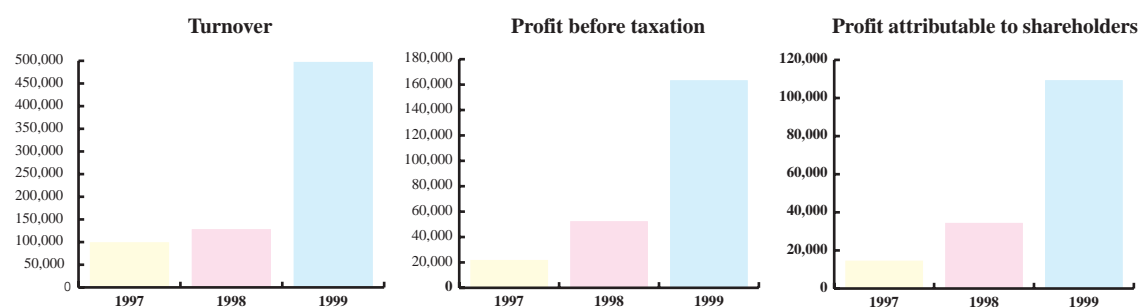


The network for the sales service of the Group covers the whole PRC even down to towns and villages.

## Financial Summary

### Consolidated results

Year ended 31st December	<b>1999</b>	1998	1997
	<b>HK\$'000</b>	HK\$'000	HK\$'000
Turnover	<b>496,157</b>	127,118	98,227
Profit before taxation	<b>162,961</b>	51,972	21,427
Taxation	<b>(53,930)</b>	(17,859)	(7,136)
Profit attributable to shareholders	<b>109,031</b>	34,113	14,291
Earnings per share	<b>36.3 cents</b>	11.4 cents	4.8 cents



### Consolidated assets and liabilities

As at 31st December	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
<b>Assets</b>		
Intangible assets	<b>2,055</b>	2,995
Fixed assets	<b>7,478</b>	1,556
Bank balances and cash	<b>48,882</b>	25,580
Other current assets	<b>187,972</b>	72,955
	<b>246,387</b>	103,086
<b>Liabilities</b>		
Current liabilities	<b>65,757</b>	31,217
Shareholders' funds	<b>180,630</b>	71,869

## Business Progress



New generation of set-top box with A+ vocal accompaniment and dancing functions

### Use of proceeds from the initial public offering

Subsequent to the year end date, the Company's shares were listed on the GEM of the Stock Exchange on 31st January 2000 and successfully raised a net proceeds of about HK\$390 million by offering 100,000,000 new

shares at par value of HK\$0.10 each for HK\$4.20 per share of the Company by way of placing (the "Placing"). The response was overwhelming with more than eight times over-subscription and our new portfolio of shareholders includes many of the world's largest institutional investors. The Board proposed to apply the net proceeds from the Placing as disclosed in the the Company's prospectus dated 25th January 2000 (the "Prospectus").

### Comparison of business objectives and actual progress

An analysis comparing the actual business progress to date of the Group with respective business objectives as stated in the Prospectus is set out below.

#### **Business objectives as stated in the Prospectus:**

#### **Actual business progress to date:**

#### **(1) Promoting IAMS DP as a standard for software application development in the information appliance industry in the PRC:**

*For the period ending 30th June 2000,*

- |   |   |
|---|---|
| <p>(a) To license the existing version of IAMS DP to users with limited programming skills</p>  | <p>The first generation of IAMS DP serves as a commercialised platform which enables the conversion of PC software into software for information appliances. Currently, we have granted non-exclusive licences to use IAMS DP for the development of software to about 30 institutions, including Highly Software Industry Co., Ltd., Beijing Talent Electronics Co., Ltd. and Multimedia Products Developing Basement of the Ministry of Education, which led to the development of about 160 types of software.</p> |
| <p>(b) To complete the development of the second generation of IAMS DP and to license the same to domestic professional software developers</p> | <p>There is a smooth progress in the development of the second version of the platform. The trial version has been offered to two multimedia software</p>   |

## Business Progress

### **Business objectives as stated in the Prospectus:**

- (c) To release a Mask ROM embedded with software engine to the manufacturers of Venus Computers in the PRC

*For the year ending 31st December 2000,*

To promote IAMSDDP to domestic software developers for the creation of multimedia software applications

### **(2) Popularising the Group's information appliances in the PRC:**

*For the period ending 30th June 2000,*

To develop and launch new models of computer VCD and computer super VCD equipped with the new 3099 processor

*For the year ending 31st December 2000,*

- (a) To produce approximately 700,000 sets of wide voltage VCD players and super VCD players
- (b) To license the Group's computer VCD hardware platform and supply the 3098 processors to a number of domestic VCD player manufactures

### **Actual business progress to date:**

developers in the PRC. Refinements to the trial version is under progress.

The development of Mask ROM was completed and officially launched in October 1999. The software engine enables the IAMSDDP to operate on Venus Computers and is readily available for commercialised supply.

The project has commenced and negotiations are underway.

A breakthrough has been achieved for the 3099 processor which is developed by joint effort with Sunplus in enhancing its functions. At present, samples developed are being tested and are closed to commercialisation.

It has been going smoothly and approximately 230,000 units were manufactured to date.

The 3098 processor is recognised to be a considerably mature product. Appropriate release of the technology in the platform can enhance the Group's leading position in the market. The Group has currently on a non-exclusive basis licensed the technology to two electronics manufacturers.



DVD, with A+ vocal accompaniment and dancing functions, of the Group

## Business Progress

### **Business objectives as stated in the Prospectus:**

*For the year ending 31st December 2001,*

To develop and launch a series of regular DVDs and computer DVDs in co-operation with C-Cube

### **Actual business progress to date:**

The project is in the course of progress.

### **(3) Becoming a market leader in multimedia software application development**

*For the period ending 31st December 2002,*

To develop at least 100 multimedia software applications annually to complement the Group's hardware

Since the beginning of the year 2000, the Group has developed over 30 multimedia software applications.

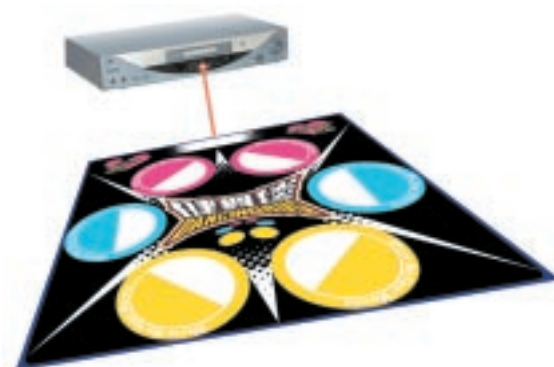
### **(4) Promoting the Group's educational computer as popular multimedia educational tool in the PRC**

*For the period ending 30th June 2000,*

To complete the development of the 3097 processors and to develop and launch a new generation of educational computers equipped with the 3097 processor

Development and product design were completed, and trial production has commenced.

It is expected that mass production and market launch will take place soon.



