

Yuxing InfoTech Holdings Limited

裕興電腦科技控股有限公司*

(incorporated in Bermuda with limited liability)



Annual Report 2000

* for identification purpose only

Important Notice

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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*

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

Audit committee

Chen Man Fai, Steven

Wu Jia Jun

Sponsor

ICEA Capital Limited

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

Principal bankers

Hang Seng Bank Limited

Shanghai Commercial Bank Limited

The Industrial and Commercial Bank of China

The Agricultural Bank of China

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

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

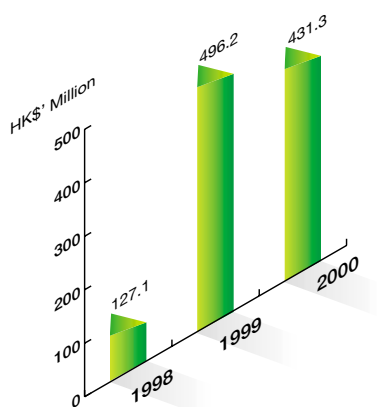
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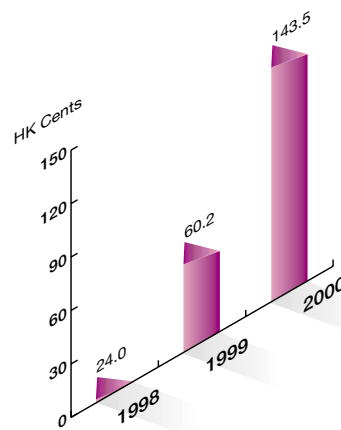
Financial Highlights

	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000
Revenue			
Turnover	431,342	496,157	127,118
Profitability			
Operating profit	39,535	106,694	29,187
Profit attributable to shareholders	40,978	109,031	34,113
Net worth			
Shareholders' funds	574,052	180,630	71,869
Per share			
Basic earnings per share	10.5 Cents	36.3 Cents	11.4 Cents
Net assets per share	143.5 Cents	60.2 Cents	24.0 Cents

Turnover



Net Assets Per Share



Financial Calendar

Results for the year	Announcement on 23rd March 2001
Annual report	Despatched to shareholders in late March 2001
Annual general meeting	9th May 2001

Profile

Yuxing InfoTech Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in the research and development, design, marketing, distribution and sales of information appliances in the People's Republic of China (the "PRC"). To keep pace with the trends in the information age, the Group is focusing on areas of web-based information technology and distance computer learning. Our goal is to become a leader in information appliances and a premium provider of the related technology and solutions in the PRC and globally in the near future.

Our strong research and development capability along with our well-established distribution network have made "Yuxing" branded computer VCD players that incorporate VCD players and basic computer functions, a dominant product in the PRC. The distribution network currently consists of 7,551 point of sales.

On 31st January 2000, the Group successfully listed on GEM of the Stock Exchange.

Chairman's Letter

Dear Shareholders,

The year 2000 marked the beginning of a new century. For the Group, it represents the transformation from an enterprise operating only in the PRC to a group also listed in Hong Kong. The first step in any enterprise is always the most difficult. In the first year since listing, the Group suffered from the pressure of severe competition resulting from an imbalance between demand and supply in the PRC's electronics industry. This has restricted the Group's ability to achieve a better result and resulted in a financial performance being less positive than expected.

However, the Group has made great progress on technology, established a solid foundation for a strategic transition from an information appliances enterprise to a group that is also a technology solutions provider, and increased the scope of its technology within the information appliances market.

I believe that as information appliances become more popular, the Group, with its technology advancement and strong financial position, will soon achieve a satisfactory return.



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

Turnover and profit

In the 2000 financial year, the Group's turnover and profit attributable to shareholders fell by 13.1% and 62.4%, to approximately HK\$431.3 million and HK\$41.0 million respectively. The decline in turnover was due to factors evident during the year, when competition among electronic products producers was severe in the PRC, resulting in a price war. Concern for profit margins, with their effect on profits attributable to shareholders, led the Group to adopt a cautious strategy and refrain from following the trend to cut prices. This affected sales of our major product, computer VCDs. Although the Group lowered prices in the second half of the year and sales of computer VCDs recovered slightly, the result was a less than satisfactory sales performance for the full year. Sales of computer VCDs accounted for only about 52.1% of the total turnover, much lower than the 92.1% in the last year. The decline in sales volume therefore reduced the turnover, while price adjustments reduced the gross profit, resulting in a fall in the Group's net profit.



Nevertheless, the financial performance did not affect the Group's healthy financial position. It currently has great reserves of capital. Approximately HK\$71.5 million of the net proceeds of approximately HK\$391.7 million we raised at the beginning of the year has been used in operations and in developing new products, leaving approximately HK\$320.2 million still to be utilised. We did not use the entire amount of funds raised, since weak market conditions made large scale investments inadvisable. As the market recovers, the available capital will benefit the Group's business expansion in the future. The Group has no current plans to raise funds in the next 12 months, although if the need arises due to a business opportunity, it would be in a position to raise further capital.



The Group paid a total of HK\$40.0 million as interim dividends at HK\$0.10 per ordinary share to increase investors' confidence and win long-term support. However, the Board does not recommend a final dividend. The Group retains capital to maintain a strong financial position so as to allow for future investment. This will create greater value for shareholders in the longer term.

I expect revenues and profits to improve once the web-based series, which comprises over 10 different models including the web-super VCDs, web-DVDs and broadband set-top boxes, are introduced to the market in phases over the course of 2001.

Growth Potential of the PRC's Domestic Market

As with any other products, the success of web-related products depends on market demand. Since the market for web-related products and technology applications has not yet matured, information appliances offer considerable potential. I believe that as economic development continues in the PRC and Internet penetration rises, information appliances will become even more popular, with the market size increasing exponentially. The development of the mobile phone market presents a compelling example of such a development, starting from zero demand, then gaining initial acceptance and finally achieving great popularity.

In light of the slow growth in the current demand for VCD players and the inadequate demand for DVD players, the Group has decided to focus on two areas. On the one hand, it will actively seek new areas of potential profit growth, such as the "Introducing Computers to Schools" strategy that alone has attracted letters of intent worth over hundred millions of Renminbi in 2000. On the other hand, it will continue to develop new technology, to provide a solid foundation for its ambition to be the strongest technology solutions provider in the information appliance market. This will enable the Group to maintain short-term profit growth and capture market opportunities.

Marketing and Recruitment

During 2000, the Group's B2B e-commerce technology has shown some initial success. To date, this features an information exchange platform, providing a real-time inventory information and improving the flow of information between the Group and its distributors. The Group plans to expand application into areas of logistics and cash flow to improve operating efficiency.



While seeking to develop its business, the Group also makes every effort to recruit people with high calibre and retain the right skills and expertise among the employees. During the year, the Group's core research staff increased to over 50 from 30 in 1999 and our key sales people doubled to over 40 from 20 in 1999.

Prospects

Product sales are closely connected with the development of technology. Sales of the Group's products drive the development of its technology, while the development of technology helps improve its product quality and range. Such relationship is demonstrated by the research and development accumulated by the Group in the previous year which is applied to the products this year. Keeping abreast of and understanding the market trends that provide a direction for technology development of the Group are as important as the development of technology.

I believe that the Group's flexible and diversified business model, with a demand-driven strategy based on research and development will assist the Group to strive for better results in return for shareholders' support in the future.

Zhu Wei Sha

Chairman

Hong Kong, 23rd March 2001

Market Conditions

Though the economy of the PRC has grown by 8% in 2000, demand for information appliances grew far slower than anticipated. Industry experts believe that it was due to the limited functions of set-top boxes, coupled with telecommunication charges remain at a relatively high level, leading to a high stagnant price. Furthermore, popular Chinese websites are limited in number, which also constitute the constrain in the demand of set-top boxes.

The Directors believe that the information appliances market has tremendous potential in the PRC in the long run. As such, the Group, which has been actively developing information appliances, will continue to strengthen its technology and expertise, so as to be the first to market to launch its products to reap market share when opportunities arise.

Moreover, the Directors believe that as the functionality of set-top boxes continues to improve, the further development of Internet and the reduction of telecommunication charges, the information appliances market in the PRC will offer tremendous commercial opportunities .

