



Yuxing InfoTech Holdings Limited

裕興電腦科技控股有限公司*

(incorporated in Bermuda with limited liability)



ANNUAL REPORT 2001

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

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

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

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

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Yuxing InfoTech Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) commenced its business through Beijing Golden Yuxing Electronics and Technology Co., Ltd. (“Golden Yuxing”) which was established in the People’s Republic of China (other than Hong Kong) (the “PRC”) in 1996. Golden Yuxing became a Sino-foreign co-operative joint venture enterprise on 8th November 1999. Through reorganisation, the Company has become the ultimate holding company of the Group. The Company was incorporated in Bermuda as an exempted company on 6th October 1999 and was listed on GEM on 31st January 2000. It successfully raised gross proceeds of approximately HK\$420 million.

As a result of the continuous introduction of new products and expansion on range of educational application software to complement sales of hardware, the Group has experienced rapid growth since its establishment.

The Group is principally engaged in research and development, design, marketing, distribution and sale of information appliances in the PRC. Through independent sales agents in many parts of the PRC, the Group sells information appliances and e-learning products under “Yuxing” brandname. Currently, the sales network consists of over 7,000 points of sales.

Furthermore, the Group involves in electronic components distribution business by acting as a distributor for different lines of electronic products. In this way, the Group can expand its product lines through developing advance electronic products in the information appliance industry.

Besides its comprehensive sales network, the Group has established a strong team of research and development professionals, including experienced experts in hardware and software, digital devices, media display and network technology, as well as professionals from the games production and educational application software industries. Under the leading by the Group’s professional management team, our products have obtained high reputation in the PRC’s market.

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

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

Wu Jia Jun
Zhong Peng Rong

Sponsor

TIS Securities (HK) Limited

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Websites

<http://www.yu-xing.com>
<http://www.irasia.com/listco/hk/yuxing>

Principal bankers

Hang Seng Bank Limited
Shanghai Commercial Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Guangdong Development Bank
China Merchants Bank
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. 97, De Wai Da Jie
Xi Cheng District
Beijing

Share registrars and transfer offices*Principal registrar*

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

Branch registrar

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

Stock code

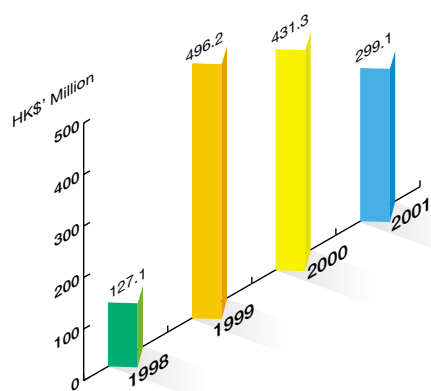
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Financial Highlights and Calendar

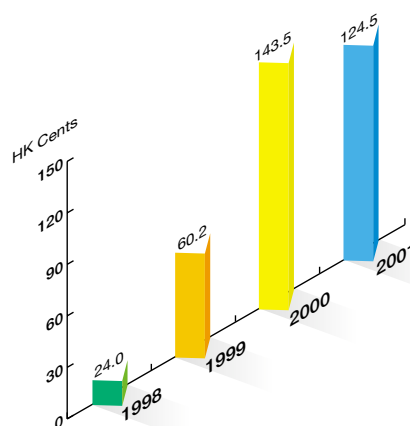
Financial Highlights

	2001	2000
	HK\$'000	HK\$'000
Revenue		
Turnover	299,121	431,342
Profitability		
Operating (loss)/profit	(71,493)	39,535
(Loss)/Profit attributable to shareholders	(76,233)	40,978
Net worth		
Shareholders' funds	497,843	574,052
Per share		
(Loss)/Earnings per share – Basic	(19.1) Cents	10.5 Cents
Net assets per share	124.5 Cents	143.5 Cents

Turnover



Net Assets Per Share



Financial Calendar

Results for the year	Announcement on 21st March 2002
Annual report	Despatched to shareholders in late March 2002
Annual general meeting	13th May 2002



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

Overall Review

In view of the global economic recession in 2001, various business sectors had experienced severe challenges. Although the economy of the PRC maintained a healthy growth, the domestic demand for consumer products in the territory was sluggish. The excess supply of electronics products and intensified competition in the industry greatly hindered the development of many electronics enterprises in the PRC.

During the year of 2001, the Group had undergone many challenges as well as difficulties. Turnover decreased by 30.7% to approximately HK\$299.1 million as compared to the previous year and a net loss of approximately HK\$76.2 million was recorded, as compared to a net profit of approximately HK\$41.0 million for the year 2000. The Directors considered that the lower-than-expected operating results were due to three major reasons. First of all, the upstream enterprises had uphold and deferred the research and development efforts in response to the global economic recession, which in turn, delayed the time schedule in launching the Group's new products. As a result, the Group could not generate a new income source for its business. Secondly, the falling of unit price of products had greatly reduced the sales and profit margin of the Group in light of keen competition. Last but not least, in order to reduce operational risks and increase the efficiency of working capital, a significant provision for inventories was made in a sum of approximately

HK\$27.7 million; given that, the Group has established a more solid foundation for the Group's future development.