VCD player, with dancing mat design, of the Group

*For the year ending 31st December 2000,*

To arrive at definite arrangements with the Ministry of Education to promote the use of the Group's educational computers as primary multimedia educational tools in the PRC

The Group is negotiating closely with the Ministry of Education. A "compatibility plan" is proposed to enable primary and secondary schools in various regions in the PRC with different economic conditions to promote computer education, so that the utilisation of the hardware and software products of the Group can be enhanced. It is expected that a letter of intention will soon be entered into with the Ministry of Education for the implementation of the plan.

## *Directors and Senior Management*

### **Executive Directors**

**Mr. Zhu Wei Sha**, aged 45, has been the chairman of the Board and the president of the Group since 1996. He graduated from the Department of Automatic Control of the Beijing Industrial University with a bachelor degree in engineering. He had worked at the Beijing Machinery Electronic Research Institute and the Industrial Economic Research Department of the China Social Science Institute and as the legal representative and general manager of the Beijing Xichen Shanchuan Jinji Technology Company. He is a committee member of the Chinese People's Political Consultative Committee and a committee member of Democracy and Constructive Alliance. Mr. Zhu possesses strong fundamental knowledge of business and corporate management and has 12 years' experience in management of technological enterprises. He is a co-founder of the Group.

**Mr. Chen Fu Rong**, aged 38, has been a vice president of the Group since 1996. He graduated from the Department of Automatic Control of the Beijing Industrial University with a bachelor degree in engineering. He had worked at the Industrial Economic Research Department of the China Social Science Institute and Beijing Machinery Electronics Co. and has extensive experience in computer hardware design and management of research and development activities. He is responsible for the development of the Group's multimedia educational computers and supervision of the Group's overall research and development activities. Mr. Chen possesses nine years' experience in research and development and engineering management. He is a co-founder of the Group.

**Mr. Shi Guang Rong**, aged 38, has been a vice president of the Group since 1996. He graduated with a bachelor degree in engineering from the Department of Automatic Control of the Beijing Industrial University. He had worked at the Beijing Switch Factory and the Beijing Damei group. He has also gained management experience when he served as the head of the engineering department in the Beijing Jinglun Hotel. He is responsible for the marketing and public relation matters of the Group. Mr. Shi has established a close relationship with the news media and possesses 12 years' experience in product marketing and promotion.

**Mr. Wang An Zhong**, aged 43, is the general manager of the research and development department of the Group. He graduated with a master degree in engineering from the Department of Computer Science of the Beijing Industrial University. He was an associate professor and has extensive experience in lecturing and scientific research. He also managed and was involved in a number of the State's research projects and won several awards. Mr. Wang joined the Group in 1997 as the head of the research and development department.



## *Directors and Senior Management*

### **Independent Non-executive Directors**

**Mr. Wu Jia Jun**, aged 67, is currently a researcher at the Social Science Institute of China and a mentor professor for doctorate students. He was an executive vice-president of the Industrial and Economic Research and Development Association of China and the vice-general manager of the Chinese Industrial and Economic Research Institute from 1980 to 1993 and the vice-president of the Young Entrepreneurs Association of China. Mr. Wu has extensive experience in conducting research in the economy and industries of the PRC and also in corporate management. He is a renowned scholar in Japanese corporate and industrial management of which he has an in-depth knowledge. He has published several books and articles on corporate management and economic reform. Mr. Wu was appointed as an Independent Non-executive Director in October 1999.

**Mr. Zhong Peng Rong**, aged 45, is a renowned Chinese economist. He worked with the central government of the PRC for many years as a chief researcher. He now serves as a professor of several famous universities and as an advisor to over 20 enterprises and local governments of the PRC. As the chairman and research fellow of the Beijing Shiye Consultancy Centre, he has formulated development strategies for enterprises in different industries and for local governments. He has an in-depth understanding of the macroeconomic environment and government administration in the PRC. Mr. Zhong was appointed as an Independent Non-executive Director in October 1999.

**Mr. Chen Man Fai, Steven**, aged 40, is currently a director of ICEA Capital Limited (“ICEA”), the sponsor of the Company. Prior to joining ICEA, Mr. Chen practised as a PRC legal consultant at Livasiri & Co. from 1988 to 1992 and at McKenna & Co. from 1992 to 1994. He also practised as a lawyer at Wilde Sapte from 1994 to 1996. Mr. Chen has extensive experience in corporate restructuring and overseas listing for PRC enterprises. He is a member of both the Law Society of Hong Kong and the solicitor of the High Court of Hong Kong. He is also a senior PRC lawyer. Mr. Chen was appointed as an Independent Non-executive Director in October 1999.

### **Company secretaries**

**Mr. Di Yu Zeng**, aged 39, is the business development department manager of the Group. He has obtained a certificate of completion from the Beijing Employee Institute of Machinery Industry Bureau. Before joining the Group in 1997, he served as the chief secretary of the president’s office, an assistant manager of the research department and the head of the equity securities department at Beiren Printing Machinery Holdings Limited, a PRC company listed on the Stock Exchange, and was responsible for the administration of securities related matters. Mr. Di was appointed as a company secretary in October 1999.

**Mr. Lai Yang Chau, Eugene**, aged 30, is a practising solicitor in Hong Kong and an associate of Livasiri & Co., the legal adviser to the Company on Hong Kong laws. Mr. Lai holds a bachelor of laws degree from The University of Hong Kong, a master of laws degree from the People’s University of the PRC and a master of laws degree from the City University of Hong Kong. Mr. Lai was appointed as a company secretary in October 1999.

## *Directors and Senior Management*

### **Senior management**

**Mr. Sun Li Jun**, aged 37, is a finance manager of the Group. He graduated with a bachelor degree in engineering from the Department of Automatic Control of the Beijing Industrial University. He had worked at the Beijing Machinery group, Lathe Electronics Co. and the Industrial Economic Research Department of the China Social Science Institute. He is a co-founder of the Group and has nine years' experience in financial management.

**Mr. Li Zhen Huan**, aged 63, is the deputy general manager and sales manager of the Group. He was the general manager of Xingjiang Agriculture Service Company for 20 years and has extensive experience in corporate management. He has made significant contribution to the establishment of the Group's distribution network since he joined the Group in 1996.

**Mr. Zhu Jiang**, aged 42, is the deputy general manager of the research and development department of the Group. He graduated from the Department of Wireless Communication of the Beijing Industrial University. He has 15 years' research experience in computer engineering, and has extensive experience in digital-to-analog circuits and high-level assembly language programming. He has participated in several important scientific research projects and has received a number of national awards. Mr. Zhu joined the Group in 1996.

**Mr. Zheng Zhi Jian**, aged 33, is a finance manager of the Group. He graduated from the Gansu Industrial University with a bachelor degree in industrial accounting. He was the financial controller of the Gansu Province Electronics group and Shenzhen Dongda Electronics Company Limited. He was an assistant general manager and a finance manager of Shenzhen Huayi Telecommunication Products Limited. He has extensive experience in corporate financial management. Mr. Zheng joined the Group in 1996.

**Mr. Liu Feng Lai**, aged 30, is the production manager of the Group. He graduated from the Department of Physics of the Beijing Postal and Communication Institute. He was a lecturer in Miyun No. One High School. Since joining the Group in 1996, he has been promoted to manager to oversee and co-ordinate the Group's production function.