Expertise in Technology

Though the Group's revenues and profits for 2000 were less than satisfactory, we have made outstanding progress in technology development in preparation for our expansion in the coming years. Not only has the Group upgraded its hardware platform, the Group also has breakthrough on video-on-demand ("VOD") products, embedded browsers and embedded operating systems. This enhancement in technology provides a solid foundation for the Group to become a technology and solutions provider, and at the same time, increase the competitiveness of our products.

The most revolutionary development in our hardware platform has been the technology migration from 8-bit to 32-bit. The strengthening of processing capacity using the improved platform as a base has allowed us to develop web-enabled information appliances. Meanwhile, the Group plans to launch a series of web-based products this year, which will adopt the same architecture.

In respect of the development of the Group's VOD stream control technology, real time delivery of



our web-based products will provide guaranteed uninterrupted and high resolution during digital transmission.

The Group has jointly developed an embedded operating system with Beijing SEL Systems Limited. This system connects users to the Internet and enables them to work on-line. The system, which will be installed in our set-top boxes, is highly stable, flexible and cost-effective.

In addition to existing technology resources, and leveraging strategic alliances for technological advancement, the Group is actively seeking to invest in technologically advanced companies so as to improve our research and development capability.



As demand of the domestic market for information appliances is constantly changing, the Group intends to continue marketing of established products to secure its market share and to improve brand awareness. On the other hand, the Group will actively promote new web-based products with a view to being the first to market. This will consolidate and strengthen our position as a leader in the information appliances market in the PRC.

In accordance with our sales and marketing strategy, we will continue to produce and promote our competitive multimedia products, such as VCD players and super VCD players. As the market for these two products faced keen competition, the Group plans to introduce new models with new specifications and functions to meet the demands of consumers.

We will also launch a series of products with basic PC functions, including multimedia computer VCDs, computer super VCDs and computer DVDs. These products combine the function of ordinary multimedia players with those of a basic PC, offering good value for money and product differentiation. These products will enable users to connect the Internet directly, overcoming the difficulties of accessing regional area networks experienced by conventional products. Although currently the Group does not face strong competition for the new product range, we will nevertheless optimise our structure to lower costs and maintain competitiveness.

In developing our “Introducing Computers to Schools” strategy, we will continue to build on our resources and position in the education field, to promote Yuxing’s e-education, expand our market share and strive for the popularisation of our e-learning classroom product. We plan to introduce a comprehensive new educational computer product line with products suitable for the PRC education market simultaneously. In this regard, at the beginning of 2000, the Group has developed a new model of multimedia VCD player which has the capability in playing 200 numbers of 32-bit digital multimedia education CDs. This will create a synergistic effect in promoting our educational CDs.

The Group plans to introduce a series of web-products in three phases in 2001. These products will be economically priced, coupled with advanced technology, they are expected to be one of our profit drivers. These series will comprise approximately 10 models, including web-super VCDs, web-DVDs and broadband set-top boxes. The first two series of products can be used for Internet chat, Internet browsing and Internet games in addition to conventional VCD player and DVD player functions. While the broadband set-top box combines Internet and VOD functions, all consumers with broadband connection will be able to use these products. As most new residential buildings in major and even secondary cities today have broadband connection, industry experts expect the market for such products will offer considerable potential.

We will continue to develop new technology to ensure that our products are technologically advanced to meet the changing needs of the market. The Group is currently developing a 32-bit multimedia software development platform, which enables our software architecture to better match with our

hardware architecture and it is expected to be introduced in 2001. This will further enable 90% of our software development to be PC-based. The platform will increase the efficiency of our software development and will also be a fast and convenient software development tool for other manufacturers. It will enable other software producers to develop more multimedia software and so enlarge the software resources available for our hardware.

Consolidated results

For the year ended 31st December

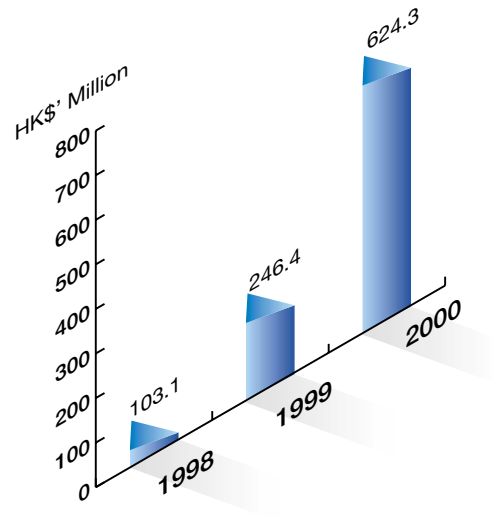
	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	431,342	496,157	127,118
Profit before taxation	40,978	162,961	51,972
Taxation	–	(53,930)	(17,859)
Profit attributable to shareholders	40,978	109,031	34,113
Basic earnings per share	10.5 Cents	36.3 Cents	11.4 Cents

Consolidated assets and liabilities

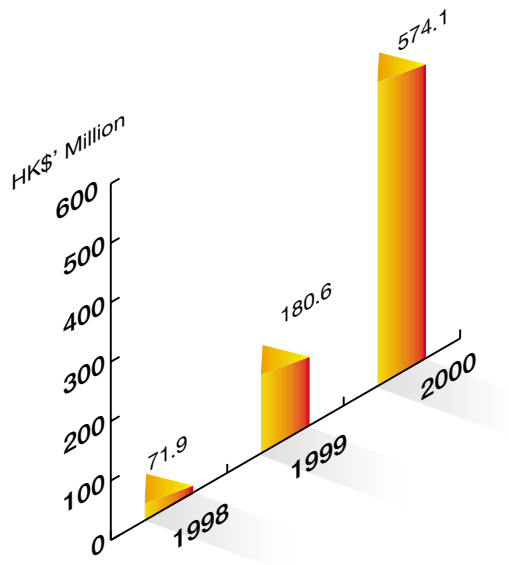
As at 31st December

	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Assets			
Non-current assets	19,538	9,533	4,551
Pledged bank deposits	16,240	–	–
Bank balances and cash	368,804	48,882	25,580
Other current assets	219,707	187,972	72,955
Total assets	624,289	246,387	103,086
Liabilities			
Bank loans – secured	14,548	–	–
Other current liabilities	35,689	65,757	31,217
Total liabilities	50,237	65,757	31,217
Net assets	574,052	180,630	71,869
Financial by:			
Share capital	40,000	30,000	–
Reserves	534,052	150,630	71,869
Shareholders' funds	574,052	180,630	71,869

Total Assets



Net Assets

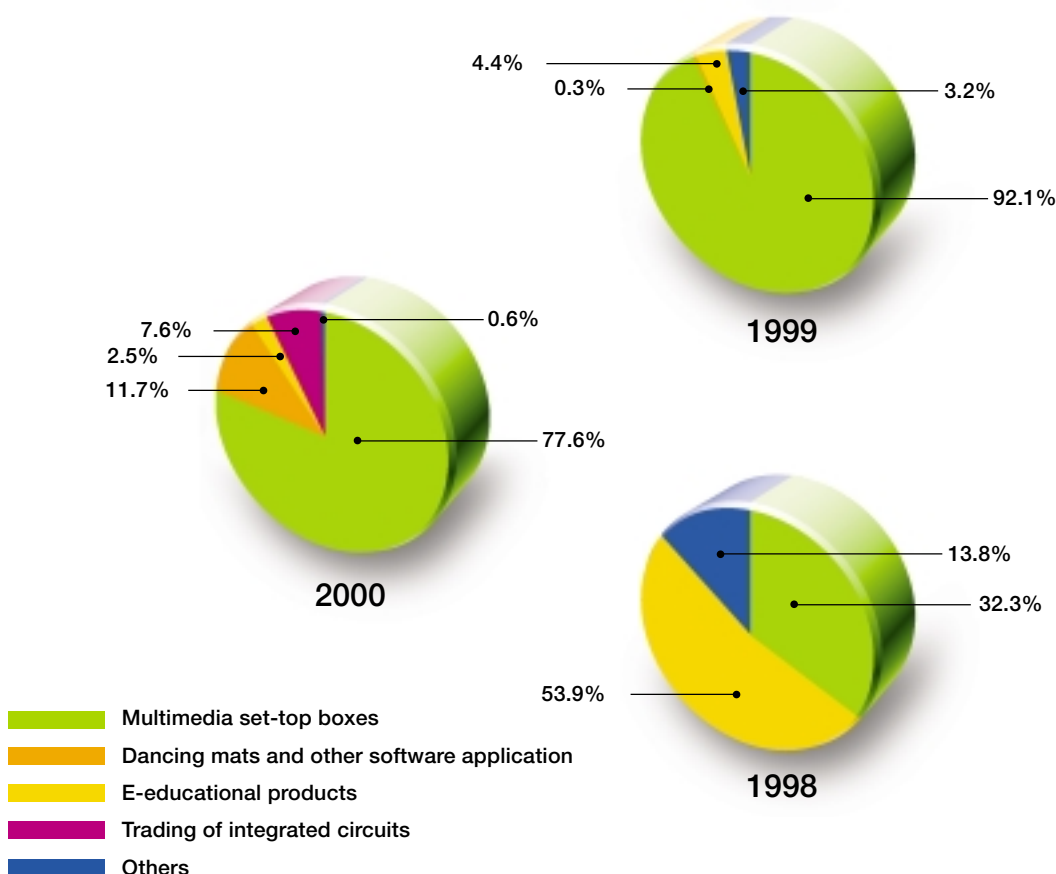


The Group's financial results have shown certain major changes since 1999. Although revenues and profits were below expectation, our financial position has improved substantially with a net cash position of approximately HK\$370.5 million as at 31st December 2000. We are well positioned to meet our continuing operations and expansion requirements.

Financial results

Total turnover declined by 13.1% over 1999 to approximately HK\$431.3 million. This was due to demand for electronic products weakened, resulting in lower sales volumes, combined with lower margins, owing to the price reduction in the second half of the year to maintain our market share.

The product sales mix underwent a significant change during the year. Revenue from multimedia set-top boxes reached approximately HK\$334.8 million, accounting for 77.6% of the Group's total turnover. Revenue from dancing mats and other application software were approximately HK\$50.6 million, accounting for 11.7%. E-educational products contributed a further HK\$10.8 million, or 2.5% of the total turnover. Revenue from trading of integrated circuits added approximately HK\$32.9 million, accounting for another 7.6%.



Though sale of computer VCDs only accounted for 52.1% of the Group's total turnover, which was lower when compared to the same period last year, it still remained to be the dominant product segment. As manufacturers of conventional VCDs lowered prices, despite of different target consumers, demand for computer VCDs was affected. In the second half of the year, in order to gain the market share and increase brand awareness, we proactively enhanced marketing campaign of our multimedia VCD players. Such campaign increased sales of multimedia VCD players dramatically, from an insignificant percentage in 1999 to 24.9% of the Group's total turnover in 2000. Since both prices and gross profit margins on multimedia VCD players were lower than that that on computer VCDs, the Group's total turnover and profit were inevitably affected.

The Group has also expanded its sales to markets outside of the PRC for the first time. Sales in Hong Kong generated from our new integrated circuits trading business accounted for 4.4% of the total turnover in 2000. The Group expects this percentage to rise steadily in the future.

As a consequence of price adjustments, model and product changes during the year, a substantial amount of inventories was written down to net realisable value and provision was made for obsolescence. This was particularly severe in dancing mat related products which faced the serious problem of piracy, which in turn, affected our sales. We are preparing to discontinue such operation in the coming year. The provision of approximately HK\$25.2 million was made, leading to the decrease in profit margin for the year. As we have fully provided for these items, substantial increase in provision for inventories is not expected in 2001.

Since listing on GEM of the Stock Exchange, interest generated from the net proceeds of placing of the Company's shares has contributed towards the increase in interest income. At the same time, operational expenses of the Group also increased as compared to the last financial year. The Group has invested a few millions of Renminbi in promotion, research, development of products and enhancement of our relationship with the Ministry of Education in the PRC. Whilst integrated circuits trading operations in Hong Kong incurred start-up costs, growth in the number of employees in Hong Kong office also contributed to the rise in operating expenses. Though we expect to continue to recruit high calibre staff, operating expenses will rise modestly and more in line with sales in the future.

The Company's subsidiary in the PRC, Beijing Golden Yuxing Electronics and Technology Co., Ltd. ("Golden Yuxing"), enjoyed full exemption from PRC income tax in 2000, while the reduction in the government incentive bonuses lowered the Group's non-operating income.

For the reasons stated above, profits attributable to shareholders fell 62.4% to approximately HK\$41.0 million. Although below expectation, we consider this to be a better result than for many peer group companies in the PRC, given the generally weak market conditions for the year.

The Company's shares were listed on GEM of the Stock Exchange on 31st January 2000 and successfully raised net proceeds of approximately HK\$392 million after deducting the share issue expenses of approximately HK\$28 million. The offer involved the new issue of 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.

During the year under review, the PRC's VCD and DVD market had developed and transformed substantially different from the Group's forecast and the market situation at the time of the preparation of the Company's prospectus dated 25th January 2000 (the "Prospectus"). Subsequent to the listing of the Company, the overall PRC's VCD market slowed down. Changes in consumer spending pattern on VCD and pressure from competitive rivalries emerged concurrently. Moreover, the DVD market performance showed obvious sluggishness. As such, the Company decided not to follow the original development and marketing timetable in the Prospectus. Considering the above, to safeguard the best interest of the Company's resources, the Directors propose to adjust, amend and postpone certain sizeable research and development, marketing and promotional plans, which is considered to be in the best interest for the Company and its shareholders. Timing and scope of activities on certain scheduled projects are extended. Several changes in the use of proceeds are considered necessary to reflect the above accordingly.

Despite the saturated VCD market and the deferred DVD market, the Company believes that with continuous product enhancement to fulfil the customers' demand, the prospects of the overall PRC multimedia interactive set-top box and information appliances market are optimistic. As such, the Company considers it fit to reschedule and set aside part of its net proceeds from the listing as working capital to facilitate any sudden cash requirement for prompt response to any possible changes in the market situation, or should any new opportunities emerge.

An analysis of the changes in the use of proceeds over the Prospectus and the amount of application of the proceeds to achieve the Group's business objectives for the year ended 31st December 2000 is as follows:

	Amount (Plan stated in the Prospectus) HK\$	Amount (New plans of the Board) HK\$	Proceeds already applied pursuant to the plan stated in the Prospectus during 2000 HK\$	Reasons for adjustment
Scheduled projects:				
1. Research and development of information appliance multimedia software development platform in 2000 and 2001	10M	3M	1.66M	Note 1
2. Research and development and promotion of a new series of regular DVDs, computer DVDs and web-DVDs in 2000 and 2001	80M	15M	3.70M	Note 2

	Amount (Plan stated in the Prospectus) HK\$	Amount (New plans of the Board) HK\$	Proceeds already applied pursuant to the plan stated in the Prospectus during 2000 HK\$	Reasons for adjustment	
Scheduled projects:					
3.	Promotion of a series of VCDs including multimedia VCD players, computer VCDs and web-super VCDs in 2000 and 2001	50M	65M	32.25M	Note 2
4.	Promotion of e-education, co-operation with the Ministry of Education to specifically promote the use of the Group's educational computers, research and development and promotion of network education services in 2000 and 2001	10M	18M	3.37M	Note 3
5.	Research and development and general promotion of educational computers in 2000 and 2001	30M	1M	0.55M	Note 3
6.	Launch of the Venus Project in 2000 and 2001	10M	—	—	Note 4
7.	Research of advanced digital video graphic and broadband Internet access technology in 2000 and 2001	10M	2M	0.98M	Note 1
8.	Purchase of testing and research and development related equipments from 2000 to 2002	60M	4M	1.02M	Note 1
9.	Development of software applications and the purchase of copyrights from 2000 to 2002	10M	3M	0.45M	Note 1
10.	Expansion of the Group's distribution and sales network in 2000 and 2001	50M	50M	16.36M	
11.	Establishment of the new office by the Group in Hong Kong in 2000 and 2001	5M	5M	4.21M	
12.	Meeting additional working capital requirement for the sales and marketing of the new series of regular DVDs and computer DVDs from 2000 to 2002	60M	18M	6.19M	Note 2

	Amount (Plan stated in the Prospectus) HK\$	Amount (New plans of the Board) HK\$	Proceeds already applied pursuant to the plan stated in the Prospectus during 2000 HK\$	Reasons for adjustment
Scheduled projects:				
13. General working capital for maintaining the day-to-day operations of the Group from 2000 to 2002	8M	188M	0.73M	Note 5
Additional projects:				
14. Establishment of distribution business for electronic components in 2001 and 2002	—	20M	—	Note 6
Total	393M	392M	71.47M	

Note 1:

The Group's progress in research and development is well ahead of the schedule as stated in the Prospectus. The research and development of the Group's third-generation information appliance multimedia software development perform ("IAMS DP") has entered its final phase. Such platform can successfully meet the software application demand of the Group currently and expedite its software research and development. Thus, the cost of research and development of IAMS DP will be substantially reduced. Furthermore, the Group has achieved a major breakthrough in its advanced digital video graphic and broadband Internet access technology. Broadband set-top boxes using such technology can be launched this year. The Directors believe that our strengths in technology are well beyond the market demand and we have abundant of application software resources. In view of the above reasons, the costs in research and development have been reduced to a great extent.