**Ms. Yuen Wai Man, Shirine**, aged 27, is the finance and administration manager of the Group. She is a graduate of the Hong Kong University of Science and Technology with a bachelor degree in business administration. Ms. Yuen is an associate member of both the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. Ms. Yuen was an experienced senior staff accountant at an international accounting firm with five years' experience in accounting and finance. Ms. Yuen joined the Group in December 1999.

## Report of the Directors

The Directors have pleasure in submitting to shareholders their report and audited accounts of Yuxing InfoTech Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31st December 1999.

### Group reorganisation

The Company was incorporated in Bermuda on 6th October 1999 as an exempted company with limited liability under the Companies Act of Bermuda. Pursuant to a group reorganisation (the “Reorganisation”) which was completed on 20th November 1999, the Company became the ultimate holding company of the Group. Details of the reorganisation are set out in the prospectus of the Company dated 25th January 2000 (the “Prospectus”) in connection with the placing of 100,000,000 shares of HK\$0.10 each of the Company on 28th January 2000 (the “Placing”). The shares of the Company were listed on the GEM of the Stock Exchange on 31st January 2000 and successfully raised a net proceeds of approximately HK\$390 million.

### Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are research and development, design, marketing and sale of information appliances, including computer VCDs, educational computers and software applications in the PRC. Particulars of the subsidiaries of the Company are set out in note 13 to the accounts.

An analysis of the Group’s turnover and contribution to profit before taxation for the year is as follows:

	Year ended 31st December 1999		Year ended 31st December 1998	
	Turnover HK\$’000	Profit before taxation HK\$’000	Turnover HK\$’000	Profit before taxation HK\$’000
Sale of goods				
Computer VCDs	<b>456,899</b>	<b>93,903</b>	41,094	6,679
Educational computers	<b>21,593</b>	<b>10,289</b>	68,437	17,409
Software applications and others	<b>17,665</b>	<b>1,810</b>	17,587	5,014
	<b>496,157</b>	<b>106,002</b>	127,118	29,102
Government incentive bonuses		<b>56,267</b>		22,785
Interest income		<b>692</b>		85
		<b>162,961</b>		51,972

All of the Group’s turnover was derived in the PRC.

# Report of the Directors

## Results and appropriations

The results for the year are set out in the consolidated profit and loss account on page 25.

During the year, interim dividends totalling HK\$469,000 were paid to the then shareholders prior to the Reorganisation. The Directors do not recommend the payment of a final dividend.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 17 to the accounts.

## Fixed assets

Movements in fixed assets during the year are set out in note 12 to the accounts.

## Share capital

Movements in share capital during the year and subsequent to the year end pursuant to the Placing are set out in notes 16 and 21 to the accounts, respectively.

## Directors

The Directors who held office during the year are:

### *Executive Directors*

Mr. Zhu Wei Sha ( <i>Chairman</i> )	(appointed on 7th October 1999)
Mr. Chen Fu Rong	(appointed on 7th October 1999)
Mr. Shi Guang Rong	(appointed on 7th October 1999)
Mr. Wang An Zhong	(appointed on 7th October 1999)

### *Independent Non-executive Directors*

Mr. Wu Jia Jun	(appointed on 25th October 1999)
Mr. Zhong Peng Rong	(appointed on 25th October 1999)
Mr. Chen Man Fai, Steven	(appointed on 25th October 1999)

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Chen Fu Rong and Mr. Chen Man Fai, Steven, retire by rotation and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

## Biographical details of Directors and senior management

Biographical details of Directors and senior management are set out on pages 14 to 16.

# Report of the Directors

## Connected transactions

Significant related party transactions entered by the Group during the year ended 31st December 1999 are disclosed in note 20 to the accounts.

Subsequent to the Reorganisation and the listing of shares of the Company on the GEM of the Stock Exchange, these transactions did not constitute as connected transactions since the respective companies ceased to be connected persons under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”).

## Arrangements to purchase shares or debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Immediately following the Placing, none of the Directors had interests in respect of the existing share option scheme of the Company or its associated corporations.

## Directors' and chief executives' interests in securities

Immediately following the Placing, the beneficial interests of the Directors in the share, warrants and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) which have been notified to the Company and the GEM of the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have taken under section 31 of, or Part I of the Schedule to, the SDI Ordinance), or which are required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, or pursuant to rules 5.40 and 5.59 of the GEM Listing Rules), to be notified to the Company and the GEM of the Stock Exchange are as follows:

### (a) Ordinary shares of HK\$0.1 each

Name	Type of interest	Number of shares	Percentage of issued share capital
Mr. Zhu Wei Sha	Corporate ( <i>Note 1</i> )	165,000,000	41.25%
Mr. Chen Fu Rong	Corporate ( <i>Note 1</i> )	165,000,000	41.25%
Mr. Shi Guang Rong	Personal ( <i>Note 2</i> )	6,000,000	1.50%
Mr. Wang An Zhong	Personal ( <i>Note 2</i> )	1,084,189	0.27%

*Note 1:* Mr. Zhu Wei Sha and Mr. Chen Fu Rong held these shares through Super Dragon Co., Ltd. (“Super Dragon”), a company in which Mr. Zhu Wei Sha and Mr. Chen Fu Rong have 63.6% and 36.4% of its issued share capital respectively.

*Note 2:* Dragon Treasure Ltd. (“Dragon Treasure”) acted as the trustee and held these shares on behalf of Mr. Shi Guang Rong and Mr. Wang An Zhong.

Save as disclosed in this report, none of the Directors has an interest in a business which competes or is likely to compete with the Group’s business.

# Report of the Directors

## Directors' and chief executives' interests in securities *(continued)*

### **(b) Share options**

Under the share option scheme approved by the shareholders of the Company on 18th January 2000, the Directors may, at their absolute discretion, within a period of ten years from 31st January 2000, invite full time employees of the Group, including Executive Directors of the Company, to take up options to subscribe for shares of the Company subject to the terms and conditions stipulated therein. Immediately following the Placing, no options were granted under the scheme.

### Directors' service contracts

Each of the Executive Directors has entered into a service contract with the Company for a term of three years from 7th October 1999 (which is automatically renewed upon expiry for successive terms of one year) subject to termination on or after 7th October 2002 by either party giving not less than six months' notice in writing to the other party terminating at the end of the initial term of the relevant service contract or at any time thereafter. Each of these Directors is entitled to a basic salary (subject to annual increment after 31st December 1999 of not more than 10% of the annual salary of the relevant Director immediately prior to such increase).

In addition, the Executive Directors are also entitled, on completion of every 12 months of service, to management bonuses of a sum at the discretion of the Directors provided that the aggregate amount of management bonuses payable to all Directors shall not be more than 5% of the audited consolidated or combined net profit of the Company (after taxation and minority interest but excluding extraordinary items and the payment of such bonus) in respect of each financial year of the Company after 31st December 1999.

Each of the Independent Non-executive Directors were appointed for a period of 2 years commencing on 25th October 1999.

Save as disclosed above, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

### Directors' remuneration

Details of Directors' remuneration are set out in note 10 to the accounts.