Note 2:

At present the Group has completed the research and development of regular DVDs, computer DVDs, web-super VCDs and also web-DVDs. Additions of web-based products increase promotion costs to be incurred in the future. However, the growth momentum of VCD players in the PRC has weakened and the DVD market is not as matured as the Group has expected. Higher costs, which will affect the Group's profitability, may have to be spent for market penetration. Costs of development and promotion on these areas are thus reduced for cost control purpose.

Note 3:

The research and development of educational computers has been completed. The promotion of these products are mainly through the co-operation project with the Ministry of Education of the PRC. In addition, the Group aims to penetrate the e-education market, promote the "Integrated Solution for Computer Networking Classroom" and strive for the popularisation of computerised education. The Group plans to offer network education to network users; therefore, the Group will increase its costs spent in research, development and promotion of network education services.

Note 4:

The Venus Project has yet to be officially launched. The Group as a project partner has therefore withheld any capital injection into this project for the time being. Nonetheless, the Group believes that own series of the web-super VCD, web-DVD and broadband set-top box products scheduled to be launched during 2001 will become popular and generate promising returns.

Note 5:

In order to be responsive to the market demand and well-poised to capitalise on any opportunities that may arise, the Group seeks to invest in companies with stronger technology, research and development capability, and to engage in short-term investments with higher returns for shareholders.

Note 6:

In an electronic product supply chain, upstream manufacturers are producers and designers of integrated circuits; testing, cutting and packaging service providers are the midstream parties, while manufacturers of electronic products by application of various integrated circuits are the downstream ones. An electronic component distributor plays a role as a connection between the upstream and downstream parties. By acting as a distributor for different lines of electronic products, the Group can grasp the latest trend of technology development and the up-to-date price movement. Investment in electronic component distribution business, also, enhances the Group's cooperation with its upstream manufacturers to better understand the market demand and product development trends. In this way, the Group can expand its product lines through developing advance electronic products in the information appliance industry. Thus, the electronic components in the distribution business of the Group are going to fully meet the needs of its product development.

Set out below is a comparison between the Group's actual business progress to date and its business objectives as set out in and extended from the Prospectus.

Business objectives as set out in and extended from the Prospectus:

Actual business progress to date:

(1) Promoting IAMSDP as a standard for software application development in the information appliance industry in the PRC:

For the period ended 30th June 2000

(a) Licensing the current version of IAMSDP to individuals with limited programming knowledge

The first generation IAMSDP became a business platform that marked the transformation from simple personal computer ("PC") software to information appliance software. Approximately 40 types of software products were launched, bringing the total number of commercialised information appliance software to over 170.



(b) Completing the development of the second generation IAMSDP and licensing to professional software developers in the PRC

Development of the second generation IAMSDP was completed and the platform was licensed to five domestic multimedia software developers. Magic Island Adventure, an encyclopedic educational software game for children developed with such platform, was launched during the year.

Currently, the Group is in the process of developing a third-generation IAMSDP with considerable progress.

(c) Supplying Mask ROM embedded with software engine to the manufacturers of Venus Computers in the PRC

Mask ROM was successfully developed and launched. With this software engine, IAMSDP can run on Venus Computers and may be commercialised any time. Mask ROM is now a part of the Group's technical resources.

Business objectives as set out in and extended from the Prospectus:

For the year ended 31st December 2000

Promoting IAMSDP to domestic software developers for further conceiving multimedia software applications

Actual business progress to date:

The Group signed a letter of intent with Educational Technology Office which was under the Ministry of Education of the PRC. The Educational Technology office will provide user training to teachers in the PRC, which help promoting IAMSDP and encouraging multimedia software development.

In promoting the "Integrated Solution for Computer Networking Classroom", IAMSDP was provided to schools where the platform gained popularity.



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

For the period ended 30th June 2000

Developing and launching computer super VCD equipped with 3099 processors and new models of computer VCD

Co-development of 3099 processors with Sunplus Technology Co., Ltd. has been completed and commercial production may commence any time. A model of computer super VCD and 4 new models of computer VCD were launched in 2000.



Business objectives as set out in and extended from the Prospectus:

Actual business progress to date:

For the year ended 31st December 2000

- (a) Producing approximately 700,000 sets of wide voltage VCD players and super VCD players

- (b) Licensing the Group's computer VCD hardware platform and supplying 3098 processors to various domestic VCD player manufacturers

More than 550,000 sets of wide voltage VCD players and super VCD players were produced during the year. As mentioned above, demand for the Group's VCD players was lower than expected and keen competition from other market players was faced.

As a well known product, the 3098 processor gained wide recognition within the industry. Four manufacturers are currently adopting this technology, which has become a de facto industry standard.

The Group has developed a 32-bit hardware platform and will market it to manufacturers when appropriate.

For the year ending 31st December 2001

Developing and launching a series of DVD and computer DVD products in co-operation with C-Cube Microsystems Inc.

The project is progressing smoothly. Development of regular DVD and computer DVD utilising the Ziva4 chip was completed and the products were launched during 2000.

Web-DVD products developed by the Group, which were equipped with regular DVD and browser functions, are scheduled for launching in 2001.

Business objectives as set out in and extended from the Prospectus:

Actual business progress to date:

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

For the period ending 31st December 2002

Developing at least 100 multimedia software applications annually to complement the Group's hardware application

In 2000, the Group launched more than 40 types of software products. The Group also built larger databases for topics and textbooks which were based on the syllabus for secondary information education curriculum. Accordingly, it is expected that various software applications will be developed during 2001. The Group has also allocated more resources which are used in the development of application software for adult education.



Business objectives as set out in and extended from the Prospectus:

(4) Promoting e-education, providing software and hardware products, and becoming a popular educational services provider with tremendous education resources

Actual business progress to date:

For the period ended 30th June 2000

Completing the development of 3097 processor, and developing and launching a new generation of educational computers equipped with 3097 processor

The project was completed and educational computers equipped with 3097 processor were launched.

For the year ended 31st December 2000

Reaching final agreement with the Ministry of Education to promote the Group's educational computers as a major multimedia educational tool in the PRC.

The Group signed a memorandum with the Ministry of Education for the promotion of various computerised education solutions for primary and secondary schools located in different areas in the PRC.

Based on its software and hardware products, the Group put forward the "Integrated Solution for Computer Networking Classroom", offering different districts in the PRC a wide variety of computerised classroom products. Besides, the Group also provided a comprehensive solution ranging from software and hardware to sales and services. The Group co-operated with 18 provincial and local education institutions for establishing classroom templates for the Group's "Integrated Solution for Computer Networking Classroom". Steady progress has been made in promoting the solution.

The Group is currently developing intelligent education system to provide network education services for the Group's network product users, thereby promoting e-education to a further extent.

Executive Directors

Mr. Zhu Wei Sha, aged 46, 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 13 years' experience in management of technological enterprises. He is a co-founder of the Group.

Mr. Chen Fu Rong, aged 40, 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 10 years' experience in research and development and engineering management. He is a co-founder of the Group.

Mr. Shi Guang Rong, aged 39, 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 13 years' experience in product marketing and promotion.

Mr. Wang An Zhong, aged 44, is the executive vice president 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 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 general manager of the research and development department.

Independent Non-executive Directors

Mr. Wu Jia Jun, aged 68, is currently a researcher at the China Social Science Institute, a mentor professor for doctorate students and an executive vice president of the Industrial and Economic Research and Development Association of China. He served as 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 46, 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 adviser 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 41, 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 40, is the business development manager of Golden Yuxing. 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 31, is a practising solicitor in Hong Kong and a solicitor 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.

Senior management

Mr. Sun Li Jun, aged 38, is the financial controller of Golden Yuxing. 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 10 years' experience in financial management.

Mr. Li Zhen Huan, aged 64, is the vice president and also administration and human resources manager of Golden Yuxing. 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.

Dr. Yang Mu, aged 54, is the Chief Executive Officer of the Company's wholly-owned subsidiary in Hong Kong, Yuxing Technology Company Limited. A Singaporean Chinese, Dr. Yang holds a Ph. D. in Economics from China Academy of Social Science (CASS) and is a Ph. D. candidate in Economics in Oxford University in the United Kingdom. He also graduated with a Master of Business Administration from Leuven University, Belgium, and a first degree in Engineering from Jiao Tong University in Shanghai. He served as the deputy director and senior research fellow of Institute of Industrial Economy in CASS in China, research fellow of Institute of East Asian Political Economy in Singapore, management assistant of Union Bank of Switzerland in Singapore and managing director of Shen Sing International Pte Ltd., in Singapore. He is conversant with marco-economics theories and experienced in investment and corporate management. He joined the Group in February 2001.

Mr. Feng Pei Ran, aged 34, is the vice president and general manager (IT production) of Goldent Yuxing. He graduated with a LL. B. degree from Politics and Administration Department of Peking University. He worked as the vice president of Shanghai Founder Yanzhong Science and Technology Group Co., Ltd., vice president of Beijing Peking Founder Electronics Co., Ltd., and general manager of Shanghai Peking Founder Science and Technology Computer System Co., Ltd. He has well proven track record in marketing and corporate management activities. He joined the Group in January 2001.

Ms. Yuen Wai Man, Shirine, aged 28, 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 worked at an international accounting firm with six years' experience in accounting and finance. Ms. Yuen joined the Group in December 1999.

The Directors are pleased to submit their report together with the audited accounts of Yuxing InfoTech Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) for the year ended 31st December 2000.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the principal subsidiaries are set out in note 16 to the accounts.

An analysis of the Group’s turnover and contribution to operating profit for the year by principal activities and markets is set out in note 3 to the accounts.

Results and appropriations

The results for the year are set out in the consolidated profit and loss account on page 39.

The Directors have declared an interim dividend of HK\$0.10 per ordinary share, totalling HK\$40,000,000, which was paid on 15th September 2000.

The Directors do not recommend the payment of a final dividend.

Reserves

Details of the movements in reserves of the Group and the Company are set out in note 24 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to approximately HK\$1,728,000.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group are set out in note 15 to the accounts.

Share capital

Details of the movements in share capital of the Company are set out in note 23 to the accounts.

Distributable reserves

Distributable reserves of the Company at 31st December 2000, calculated under the Companies Act of Bermuda, amounted to approximately HK\$154,602,000 (1999: HK\$145,536,000).

Three year financial summary

A summary of the results and of the assets and liabilities of the Group for the last three financial years is set out on page 13.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

Directors

The Directors who held office during the year were:

Executive Directors

Mr. Zhu Wei Sha (*Chairman*)

Mr. Chen Fu Rong

Mr. Shi Guang Rong

Mr. Wang An Zhong

Independent Non-executive Directors

Mr. Wu Jia Jun

Mr. Zhong Peng Rong

Mr. Chen Man Fai, Steven

In accordance with Bye-law 87 of the Company's Bye-laws, Mr. Wang An Zhong and Mr. Zhong Peng Rong will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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 was appointed for a two-year term expiring on 24th October 2001.

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.

Biographical details of Directors and senior management

Brief biographical details of Directors and senior management are set out on pages 26 to 29.

Directors' interests 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, which received normal underwriting commission and a normal documentation fee in connection with the placing of 100,000,000 shares on 28th January 2000, and would receive a fee for acting as the Company's retained sponsor for the period from 31st January 2000 to 31st December 2002.

Save as disclosed above, no contracts of significance 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, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' and chief executive's interests in securities

At 31st December 2000, the interests of the Directors and chief executive in the shares and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name	Number of ordinary shares of HK\$0.10 each of the Company held			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Zhu Wei Sha	-	-	165,000,000 (Note 1)	-
Mr. Chen Fu Rong	-	-	165,000,000 (Note 1)	-
Mr. Shi Guang Rong	6,000,000 (Note 2)	-	-	-
Mr. Wang An Zhong	1,084,189 (Note 2)	-	-	1,000,000 (Note 3)

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 the entire 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.

Note 3: It represents the share options granted under the share option scheme approved by the shareholders of the Company on 18th January 2000. The options are exercisable in stages to subscribe for up to 1,000,000 shares of the Company at HK\$0.95 per share during the period from 28th November 2000 to 27th November 2005.

At no time during the year, the Directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SDI Ordinance).

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Competing interests

None of the Directors or management shareholders of the Company (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group.

Sponsor's interests

As updated and notified by ICEA, the sponsor, 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 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 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);
- (3) neither ICEA nor its associates expect to have accrued any material benefit as a result of the successful outcome of any 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 would receive a fee for acting as the Company's retained sponsor for the period from 31st January 2000 to 31st December 2002.

Substantial shareholders

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st December 2000, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

Name of shareholders	Number of ordinary shares
Super Dragon (<i>Note 1</i>)	165,000,000
Dragon Treasure (<i>Note 2</i>)	135,000,000

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 and options of the Company are disclosed in the section "Directors' and chief executive's interests in securities" above.

Management contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major customers and suppliers

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers and sold less than 30% of its goods and services to its five largest customers.

Board practices and procedures

The Company has complied with Board Practices and Procedures as set out in rules 5.28 to 5.39 of the Listing Rules, since listed on GEM of the Stock Exchange.

Audit Committee

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises two Independent Non-executive Directors of the Company, namely Mr. Wu Jia Jun and Mr. Chen Man Fai, Steven. Mr. Chen Man Fai, Steven, was appointed as the chairman of this Committee. Four meetings were held during the year.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, a resolution for their re-appointments as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Zhu Wei Sha

Chairman

Hong Kong, 23rd March 2001



羅兵咸永道會計師事務所

TO THE SHAREHOLDERS OF YUXING INFOTECH HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 39 to 71 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 the 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 of the state of affairs of the Company and the Group as at 31st December 2000 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 2001

Consolidated Profit and Loss Account

For the year ended 31st December 2000

	Note	2000 HK\$'000	1999 HK\$'000
Turnover	3	431,342	496,157
Cost of sales	4	(329,893)	(311,171)
Gross profit		101,449	184,986
Other revenue	3	21,233	692
Other operating income		903	–
Selling expenses		(56,665)	(63,958)
General and administrative expenses		(25,226)	(14,303)
Other operating expenses		(2,159)	(723)
Operating profit	5	39,535	106,694
Finance costs	6	(21)	–
Non-operating income	7	1,464	56,267
Profit before taxation		40,978	162,961
Taxation	8	–	(53,930)
Profit attributable to shareholders	9	40,978	109,031
Dividends	10	40,000	469
Basic earnings per share	11	10.5 Cents	36.3 Cents

Consolidated Balance Sheet

As at 31st December 2000

	Note	2000 HK\$'000	1999 HK\$'000
Intangible assets	14	1,766	2,055
Property, plant and equipment	15	16,311	7,478
Investment securities	17	1,461	–
Current assets			
Inventories	18	158,972	155,567
Trade and other receivables	19	58,125	29,472
Short-term investments	20	2,610	2,933
Pledged bank deposits	21	16,240	–
Bank balances and cash		368,804	48,882
		604,751	236,854
Current liabilities			
Trade and other payables	22	35,689	51,741
Taxation payable		–	14,016
Bank loans – secured		14,548	–
		50,237	65,757
Net current assets		554,514	171,097
Total assets less current liabilities		574,052	180,630
Financed by:			
Share capital	23(a)	40,000	30,000
Reserves	24	534,052	150,630
Shareholders' funds		574,052	180,630

Approved by the Board of Directors on 23rd March 2001 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 2000

	Note	2000 HK\$'000	1999 HK\$'000
Investments in subsidiaries	16	287,304	174,689
Current assets			
Trade and other receivables	19	1,130	1,633
Pledged bank deposits	21	10,156	–
Bank balances and cash		279,143	–
		290,429	1,633
Current liabilities			
Trade and other payables	22	1,418	786
Net current assets		289,011	847
Total assets less current liabilities		576,315	175,536
Financed by:			
Share capital	23(a)	40,000	30,000
Reserves	24	536,315	145,536
Shareholders' funds		576,315	175,536