### Directors' interest in contracts

Mr. Chen Man Fai, Steven, an Independent Non-executive Director of the Company, is also a director of ICEA, the sponsor to the Company in the Placing, which received normal underwriting commission and a normal documentation fee in connection with the Placing, and will receive a fee for acting as the Company's retained sponsor for the period from 31st January 2000 to 31st December 2002.

# Report of the Directors

## Directors' interest in contracts *(continued)*

Save as disclosed above, no contracts of significance (as defined in rule 18.25 of the GEM Listing Rules) in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, either directly or indirectly, immediately following the Placing.

## Sponsor's interests

As updated and notified by ICEA since the listing of the shares of the Company on GEM of the Stock Exchange, and save that Mr. Chen Man Fai, Steven, a director of ICEA, is also an Independent Non-executive Director of the Company:

- (1) neither ICEA nor its associates have or may, as a result of the listing or transaction, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe such securities);
- (2) no director or employee of ICEA who is involved in providing advice to the Company has or may, as a result of the listing or transaction, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed by any such director or employee pursuant to an offer by way of public subscription made by the Company);
- (3) neither ICEA nor its associates expect to have accrued any material benefit as a result of the successful outcome of the listing or transaction, including by way of example, the repayment of material outstanding indebtedness and payment of any underwriting commissions or success fees; and
- (4) no director or employee of ICEA has a directorship in the Company, or any other company in the Group.

Pursuant to the agreement dated 25th January 2000 entered into between the Company and ICEA, ICEA will receive a fee for acting as the Company's retained sponsor for the purpose of chapter 6 of the GEM Listing Rules for the period from 31st January 2000 to 31st December 2002.

## Substantial shareholders

Immediately following the Placing, the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance shows that the Company had been notified of substantial shareholders' interests, being 10% or more of the Company's issued share capital, as follows:

Name	Percentage of	
	Number of shares	issued shares
Super Dragon <i>(Note 1)</i>	165,000,000	41.25%
Dragon Treasure <i>(Note 2)</i>	135,000,000	33.75%

# Report of the Directors

## Substantial shareholders (continued)

*Note 1:* Super Dragon is a nominee company beneficially owned by Mr. Zhu Wei Sha, as to 63.6%, and Mr. Chen Fu Rong, as to 36.4%.

*Note 2:* Dragon Treasure is a nominee company and acts as the trustee holding shares of the Company on behalf of the past and present employees of the Group, including Mr. Shi Guang Rong and Mr. Wang An Zhong, whose interests in shares of the Company are disclosed in “Directors’ and chief executives’ interests in securities” above.

## Purchase, sale or redemption of listed securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed shares up to the date of this report.

## Year 2000 compliance

Based on the work done and assessment made by the Group’s Year 2000 internal task force, the Directors believe that the Group’s internally installed computer systems, products and supplies, where applicable, are Year 2000 compliant. However, due to the complexity of the Year 2000 issue and the interdependence of organisations using computer systems, there can be no assurance that the Group’s effort to address this problem, or those of other companies with whom the Group interacts, can completely eliminate the Year 2000 issue. However, up to the the date of this report, the Directors are not aware of the Group encountering any major system failures or facing significant operating difficulties relating to the Year 2000 issue.

## Major customers and suppliers

The percentages of purchases for the year attributable to the Group’s major suppliers are as follows:

Purchases	
– the largest supplier	15.4%
– five largest suppliers combined	31.6%

The Group sold less than 30% of its total turnover of sales of goods to its five largest customers for the year.

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company’s share capital) had an interest in the major suppliers or customers noted above.



# *Report of the Directors*

## **Financial summary**

A summary of the consolidated results of the Group for the past three financial years and of its consolidated assets and liabilities as at the end of the last two financial years is set out on page 10.

## **Board practices and procedures**

The Company has complied with rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM of the Stock Exchange on 31st January 2000.

## **Audit committee**

The Company established an audit committee on 20th November 1999 with written terms of reference in compliance with the GEM Listing Rules. Two Independent Non-executive Directors of the Company, Mr. Wu Jia Jun and Mr. Chen Man Fai, Steven, were appointed as members of the Company's audit committee. Mr. Chen Man Fai, Steven, was appointed as the chairman of this committee. The primary duty of the audit committee is to review and supervise the financial reporting process and internal controls of the Group. Since its establishment, the audit committee met once reviewing the Company's annual report and accounts, and providing advice and recommendations to the Board of Directors.

## **Auditors**

The accounts have been audited by PricewaterhouseCoopers who will retire at the end of the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

On behalf of the Board

**Zhu Wei Sha**

*Chairman*

Hong Kong, 23rd March 2000



羅兵咸永道會計師事務所

PricewaterhouseCoopers  
22nd Floor Prince's Building  
Central Hong Kong

## AUDITORS' REPORT TO THE SHAREHOLDERS OF YUXING INFOTECH HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

We have audited the accounts set out on pages 25 to 45 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### Respective responsibilities of directors and auditors

The Company's Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

### Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

### Opinion

In our opinion, the accounts give a true and fair view, in all material respects, of the state of affairs of the Company and the Group as at 31st December 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 23rd March 2000

## Consolidated Profit and Loss Account

FOR THE YEAR ENDED 31ST DECEMBER 1999

	<i>Note</i>	<b>1999</b> <b>HK\$'000</b>	1998 HK\$'000
Turnover	3	<b>496,157</b>	127,118
Cost of inventories sold		<b>(311,171)</b>	(77,690)
Gross profit		<b>184,986</b>	49,428
Other revenue	3	<b>692</b>	85
Selling expenses		<b>(63,958)</b>	(10,164)
Administrative expenses		<b>(14,303)</b>	(8,008)
Other operating expenses		<b>(723)</b>	(2,154)
Operating profit		<b>106,694</b>	29,187
Non-operating income	4	<b>56,267</b>	22,785
Profit before taxation	5	<b>162,961</b>	51,972
Taxation	6	<b>(53,930)</b>	(17,859)
Profit attributable to shareholders	7	<b>109,031</b>	34,113
Dividends	8	<b>469</b>	—
Earnings per share	9	<b>36.3 cents</b>	11.4 cents

## Consolidated Balance Sheet

AS AT 31ST DECEMBER 1999

	<i>Note</i>	<b>1999</b> <b>HK\$'000</b>	1998 HK\$'000
Intangible assets	11	<b>2,055</b>	2,995
Fixed assets	12	<b>7,478</b>	1,556
Current assets			
Inventories	14	<b>155,567</b>	28,863
Due from related companies		<b>—</b>	1,544
Trade receivables		<b>3,671</b>	1,650
Other receivables, prepayments and deposits		<b>25,801</b>	37,398
Short term investments	15	<b>2,933</b>	3,500
Bank balances and cash		<b>48,882</b>	25,580
		<b>236,854</b>	98,535
Current liabilities			
Trade payables		<b>34,244</b>	6,533
Other payables and accrued charges		<b>17,497</b>	2,976
Taxation payable	6(d)	<b>14,016</b>	21,708
		<b>65,757</b>	31,217
Net current assets		<b>171,097</b>	67,318
Net assets		<b>180,630</b>	71,869
Financed by:			
Share capital	16	<b>30,000</b>	—
Reserves	17	<b>150,630</b>	71,869
Shareholders' funds		<b>180,630</b>	71,869