Approved by the Board of Directors on 23rd March 2001 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 2000

	<i>Note</i>	2000 HK\$'000	1999 HK\$'000
Net cash (outflow)/inflow from operating activities	25(a)	(25,801)	91,072
Returns on investments and servicing of finance			
Interest received		20,228	692
Interest paid		(21)	–
Dividends paid		(40,000)	(469)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(19,793)	223
Taxation			
PRC income tax paid		(14,016)	(61,622)
Total taxation paid		(14,016)	(61,622)
Investing activities			
Purchase of property, plant and equipment		(9,813)	(6,570)
Purchase of intangible assets		(723)	–
Purchase of investment securities		(1,461)	–
Purchase of short-term investments		(7,000)	–
Sale of short-term investments		7,813	–
Net cash outflow from investing activities		(11,184)	(6,570)
Net cash (outflow)/inflow before financing – carried forward		(70,794)	23,103

Consolidated Cash Flow Statement

For the year ended 31st December 2000

	Note	2000 HK\$'000	1999 HK\$'000
Net cash (outflow)/inflow before financing – brought forward		(70,794)	23,103
Financing	25(b)		
Issue of ordinary shares		420,000	–
Share issue expenses		(28,287)	–
New bank loans		14,548	–
Bank deposits pledged		(16,240)	–
Net cash inflow from financing		390,021	–
Increase in cash and cash equivalents		319,227	23,103
Cash and cash equivalents at 1st January		48,882	25,580
Effect of foreign exchange rate changes		695	199
Cash and cash equivalents at 31st December		368,804	48,882
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		368,804	48,882

Consolidated Statement of Recognised Gains and Losses

For the year ended 31st December 2000

	<i>Note</i>	2000 HK\$'000	1999 HK\$'000
Net gains not recognised in the profit and loss account			
– Exchange differences arising on translation of the PRC subsidiary	24	731	199
Profit for the year		40,978	109,031
Total recognised gains		41,709	109,230

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 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 2000 and 1999 have been prepared using the merger basis of accounting as if the current Group structure has been in existence since 1st January 1999 or the date of incorporation whichever is later. 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 under the historical cost convention as modified by the revaluation of investments in securities, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Consolidation

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 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.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company’s balance sheet, the investments in subsidiaries are stated at cost less provision, if necessary, for any diminution in value other than temporary in nature. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

2 Principal accounting policies (continued)

(b) Property, plant and equipment

Construction-in-progress is stated at cost. Cost comprises all direct and indirect cost 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.

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 principal annual rates are as follows:

Buildings	3%
Leasehold improvements	33%
Plant and machinery	10%
Office equipment, furniture and fixtures	20%-33%
Motor vehicles	10%

Prior to 1st January 2000, depreciation of the following tangible fixed assets was calculated to write off their costs on a straight-line basis over their estimated useful lives as follows:

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

With effect from 1st January 2000, the estimated useful lives of these assets have been changed to:

Plant and machinery	10 years
Office equipment, furniture and fixtures	3-5 years
Motor vehicles	10 years

This represents a change in accounting estimate and has been accounted for prospectively in the accounts. This change has resulted in a decrease in depreciation charge for the year and an increase in profit for the year by approximately HK\$471,000.

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.

2 Principal accounting policies (continued)

(b) Property, plant and equipment (continued)

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 not been discounted in determining the recoverable amount.

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.

(c) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(d) Investments in securities

(i) *Investment securities*

Investment securities are stated at cost less any provision for diminution in value.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The amount of the reduction is recognised as an expense in the profit and loss account.

(ii) *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 difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

2 Principal accounting policies (continued)

(e) Inventories

Inventories 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 expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(f) Trade receivables

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

(g) 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 an asset is expected to be payable or recoverable in the foreseeable future.

(h) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated 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.

The accounts of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with as a movement in reserves.

(i) Intangible assets

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

2 Principal accounting policies (continued)

(j) Revenue recognition

Revenue from the sale of goods, net of value added tax 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 and title has passed.

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

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

(k) Retirement benefit costs

The group's contributions to the defined contribution retirement scheme are expensed as incurred. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(l) Research and development costs

Research and development costs are expensed as incurred.

(m) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

3 Turnover and other revenue

The Group is principally engaged in the research and development, design, marketing, distribution and sales of information appliances in the People's Republic of China (the "PRC"). Revenues recognised during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Turnover		
Sales of goods	431,342	496,157
Other revenue		
Interest income	21,233	692
Total revenues	452,575	496,849

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and markets is as follows:

	Turnover		Operating profit	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Principal activities:				
Multimedia set-top boxes (a)	334,770	456,899	46,174	94,539
Dancing mats and other application software	50,638	1,908	495	206
E-educational products (b)	10,758	21,593	(3,688)	10,317
Trading of integrated circuits	32,856	–	(2,859)	–
Others	2,320	15,757	(587)	1,632
	431,342	496,157	39,535	106,694
Principal markets:				
The PRC	412,487	496,157	25,247	106,694
Hong Kong	18,855	–	14,288	–
	431,342	496,157	39,535	106,694

(a) Multimedia set-top boxes include computer VCDs, multimedia VCD players, regular DVDs and computer DVDs.

(b) E-educational products include educational computers and other computers for e-education.

4 Cost of sales

	2000 HK\$'000	1999 HK\$'000
Cost of inventories sold	304,649	311,171
Provision for inventories (<i>Note</i>)	25,244	–
	329,893	311,171

<i>Note:</i>	2000 HK\$'000	1999 HK\$'000
Provision for inventories comprises:		
Write-down of inventories to net realisable value	14,041	–
Provision for obsolete inventories	11,203	–
	25,244	–

An analysis of the Group's provision for inventories for the year by principal goods is as follows:

	2000 HK\$'000	1999 HK\$'000
Principal goods:		
Multimedia set-top boxes	3,499	–
Dancing mats and other application software	16,787	–
E-educational products	1,614	–
Integrated circuits	2,507	–
Others	837	–
	25,244	–

5 Operating profit

Operating profit is stated after crediting and charging the following:

	2000 HK\$'000	1999 HK\$'000
<u>Crediting</u>		
Realised gain on disposal of short-term listed investments	446	–
Realised gain on disposal of short-term unlisted investments	434	–
<u>Charging</u>		
Staff costs excluding directors' emoluments		
– Research and development	2,937	2,196
– Other operations	9,532	5,154
	12,469	7,350
Auditors' remuneration	938	700
Depreciation of owned property, plant and equipment	1,000	648
Amortisation of intangible assets	1,020	940
Advertising and promotion expenses	37,365	52,425
Operating lease rental in respect of land and buildings		
– Research and development	1,206	–
– Other operations	2,603	1,641
	3,809	1,641
Research and development costs, inclusive of staff costs and operating lease rental in respect of land and buildings	7,278	4,827
Loss on disposal of property, plant and equipment	8	–
Net exchange loss	1,271	–
Unrealised loss on short-term unlisted investments	390	567
Provision for doubtful debts	362	276
Retirement benefit costs	109	–

6 Finance costs

	2000 HK\$'000	1999 HK\$'000
Interest on bank loans and overdrafts	21	–

7 Non-operating income

The non-operating income represents incentive bonuses granted by the Government of Pinggu County, Beijing, the PRC to the Company's subsidiary in the PRC, Beijing Golden Yuxing Electronics and Technology Co., Ltd. ("Golden Yuxing") for the years ended 31st December 2000 and 1999. Golden Yuxing is categorised as "high-technology" company established in the Jinhaijiao Technology Zone of Pinggu County. The incentive bonuses were granted by the Government of Pinggu County for the purpose of supporting the expansion of Golden Yuxing's operations.

8 Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the years ended 31st December 2000 and 1999.

Following the Reorganisation, Golden Yuxing has become a Sino-foreign co-operative joint venture enterprise 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 followed by a 50% reduction of PRC income tax for the next consecutive three years. The preferential treatments commenced from year 2000 and therefore Golden Yuxing was fully exempt from PRC income tax for the year ended 31st December 2000 (1999: at income tax rate of 33%).

There was no material unprovided deferred taxation for the year.

9 Profit attributable to shareholders

Included in the profit attributable to shareholders is a profit of approximately HK\$49,066,000 (1999: a loss of HK\$464,000), including dividend income from a subsidiary of approximately HK\$32,900,000 (1999: HK\$Nil), which is dealt with in the accounts of the Company.

10 Dividends

	2000 HK\$'000	1999 HK\$'000
Interim, paid, of HK\$0.10 (1999: HK\$Nil) per ordinary share	40,000	–
Dividends paid by Golden Yuxing to its then shareholders prior to the Reorganisation	–	469
	40,000	469

The Directors do not recommend the payment of a final dividend.

11 Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$40,978,000 (1999: HK\$109,031,000) and the weighted average number of 391,803,279 shares (1999: 300,000,000 shares) in issue. In determining the weighted average 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 is deemed to have been in issue since 1st January 1999.

Diluted earnings per share is not presented because there were no dilutive potential ordinary shares in existence during the year.

12 Retirement benefit costs

The Group contributes to a defined contribution retirement scheme which is available to all employees. Contributions to the scheme by the Group and employees are calculated as a percentage of employees' basic salaries.

The retirement benefit scheme cost charged to the profit and loss account represents contributions payable by the Group to the fund.

12 Retirement benefit costs (continued)

Contributions totalling approximately HK\$6,000 (1999: HK\$Nil) were payable to the fund at the year-end and are included in other payables. The assets of the scheme are held separately from those of the Group in an independently administered fund.

13 Directors' and senior management's emoluments

(a) Directors' remuneration

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

	2000 HK\$'000	1999 HK\$'000
Fees	94	–
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	656	401
Discretionary bonuses	–	250
Contributions to pensions schemes for Directors for other offices	4	–
	754	651

Directors' fees disclosed above include approximately HK\$94,000 (1999: HK\$Nil) paid to the Independent Non-executive Directors.

13 Directors' and senior management's emoluments (continued)

(a) Directors' remuneration (continued)

During the year, 1,000,000 options were granted to one of the Directors under the share option scheme approved by the shareholders of the Company on 18th January 2000. Each of the options entitles the holder to subscribe for one ordinary share of HK\$0.10 each in the Company at a premium of HK\$0.85 each in stages during the period from 28th November 2000 to 27th November 2005. During the year, no options had been exercised by the Director.

The emoluments of the Directors of the Company fell within the following bands:

Emolument bands	Number of directors	
	2000	1999
HK\$Nil - HK\$1,000,000	6	4

The Executive Directors received individual emoluments for the year ended 31st December 2000 of approximately HK\$262,000 (1999: HK\$176,000), HK\$134,000 (1999: HK\$142,000), HK\$133,000 (1999: HK\$163,000) and HK\$131,000 (1999: HK\$170,000) respectively. The Independent Non-executive Directors received individual emoluments for the year ended 31st December 2000 of approximately HK\$47,000 (1999: HK\$Nil) and HK\$47,000 (1999: HK\$Nil) respectively.

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.

13 Directors' and senior management's emoluments (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (1999: four) Directors of the Company whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (1999: one) individuals during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,002	59
Bonuses	–	12
Pensions	3	–
	1,005	71

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2000	1999
HK\$Nil - HK\$1,000,000	3	1

14 Intangible assets

	Group	
	2000 HK\$'000	1999 HK\$'000
Acquired patents		
At 1st January	2,055	2,995
Exchange adjustment	8	–
Additions	723	–
Less: amortisation for the year	(1,020)	(940)
At 31st December	1,766	2,055

15 Property, plant and equipment

	Group						
	Construction- in-progress	Buildings in the PRC	Leasehold improvements	Plant and machinery	Office equipment, furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost:							
At 1st January 2000	5,815	66	-	125	2,232	561	8,799
Exchange adjustment	24	-	-	1	9	1	35
Additions	3,277	2,228	705	34	1,675	1,894	9,813
Transfers	(9,022)	8,781	-	241	-	-	-
Disposals	-	-	(9)	-	-	-	(9)
At 31st December 2000	94	11,075	696	401	3,916	2,456	18,638
Accumulated depreciation:							
At 1st January 2000	-	5	-	53	1,053	210	1,321
Exchange adjustment	-	1	-	-	4	2	7
Charge for the year	-	14	72	14	747	153	1,000
Disposals	-	-	(1)	-	-	-	(1)
At 31st December 2000	-	20	71	67	1,804	365	2,327
Net book value:							
At 31st December 2000	94	11,055	625	334	2,112	2,091	16,311
At 31st December 1999	5,815	61	-	72	1,179	351	7,478

At 31st December 2000, an application was made to the local authorities in the PRC for the formal registration of the legal title of a building with carrying amount of approximately HK\$8,695,000, in respect of which the construction work has been completed at the year end. The Directors expect that the legal title of the building will be formally registered in June 2001.

16 Investments in subsidiaries

	Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	176,000	176,000
Loans to subsidiaries	82,140	–
Amounts due from subsidiaries	30,837	–
Amounts due to subsidiaries	(1,673)	(1,311)
	287,304	174,689

The loans to subsidiaries are interest free and have no fixed terms for repayment.

The following is a list of the principal subsidiaries at 31st December 2000:

Name	Place of incorporation	Principal activities/ place of operation	Particulars of issued share capital/registered capital	Interest held
<i>Direct subsidiary:</i>				
Yuxing Electronics Company Limited ("Yuxing (BVI)")	British Virgin Islands ("BVI")	Investment holding / BVI	2,000 ordinary shares of US\$1 each	100%
<i>Indirect subsidiaries:</i>				
Beijing Golden Yuxing Electronics and Technology Co., Ltd.	The PRC	Research and development, design, marketing, distribution and sales of information appliances / the PRC	US\$3,042,000	100%*
Yuxing Technology Company Limited	Hong Kong ("HK")	Trading of integrated circuits and investment / HK	2 ordinary shares of HK\$1 each	100%

* Golden Yuxing was established on 27th December 1996 as 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.

17 Investment securities

	Group	
	2000	1999
	HK\$'000	HK\$'000
Unlisted equity securities outside Hong Kong, at cost	1,461	–

18 Inventories

	Group	
	2000	1999
	HK\$'000	HK\$'000
Merchandise	9,242	–
Finished goods	80,378	52,178
Raw materials	58,948	56,199
Work in progress	21,607	44,248
Spare parts and consumables	–	2,942
Less: provision for obsolete inventories	(11,203)	–
	158,972	155,567

At 31st December 2000, the carrying amount of inventories that are carried at net realisable value amounted to approximately HK\$24,947,000 (1999: HK\$Nil).

19 Trade and other receivables

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Trade receivables (<i>Note</i>)	31,920	3,671	–	–
Bills receivable	47	–	–	–
Prepayments and deposits	16,888	3,010	297	–
Other receivables	9,270	22,791	833	1,633
	58,125	29,472	1,130	1,633

Note:

The majority of the Group's sales is at a credit term of 60 days. The remaining balances of sales are by cash-on-delivery. At 31st December 2000, the ageing analysis of the trade receivables of the Group is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Current	11,546	3,427
30-60 days	1,099	42
61-90 days	4,650	109
Over 90 days	15,263	369
Less: provision for doubtful debts	(638)	(276)
	31,920	3,671

20 Short-term investments

	Group	
	2000 HK\$'000	1999 HK\$'000
Equity securities, at market value		
Unlisted in Hong Kong	2,610	–
Listed in the PRC	–	2,933
	2,610	2,933

21 Pledged bank deposits

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Security for bank loans and banking facilities of the Group	16,240	–	10,156	–

22 Trade and other payables

	Group		Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Trade payables (<i>Note</i>)	21,243	34,244	–	–
Bills payables	852	–	–	–
Other payables	9,901	13,628	621	322
Accruals	3,693	3,869	797	464
	35,689	51,741	1,418	786

22 Trade and other payables (continued)

Note:

At 31st December 2000, the ageing analysis of the trade payables of the Group is as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Current	5,990	6,851
30-60 days	1,909	14,905
61-90 days	381	4,238
Over 90 days	12,963	8,250
	21,243	34,244

23 Share capital and share options

(a) Share capital

	Authorised Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
Upon incorporation	1,000,000	100
Increase in authorised ordinary share capital	1,999,000,000	199,900
At 31st December 1999	2,000,000,000	200,000
At 31st December 2000	2,000,000,000	200,000

23 Share capital and share options (continued)**(a) Share capital (continued)**

	Issued and fully paid	
	Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
Upon incorporation	1,000,000	–
Issue of shares	299,000,000	30,000
At 31st December 1999	300,000,000	30,000
At 1st January 2000	300,000,000	30,000
Issue of shares	100,000,000	10,000
At 31st December 2000	400,000,000	40,000

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

- (i) 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.
- (ii) On 20th November 1999, pursuant to a resolution of the then shareholders of the Company:
 - (l) 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

23 Share capital and share options (continued)

(a) Share capital (continued)

- (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 23(a)(i) above, in consideration for the transfer by Super Dragon and Dragon Treasure the entire issued share capital of Yuxing (BVI) to the Company.
- (iii) 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.