Approved by the Board of Directors on 23rd March 2000 and signed on behalf of the Board by

**Zhu Wei Sha**  
*Chairman and President*

**Chen Fu Rong**  
*Vice President*

## Balance Sheet

AS AT 31ST DECEMBER 1999

	<i>Note</i>	<b>1999 HK\$'000</b>
Investments in subsidiaries	13	<b>174,689</b> -----
Current assets		
Other receivables		<b>1,633</b>
Current liabilities		
Other payables and accrued charges		<b>786</b> -----
Net current assets		<b>847</b> -----
Net assets		<b>175,536</b> =====
Financed by:		
Share capital	16	<b>30,000</b>
Reserves	17	<b>145,536</b> -----
Shareholders' funds		<b>175,536</b> =====

Approved by the Board of Directors on 23rd March 2000 and signed on behalf of the Board by

**Zhu Wei Sha**  
*Chairman and President*

**Chen Fu Rong**  
*Vice President*

## Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31ST DECEMBER 1999

	<i>Note</i>	<b>1999</b> <b>HK\$'000</b>	1998 HK\$'000
Net cash inflow from operating activities	18	<b>91,072</b>	25,875
Returns on investments and servicing of finance			
Interests received		<b>692</b>	85
Dividends paid		<b>(469)</b>	—
Net cash inflow from returns on investments and servicing of finance		<b>223</b>	85
PRC income tax paid		<b>(61,622)</b>	(1,748)
Investing activities			
Additions of fixed assets		<b>(6,570)</b>	(591)
Increase in cash and cash equivalents		<b>23,103</b>	23,621
Cash and cash equivalents at 1st January		<b>25,580</b>	2,037
Effect of foreign exchange rate changes		<b>199</b>	(78)
Cash and cash equivalents at 31st December		<b>48,882</b>	25,580

## Consolidated Statement of Recognised Gains and Losses

FOR THE YEAR ENDED 31ST DECEMBER 1999

	<i>Note</i>	<b>1999</b> <b>HK\$'000</b>	1998 HK\$'000
Net gain not recognised in the consolidated profit and loss account			
— Exchange differences arising on translation of the PRC subsidiary	17	<b>199</b>	11
Profit for the year		<b>109,031</b>	34,113
Total recognised gains		<b>109,230</b>	34,124

## 1 Group reorganisation and basis of presentation

The Company was incorporated in Bermuda on 6th October 1999 as an exempted company with limited liability under the Companies Act of Bermuda. Pursuant to a group reorganisation (the “Reorganisation”) in preparation for the listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the ultimate holding company of the Group on 20th November 1999. Further details of the Reorganisation are set out in the prospectus of the Company dated 25th January 2000. The Company’s shares were listed on the GEM of the Stock Exchange on 31st January 2000.

The Reorganisation has been reflected in the accounts by regarding the Group, which comprises the Company and its subsidiaries, as a continuing entity. Accordingly, the Group accounts for the years ended 31st December 1998 and 1999 have been prepared using the merger basis of accounting as if the current group structure had been in existence since 1st January 1998. In the opinion of the Directors, the accounts prepared on the above basis present fairly the results and the state of affairs of the Group as a whole.

## 2 Principal accounting policies

The accounts have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical convention as modified by the revaluation of short term investments.

### (a) Basis of consolidation

- i. The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. The results of subsidiaries acquired or disposed of during the year, excluding the transactions on the Reorganisation of the Group, are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.
- ii. All significant intercompany transactions and balances within the Group are eliminated on consolidation.
- iii. A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.
- iv. In the Company’s balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.



## 2 Principal accounting policies (continued)

### (b) Revenue recognition

Revenue from the sale of goods, net of value added tax (“VAT”) where applicable, is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers.

Government incentive bonuses are recognised as income when the right to receive payment is established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

### (c) Intangible assets

Intangible assets represent costs of acquisition of patents and are written off over a period of 5 years.

### (d) Fixed assets

i. Construction-in-progress is stated at cost. Cost comprises all direct and indirect costs of acquisition or construction of buildings and plant and machinery as well as interest expenses on the related funds borrowed during the construction, installation and testing periods prior to the commissioning date. A plant is considered to be commissioned when it is capable of producing saleable quality output in commercial quantities on an ongoing basis.

ii. Buildings and other tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged at rates sufficient to write-off their costs over their estimated useful lives, on a straight line basis. The estimated useful lives used for this purpose are as follows:

Buildings	30 years
Plant and machinery	5 years
Office equipment, furniture and fixtures	3 years
Motor vehicles	5 years

iii. Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

iv. The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have been discounted in determining the recoverable amount.

v. The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

## 2 Principal accounting policies *(continued)*

(e) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditures. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. Spare parts and consumables are stated at cost less provision for obsolescence.

(f) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(g) Short term investments

Short term investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of short term investments are recognised in the profit and loss account. Gains or losses on disposal of short term investments, representing the differences between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(h) Deferred taxation

Deferred taxation is accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or asset is expected to be payable or receivable in the foreseeable future.

(i) Translation of foreign currencies

The books and records of the Company's subsidiary established in the People's Republic of China ("PRC") are maintained in Renminbi. Other companies within the Group maintain their books and records in Hong Kong dollars.

Transactions in foreign currencies are translated to Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated to Hong Kong dollars at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

For the purpose of consolidation, the accounts of subsidiaries expressed in foreign currencies are translated to Hong Kong dollars at the rates of exchange ruling at the balance sheet date. Exchange differences arising are dealt with as a movement in reserves.

# Notes to the Accounts

31ST DECEMBER 1999

## 2 Principal accounting policies (continued)

(j) Research and development costs

Research and development costs are expensed as incurred.

(k) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on a straight line basis over the lease term.

## 3 Revenue and turnover

	<b>Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
<i>Turnover – sale of goods</i>		
Computer VCDs	<b>456,899</b>	41,094
Educational computers	<b>21,593</b>	68,437
Software applications and others	<b>17,665</b>	17,587
	<b>496,157</b>	127,118
<i>Other revenue</i>		
Interest income	<b>692</b>	85
Total revenues	<b>496,849</b>	127,203

## 4 Non-operating income

The non-operating income represented incentive bonuses granted by the Government of Pinggu County, Beijing, the People's Republic of China ("PRC") to the Company's subsidiary in the PRC, Beijing Golden Yuxing Electronics and Technology Co., Ltd. ("Golden Yuxing") for the year ended 31st December 1999. Golden Yuxing is categorised as "high-technology" company established in the Jinhaijiao Technology Zone of Pinggu County. The incentive bonuses were granted by Pinggu County Government for the purpose of supporting the expansion of Golden Yuxing's operations.

## Notes to the Accounts

31ST DECEMBER 1999

### 5 Profit before taxation

Profit before taxation is stated after charging the following:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Staff costs		
- Research and development	2,196	1,724
- Other operations	5,154	1,798
	<u>7,350</u>	<u>3,522</u>
Depreciation of fixed assets	648	524
Amortisation of intangible assets	940	867
Operating leases in respect of land and buildings	1,641	1,781
Advertising and promotion expenses	52,425	7,168
Research and development costs, inclusive of staff costs	4,827	2,458
Auditors' remuneration	700	28
Realised and unrealised loss on short term investments	567	2,121
	<u>77,053</u>	<u>23,671</u>

### 6 Taxation

	Group	
	1999	1998
	HK\$'000	HK\$'000
PRC income tax ( <i>Note (b)</i> )	<u>53,930</u>	<u>17,859</u>

- No provision for Hong Kong profits tax has been made in the accounts as the Group has no assessable profits in Hong Kong for the year.
- The PRC income tax during the year represented the tax charges on the assessable profits of Golden Yuxing at a rate of 33% (1998: 33%).
- Following the Reorganisation, Golden Yuxing became a Sino-foreign co-operative joint venture and is entitled to preferential tax treatments available to foreign investment enterprises in accordance with the relevant tax regulations in the PRC. The preferential treatments include full exemption from PRC income tax for the two years starting from its first profit making year following by a 50% reduction of PRC income tax for the next consecutive three years. The preferential treatments on Golden Yuxing would commence from the year 2000.
- Taxation payable in the consolidated balance sheet represents PRC income tax payable as at 31st December 1999.
- No provision for deferred taxation has been made in the accounts as the effect of timing differences is immaterial to the Group.

# Notes to the Accounts

31ST DECEMBER 1999

## 7 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a loss of HK\$464,000 (1998: Not applicable).

## 8 Dividends

No dividends had been paid or declared by the Company since its date of incorporation to 31st December 1999. During the year, dividends amounting to HK\$469,000 were paid by Golden Yuxing to its former shareholders prior to the Reorganisation.

## 9 Earnings per share

The calculation of earnings per share is based on the profit attributable to shareholders of HK\$109,031,000 (1998: HK\$34,113,000) and 300,000,000 shares in issue during the two years. In determining the number of shares in issue, a total of 300,000,000 shares issued on the establishment of the Company and on the Reorganisation of the Group was deemed to have been in issue since 1st January 1998. There is no diluted earnings per share since the Company has no dilutive potential ordinary shares.

## 10 Emoluments of directors and senior management

- (a) The aggregate amounts of emoluments payable to the Directors of the Company during the year are as follows:

	Group	
	1999 HK\$'000	1998 HK\$'000
Fees	—	—
Basic salaries and other allowances	401	127
Discretionary bonuses	250	13
	<u>651</u>	<u>140</u>

The emoluments of the Executive Directors of the Company fell within the following band:

	Number of directors	
	1999	1998
HK\$Nil to HK\$1,000,000	<u>4</u>	<u>4</u>

No emoluments had been paid to the Non-executive Directors of the Company during the year.

No Directors of the Company waived any emoluments and no incentive payment or compensation for loss of office was paid or payable to any Directors of the Company during the year.

## Notes to the Accounts

31ST DECEMBER 1999

### 10 Emoluments of directors and senior management (continued)

- (b) The five individuals whose emoluments were the highest in the Group during the year included four (1998: three) Directors of the Company whose emoluments are detailed above. The emoluments payable to the remaining individuals were as follows:

	Group	
	1999	1998
	HK\$'000	HK\$'000
Basic salaries and other allowances	59	65
Discretionary bonuses	12	6
	<u>71</u>	<u>71</u>

The emoluments of the individual were in the band of HK\$Nil to HK\$1,000,000.

### 11 Intangible assets

	Group	
	1999	1998
	HK\$'000	HK\$'000
Acquired patents		
At 1st January 1999	2,995	3,862
Less: amortisation during the year	(940)	(867)
At 31st December 1999	<u>2,055</u>	<u>2,995</u>

## Notes to the Accounts

31ST DECEMBER 1999

### 12 Fixed assets

	<b>Construction- in-progress</b>	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Group Office equipment, furniture and fixtures</b>	<b>Motor vehicles</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost						
At 1st January 1999	—	66	125	1,584	454	2,229
Additions at cost	5,815	—	—	648	107	6,570
	<u>5,815</u>	<u>66</u>	<u>125</u>	<u>2,232</u>	<u>561</u>	<u>8,799</u>
At 31st December 1999	<u>5,815</u>	<u>66</u>	<u>125</u>	<u>2,232</u>	<u>561</u>	<u>8,799</u>
Accumulated depreciation						
At 1st January 1999	—	3	31	529	110	673
Charge for the year	—	2	22	524	100	648
	<u>—</u>	<u>2</u>	<u>22</u>	<u>524</u>	<u>100</u>	<u>648</u>
At 31st December 1999	<u>—</u>	<u>5</u>	<u>53</u>	<u>1,053</u>	<u>210</u>	<u>1,321</u>
Net book value						
At 31st December 1999	<u>5,815</u>	<u>61</u>	<u>72</u>	<u>1,179</u>	<u>351</u>	<u>7,478</u>
At 31st December 1998	<u>—</u>	<u>63</u>	<u>94</u>	<u>1,055</u>	<u>344</u>	<u>1,556</u>

## Notes to the Accounts

31ST DECEMBER 1999

### 13 Investments in subsidiaries

	<b>Company 1999 HK\$'000</b>
Unlisted shares, at cost	<b>176,000</b>
Amount due to a subsidiary ( <i>Note (a)</i> )	<b>(1,311)</b>
	<b><u>174,689</u></b>

(a) The amount due to a subsidiary is unsecured, interest free and has no fixed term of repayment.

(b) The particulars of the Company's subsidiaries as at 31st December 1999 are set out below:

<b>Company</b>	<b>Country of incorporation/ establishment</b>	<b>Principal activities/place of operation</b>	<b>Particulars of issued share capital/ registered capital</b>	<b>Attributable interest %</b>
<i>Direct subsidiary:</i>				
Yuxing Electronics Company Limited ("Yuxing (BVI)")	British Virgin Islands ("BVI")	Investment holding in BVI	2,000 ordinary shares of US\$1 each	100
<i>Indirect subsidiary:</i>				
Beijing Golden Yuxing Electronics and Technology Co., Ltd.	The PRC	Design, development, distribution and sale of computer VCDs and educational computers in the PRC	US\$3,042,000	100*

\* Golden Yuxing was established on 27th December 1996 in the form of a company with limited liability in the PRC, and became a Sino-foreign co-operative joint venture enterprise on 8th November 1999 pursuant to the Reorganisation. According to the relevant joint venture agreement, the Group is entitled to the entire profit of Golden Yuxing and the interest attributable to the Group is therefore 100%.