On 28th January 2000, 100,000,000 ordinary shares of the Company were issued at par value of HK\$0.10 each for HK\$4.20 per share pursuant to a placing of shares to professional and institutional investors.

(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. Options to subscribe for 13,595,000 ordinary shares of the Company were granted to selected employees during the year and were outstanding at 31st December 2000.

23 Share capital and share options (continued)

(b) Share options (continued)

Details of the share options granted are as follows:

Date of grant	Subscription price	Exercisable period	Number of the shares in options	
			Granted during the year	Outstanding at 31st December 2000
27th June 2000	HK\$4.80	27th June 2000 to 26th June 2005	5,000,000	5,000,000
28th November 2000	HK\$0.95	28th November 2000 to 27th November 2005	7,635,000	7,635,000
3rd December 2000	HK\$0.95	3rd December 2000 to 2nd December 2005	610,000	610,000
4th December 2000	HK\$0.95	4th December 2000 to 3rd December 2005	310,000	310,000
5th December 2000	HK\$0.95	5th December 2000 to 4th December 2005	40,000	40,000
			13,595,000	13,595,000

24 Reserves

	Group					Total HK\$'000
	Share premium	Capital reserve	Statutory reserves	Exchange difference	Retained earnings	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1st January 1999	–	23,310	7,310	106	41,143	71,869
Transfer to share capital upon the Reorganisation	–	(23,310)	–	–	(6,690)	(30,000)
Appropriation to statutory reserves	–	–	4,457	–	(4,457)	–
Translation of the PRC subsidiary's accounts	–	–	–	199	–	199
Profit for the year	–	–	–	–	109,031	109,031
Dividends	–	–	–	–	(469)	(469)
At 31st December 1999	–	–	11,767	305	138,558	150,630
At 1st January 2000	–	–	11,767	305	138,558	150,630
Premium on issue of shares	410,000	–	–	–	–	410,000
Share issue expenses	(28,287)	–	–	–	–	(28,287)
Translation of the PRC subsidiary's accounts	–	–	–	731	–	731
Profit for the year	–	–	–	–	40,978	40,978
Dividends	–	–	–	–	(40,000)	(40,000)
At 31st December 2000	381,713	–	11,767	1,036	139,536	534,052

24 Reserves (continued)

	Company			Total HK\$'000
	Share	Contributed	Retained	
	premium HK\$'000	surplus HK\$'000	earnings HK\$'000	
Share exchange upon the Reorganisation	–	146,000	–	146,000
Loss for the year	–	–	(464)	(464)
At 31st December 1999	–	146,000	(464)	145,536
At 1st January 2000	–	146,000	(464)	145,536
Premium on issue of shares	410,000	–	–	410,000
Share issue expenses	(28,287)	–	–	(28,287)
Profit for the year	–	–	49,066	49,066
Dividends	–	–	(40,000)	(40,000)
At 31st December 2000	381,713	146,000	8,602	536,315

- (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.

25 Notes to the consolidated cash flow statement

(a) Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2000 HK\$'000	1999 HK\$'000
Operating profit	39,535	106,694
Non-operating income	1,464	56,267
Depreciation of owned property, plant and equipment	1,000	648
Amortisation of intangible assets	1,020	940
Loss on disposal of property, plant and equipment	8	–
Provision for inventories	25,244	–
Provision for doubtful debts	362	276
Unrealised loss on short-term investments	390	567
Realised gain on disposal of short-term investments	(880)	–
Interest income	(21,233)	(692)
Increase in inventories	(28,649)	(126,704)
(Increase)/decrease in trade and other receivables	(28,010)	10,844
(Decrease)/increase in trade and other payables	(16,052)	42,232
Net cash (outflow)/inflow from operating activities	(25,801)	91,072

25 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Share capital including premium		Bank loans		Pledged bank deposits for banking facilities	
	2000	1999	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	30,000	-	-	-	-	-
Cash items:						
Issue of ordinary shares	420,000	-	-	-	-	-
Share issue expenses	(28,287)	-	-	-	-	-
New bank loans	-	-	14,548	-	-	-
Bank deposits pledged	-	-	-	-	(16,240)	-
Non-cash items:						
Shares issued for non-cash consideration	-	30,000	-	-	-	-
At 31st December	421,713	30,000	14,548	-	(16,240)	-

26 Contingent liabilities

	Group		Company	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantee for banking facilities of a subsidiary	-	-	15,000	-
Guarantee for a bank loan of a sales agent	5,657	-	-	-
	5,657	-	15,000	-

27 Commitments under operating leases

At 31st December 2000, the Group had commitments to make payments in the next twelve months under operating leases in respect of land and buildings which expire as follows:

	Group	
	2000 HK\$'000	1999 HK\$'000
Within one year	534	–
In the second to fifth year inclusive	766	530
After the fifth year	–	1,033
	1,300	1,563

At 31st December 2000, the Company had no commitment under operating lease (1999: HK\$Nil).

28 Approval of accounts

The accounts were approved by the Board of Directors of the Company on 23rd March 2001.

NOTICE IS HEREBY GIVEN that the annual general meeting of Yuxing InfoTech Holdings Limited (the “Company”) will be held at the Kublai Khan Room of Mandarin Oriental Hong Kong, 4th Floor, 5 Connaught Road, Central, Hong Kong on 9th May, 2001 at 2:00 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 2000;
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 of 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

- (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;
- (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 2001

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 despatched to the shareholders with this annual report.

“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
“broadband connection”	the use of the broadband technology to access the Internet
“broadband set-top box”	a set-top box using the broadband internet access technology and equipped with Internet browsing and video-on-demand functions
“CD”	compact disc
“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
“computer super VCD”	a computer VCD with improved audio and visual quality
“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
“CPU”	central processing unit
“DVD”	digital video disk player that has MPEG II video decoding function
“embedded operating system”	a characteristically low cost, highly stable and flexible operating system embedded in the hardware, enabling some internet functions, and commonly found in set-top boxes

"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
"Integrated Solution for Computer Networking Classroom"	the Group's solution for promoting e-education, including the "Integrated Solution for Low-, Medium- and High-End Products", "Integrated Solution for Software and Hardware" and "Integrated Solution for Sales Services", whereby the Group can provide an extensive choice of software resources as well as installation, adjustment and testing, maintenance and teacher training services for schools with different economic conditions
"intelligent education system"	an advanced system combining artificial intelligence and Internet education and developed by the Group in cooperation with Artificial Intelligence Research Department of Beijing Industrial University to provide the Network Education Services System for promotion of e-education, and comprising the Intelligent Questions Database, Intelligent Examination System, Intelligent Assessment System, Intelligent Answering System and Intelligent Payment System, with the capability of providing examination questions, self-assessment tests as well as questions and answers functions automatically for Internet students, based on the resources in the system
"Internet"	a global network of networks accessed by users with a computer and a modem via a service provider
"Internet browsing"	the use of certain network terminal equipment to access webpage information on the Internet
"Mask ROM"	a type of ROM that can store a program or data
"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
“software applications”	software that allows computer to possess different functions, such as word processing, databases and games
“stream control”	an offer of the transmission protocol in respect of real-time sound and video data on IP Protocol, guaranteeing reliable transmission of real-time sound and video data between service providers and network terminals
“VCD”	video compact disc
“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
“web-DVD”	a device equipped with both regular DVD and basic PC functions as well as some Internet-enabled functions such as Internet browsing, Internet chat, Internet games and email despatch
“web-super VCD”	a device equipped with both super VCD and basic PC functions as well as some Internet-enabled functions such as Internet browsing, Internet chat, Internet games and email despatch

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