## Notes to the Accounts

31ST DECEMBER 1999

### 14 Inventories

	Group	
	1999	1998
	HK\$'000	HK\$'000
At cost:		
Finished goods	52,178	22,408
Raw materials	56,199	—
Work-in-progress	44,248	6,455
Spare parts and consumables	2,942	—
	<u>155,567</u>	<u>28,863</u>

### 15 Short term investments

	Group	
	1999	1998
	HK\$'000	HK\$'000
Equity securities listed in the PRC, at market value	<u>2,933</u>	<u>3,500</u>

### 16 Share capital

	Company
	1999
	HK\$'000
<i>Authorised</i>	
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>
<i>Issued and fully paid</i>	
300,000,000 ordinary shares of HK\$0.10 each	<u>30,000</u>

## 16 Share capital *(continued)*

The following changes in the share capital of the Company took place between 6th October 1999 and 31st December 1999:

- (a) On incorporation of the Company, its authorised share capital was HK\$100,000 divided into 1,000,000 shares of HK\$0.1 each, all of which were issued nil paid to Super Dragon Co., Ltd. (“Super Dragon”) and Dragon Treasure Ltd. (“Dragon Treasure”) which are beneficially owned by the founding shareholders of the Group on 7th October 1999.
- (b) On 20th November 1999, pursuant to a resolution of the then shareholders of the Company:
  - (i) the authorised share capital of the Company was increased from HK\$100,000 to HK\$30,000,000 by the creation of an additional 299,000,000 shares of HK\$0.1 each, to rank equally with the then existing shares in all respects; and
  - (ii) the Directors were authorised to (a) allot and issue, credit as fully paid, a total of 299,000,000 shares; and (b) credit as fully paid at par the 1,000,000 shares issued nil paid as mentioned in note 16(a) above, in consideration for the transfer by Super Dragon and Dragon Treasure the entire issued share capital of Yuxing (BVI) to the Company.
- (c) Pursuant to a further resolution passed by the then shareholders of the Company on 20th November 1999, the authorised share capital of the Company was increased from HK\$30,000,000 to HK\$200,000,000 by the creation of a further 1,700,000,000 shares of HK\$0.1 each, to rank equally with the then existing shares in all respects.

## Notes to the Accounts

31ST DECEMBER 1999

### 17 Reserves

	<b>Capital reserve HK\$'000</b>	<b>Statutory reserves HK\$'000</b>	<b>Group Exchange reserve HK\$'000</b>	<b>Retained profits HK\$'000</b>	<b>Total HK\$'000</b>
At 1st January 1998	23,310	2,193	95	12,147	37,745
Profit for the year	—	—	—	34,113	34,113
Appropriation to statutory reserves	—	5,117	—	(5,117)	—
Translation of the PRC subsidiary's accounts	—	—	11	—	11
At 31st December 1998	23,310	7,310	106	41,143	71,869
Transfer to share capital upon the Reorganisation	(23,310)	—	—	(6,690)	(30,000)
Profit for the year	—	—	—	109,031	109,031
Appropriation to statutory reserves	—	4,457	—	(4,457)	—
Dividends	—	—	—	(469)	(469)
Translation of the PRC subsidiary's accounts	—	—	199	—	199
At 31st December 1999	—	11,767	305	138,558	150,630
			<b>Company Contributed surplus HK\$'000</b>	<b>Retained profits HK\$'000</b>	<b>Total HK\$'000</b>
Share exchange upon the Reorganisation			146,000	—	146,000
Loss for the year			—	(464)	(464)
At 31st December 1999			146,000	(464)	145,536

# Notes to the Accounts

31ST DECEMBER 1999

## 17 Reserves (continued)

- (a) Capital reserve of the Group arose from the Reorganisation, details of which are set out in note 1 to the accounts.
- (b) Statutory reserves comprise statutory surplus reserve and statutory public welfare fund of the subsidiary company in the PRC and form part of the shareholders' funds.
- (c) The contributed surplus of the Company arose when the Company issued shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired. Under the Companies Act of Bermuda, the contributed surplus is distributable to the shareholders, unless there are reasonable grounds for believing that (i) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.
- (d) At 31st December 1999, the reserves of the Company available for distribution to shareholders amounted to HK\$145,536,000 (1998: Not applicable).

## 18 Note to the consolidated cash flow statement

Reconciliation of profit before taxation to net cash inflow from operating activities

	<b>Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Profit before taxation	<b>162,961</b>	51,972
Amortisation of intangible assets	<b>940</b>	867
Depreciation charge	<b>648</b>	524
Unrealised loss on short term investments	<b>567</b>	—
Increase in inventories	<b>(126,704)</b>	(3,596)
Decrease/(increase) in trade receivables, other receivables, prepayments and deposits, including amounts due from related companies	<b>11,120</b>	(30,130)
Increase in trade payables, other payables and accrued charges	<b>42,232</b>	6,323
Interest income	<b>(692)</b>	(85)
Net cash inflow from operating activities	<b>91,072</b>	25,875

## Notes to the Accounts

31ST DECEMBER 1999

### 19 Commitments

At 31st December 1999, the Group had the following commitments:

- (a) Capital commitments in respect of the construction of a warehouse amounting to HK\$10,003,000 (1998: HK\$Nil), which was contracted but not provided for.
- (b) Commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:

	<b>Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>—</b>	52
In the second to fifth year inclusive	<b>530</b>	247
After the fifth year	<b>1,033</b>	1,241
	<hr/> <b>1,563</b> <hr/>	<hr/> 1,540 <hr/>

## Notes to the Accounts

31ST DECEMBER 1999

### 20 Related party transactions

During the year, the Group had entered into the following transactions in the ordinary course of business with its related companies:

	<b>Group</b>	
	<b>1999</b>	1998
	<b>HK\$'000</b>	HK\$'000
Processing fees payable to (Note (a)):		
北京永兴电子有限公司 * Beijing Yongxing Electronics Company Limited (“Yongxing (PRC)”)	<b>10,988</b>	1,085
Sales made to distributors (Note (b)):		
重庆渝北裕兴电气技术有限公司 * Chongqing Yubei Yuxing Electrical Technology Co., Ltd.	<b>2,551</b>	2,135
北京裕兴机械及电子研究中心 (“YMERC”) (formerly known as (Beijing Xicheng District Yuxing Machinery and Electronics Research Centre)) Hefei Branch	<b>6,463</b>	1,729
天津津宇电气技术有限公司 * Tianjing Jinyuxing Electrical Technology Co., Ltd.	<b>4,943</b>	1,870
上海裕兴电气技术有限公司 * Shanghai Yuxing Electrical Technology Co., Ltd.	<b>109</b>	672

\* A direct translation of the name in Chinese.

- (a) Prior to the Reorganisation, Yongxing (PRC) was a PRC equity joint venture in which Golden Yuxing used to have a 50% interest. Pursuant to the Reorganisation, Golden Yuxing disposed of its entire interest in Yongxing (PRC) to a third party at cost of investment.
- (b) Prior to the Reorganisation, these companies were beneficially owned by the major shareholders of the Company, Mr. Zhu Wei Sha, Mr. Chen Fu Rong and Mr. Sun Li Jun. These companies, except for YMERC Hefei branch, became unrelated companies to the Group subsequent to the Reorganisation when the major shareholders disposed of their entire interests in these companies to third parties. With respect to YMERC Hefei branch, the Directors of the Company have confirmed that the Group had ceased to trade with YMERC Hefei branch subsequent to the successful listing of the Company's shares on the GEM of the Stock Exchange on 31st January 2000.

# Notes to the Accounts

31ST DECEMBER 1999

## 21 Subsequent events

The following transactions took place subsequent to 31st December 1999:

- (a) On 28th January 2000, 100,000,000 shares of the Company were issued at par value of HK\$0.10 each for HK\$4.2 per share pursuant to a placing of shares to professional and institutional investors. The shares were listed on the GEM of the Stock Exchange on 31st January 2000.
- (b) Subsequent to the new shares issued described above, the Company's issued share capital is HK\$40,000,000 comprising 400,000,000 shares at par value of HK\$0.10 each, with a share premium of approximately HK\$380,000,000 after deducting the share issue expenses. The net proceeds to the Group from the new share issue above were approximately HK\$390,000,000.

## 22 Approval of accounts

The accounts were approved by the Board of Directors of the Company on 23rd March 2000.

## *Notice of Annual General Meeting*

**NOTICE IS HEREBY GIVEN** that the annual general meeting of Yuxing InfoTech Holdings Limited (the “**Company**”) will be held at the Willow Room of Mandarin Oriental, Hong Kong, 17th Floor, 5 Connaught Road, Central, Hong Kong on 12th May 2000 at 3:30 p.m. to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and reports of the directors and auditors for the year ended 31st December 1999;
2. to re-elect directors and to fix their remuneration;
3. to re-appoint the Company’s auditors and to authorise the directors to fix their remuneration;

and, as special business, to consider and, if thought fit, passing the following resolutions as ordinary resolutions:

### **Ordinary Resolutions**

4. THAT:
  - (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market on The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;
  - (b) the approval in paragraph (a) above shall authorise the Directors of the Company 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 options or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue; or (ii) the exercise of any option under the share option scheme 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 a dividend on shares in accordance with the Bye-laws of the Company in force from time to time, shall not exceed the aggregate of:
    - (i) 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and



## Notice of Annual General Meeting

- (ii) (if the Directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution), and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and
- (d) for the purposes of this Resolution:

“ **Relevant Period** ” means the period from the date of the passing of this Resolution until whichever is the earliest 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, the Companies Act 1981 of Bermuda or any other applicable law of Bermuda to be held; and
- (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution;

“ **Rights Issue** ” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their then holdings of shares (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).

5. THAT:

- (a) the exercise by the Directors of the Company during the Relevant Period of all powers of the Company to purchase its shares on The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited, the Companies Act 1981 of Bermuda and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

## *Notice of Annual General Meeting*

- (b) the aggregate nominal amount of shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly;
  - (c) for the purposes of this Resolution, “Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest 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, the Companies Act 1981 of Bermuda or any other applicable law of Bermuda to be held; and
    - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.
6. THAT the Directors of the Company be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution no. 4 above in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (c) of such Resolution.

By order of the Board  
**Zhu Wei Sha**  
*Chairman*

Hong Kong, 23rd March 2000

## *Notice of Annual General Meeting*

### *Principal office in Hong Kong:*

Unit 1808, 18th Floor,  
Tower III, Enterprise Square,  
9 Sheung Yuet Road,  
Kowloon Bay,  
Kowloon,  
Hong Kong.

### **Notes:**

- 1 A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the Bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.
- 2 In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, at the offices of the Company's Hong Kong branch registrars, Central Registration Hong Kong Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting.
- 3 In relation to proposed Resolutions nos. 4 and 6 above, approval is being sought from the shareholders for the grant to the directors of a general mandate to authorise the allotment and issue of shares under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The Directors have no immediate plans to issue any new shares of the Company other than shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by shareholders.
- 4 In relation to proposed Resolution no. 5 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares in circumstances which they deem appropriate for the benefit of the shareholders. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed resolution as required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited will be set out in a separate document to be despatched to the shareholders with the annual report for the year ended 31st December 1999.

## *Glossary of Technical Terms*

“3088 processor”	developed by Sunplus and used as the CPU of the Group’s educational computers, being a large-scale IC that combines CPU, video processor and audio processor
“3097 processor”	a new generation of the 3088 processor developed by the Group in co-operation with Sunplus to be used in the Group’s new models of low-priced educational computers
“3098 processor”	developed by the Group in co-operation with Sunplus and used as the CPU of the Group’s computer VCDs, being a large scale IC that combines the functions of the 3088 processor together with an input/output circuit and a memory management unit
“3099 processor”	a new generation of the 3098 processor developed by the Group in co-operation with Sunplus to be used in the Group’s computer VCDs
“broadband”	relating to communication systems in which the medium of transmission (such as a wire or fiber-optic cable) carries multiple messages at a time, each message modulated on its own carrier frequency by means of modems
“CD”	compact disc
“computer VCD”	a device which can be used as a set-top box and a VCD player, having an operating system together with some popular functions of a PC, such as Internet browsing, e-mail exchange, and interactive games
“computer super VCD”	a computer VCD with improved audio and visual quality
“computer DVD”	a device which can be used as a set-top box and a DVD player, having an operating system together with some popular functions of a PC, such as Internet browsing, e-mail exchange, and multimedia interactive games
“CPU”	central processing unit
“DVD”	digital video disk player that has MPEG II video decoding function
“HPC”	handheld PC

## *Glossary of Technical Terms*

“IAMS DP”	information appliance multimedia software development platform, a technology developed by the Group for developing multimedia software applications to enhance the functionality of information appliances
“IC”	intergrated circuit
“information appliance”	consumer electrical appliance incorporating some PC functions such as Internet browsing and video games
“Internet”	a global network of networks accessed by users with a computer and a modem via a service provider
“LAN”	local area network, a network allowing the inter-connection and inter-communication of a group of computers
“Mask ROM”	a type of ROM that can store a program or data
“MPEG”	a set of standards for audio and video compression established by the Motion Pictures Experts Group
“MPEG I”	the original MPEG standard for storing and retrieving video and audio information, designed for CD-ROM technology
“MPEG II”	an extension of the MPEG I standard designed for broadcast television, including high definition television
“multimedia”	a combination of different communications tools such as sound, graphics, animation and video
“operating system”	a software that controls the allocation and usage of hardware resources such as memory, central processing and disk space, which is the foundation on which software applications are built
“PC”	personal computer
“ROM”	read only memory
“set-top box”	a device that acts as the interface between a television set and a network by converting digital signals into input signals to the television set

## *Glossary of Technical Terms*

“software applications”	software that allows computer to possess different functions, such as word processing, databases and games
“software engine”	a type of program that simulates the operating environment of certain hardware device
“VCD”	video compact disc
“VCD loader”	optical reading device including laser lens and related mechanism
“Venus Computers”	information appliance products using the Chinese version of Windows CE as their operating system
“Venus Project”	a development program formulated by Microsoft, and jointly implemented by a number of strategic alliances, which aims to develop a series of products targeted at the consumer market in the PRC, which use the Chinese version of Windows CE as the operating system and television as the audio-visual displaying device
“Windows CE”	a simplified version of the Microsoft Windows platform designed for use with HPCs and other information appliance products which includes scaled-down versions of several Microsoft application programs, including Excel, Word, Internet Explorer, Schedule+, and an e-mail client

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