Although the Group incurred an operating loss in 2001, it made some favourable adjustments in response to economic slump and intensive competition. The Group believed that these initiatives will bring positive results to the Group's operations in the future:

1. On the technological and product front, the Group successfully mastered the operation of the 32-bit hardware platform and MPEG4 technology. The Group has also made a breakthrough in the development of broadband and middleware technologies and already applied such technologies for product development. At the same time, the Group accumulated numerous valuable experiences in the research and development of application software and educational application software. These contributed to the development of DVD platform-based "base hardware + middleware + application software", a unique core technology that enabled the Group to establish a competitive foundation in the development of products such as information appliances products, digital audio and visual products ("digital AV products") and e-learning products in various DVD platform-based markets.

2. On the sales and customer services side, given the intense competition, the Group actively flattened its sales channels by minimising the sales layers in order to reduce the selling and marketing expenses, enhance the depth of communication and increase the quality of training to distributors with an aim to improve their selling techniques. In addition, the Group built up a customer services system for improving the services management in order to raise its standards of customer services and satisfaction.
3. On the management side, the Group carried out a series of improvement measures in its organisational structure and management. These included adjustments of corporate strategy in response to the market changes, introduction of new management team members, redesigning the operational procedures and workflow, improving the standard of quality control, fostering the establishment of enterprise resource planning system, reducing the level of inventory and trade receivables and controlling the operation and production costs. These strategies have successfully increased the Group's efficiency in terms of overall operation, sales and marketing capability as well as financial risk management. Accordingly, a stable and healthy growth can be maintained by the Group in the long run.

Review of the PRC Domestic Market

Leveraging on the extensive experiences in the market for years and its unique technologies in the DVD platform, the Group continued to target on information home appliances, digital AV products and e-learning products as a major direction in its business development. In order to capture further market opportunities, the Group had made considerable efforts to realise healthy growth in its business. The Group believed that,

as the market is becoming more mature, the Group can capitalise on its technological advantages to become one of the market leaders amid future competition.

1. In line with the development of broadband and video frequency technologies, the information appliances market in the PRC has stepped into its infant stage. Some information technology firms and home appliance manufacturers were aware of the market potential of information appliance market and commenced to launch some conceptual products. Their entries into the market drew the public attention and aroused their awareness of information appliances, in turn the information appliances market in the PRC is becoming more developed. The Group believed that DVD products will follow PC and TV games to become the third information home appliances platform in the future due to the fact that the technological level of DVD products is more in advance as compared to VCD products. In addition, the hardware platform of DVD can support wide-ranging applications for multimedia, audio-visual and broadband with excellent performance. The information appliances products based on DVD technology is expected to receive a wider market recognition in the long run in light of their competitive prices, reliability and practicality. As a result, the Group will continue to pursue its business actively in this market opportunities.
2. The disk player market has maintained a stable growth for the previous year, while the DVD product market has emerged and recorded an increasing sales volume in some large cities. It is expected that the market share of VCD products will be captured and predominated by the DVD products. However, such market development will inevitable invite increasing competition in the

DVD market in the longer run. Following PRC's accession into the World Trade Organisation ("WTO"), a more stringent control over intellectual property right is expected. Being one of the leading digital audio manufacturers in the PRC, the Group will continue to enhance its competitive edges in terms of technology, product quality, marketing, customer services and management.

3. Families in the PRC have been emphasising in the quality of education in recent years. Given that, the lackluster PRC education market has provided ample potential for the development of e-learning products. Capitalising on its valuable experience, strong market position and solid customer base in the industry, the Group will



continue to design and develop its e-learning products with the incorporation of its new DVD technological platform in order to satisfy the market demand for such products with outstanding functions and competitive prices in the PRC. Accordingly, the Group is expected to strengthen its competitive advantages in this area.

Prospects

Looking forward into 2002, the competition of the electronics industry in the PRC will remain fierce. Subsequent to the implementation of performance improvement program in 2001, the Group will continue to refine its organisational structure, operating

procedures, duties and responsibilities of employees as well as performance evaluation system. In addition, the Group will also closely monitor its financial position, inventory level and operating cost. As such, the Group believes that the operating results in 2002 will be considerably improved.

In anticipation of the rapid global development of DVD market, the information appliance and broadband markets in the PRC are expected to be well developed in the coming few years. Presently, the Group has engaged with the DVD technology as a core technology for its future business development. Substantial efforts will be made by the Group in developing three major products namely, information appliances, digital AV products and e-learning products. Leveraging on its established market position and accumulated experience in research and development, the Group will actively re-allocate its resources and expects to become one of the leaders in the spheres of these products.

Regarding to the information appliance products, the Group launched set-top box products including online stockbroker with online stock trading and



broadband video player with video-on-demand function at the end of 2001. Besides, the Group has established cordial business relationship with several system developers and broadband services operators. In view of the further development of broadband market in the PRC in 2002 resulting in the increasing demand for broadband products and solutions, the Group will reinforce its collaboration with major local and overseas

broadband service operators and system developers. Joint efforts will be planned to stimulate the demand for broadband products in order to capture the market opportunities when the broadband market becomes mature.



As to the digital AV products, the Group will, on the one hand, consolidate its foothold in the VCD market of the PRC and, on the other hand, actively explore the DVD products. It is expected that the DVD products will become one of the major income sources of the Group in 2002. By the implementation of a series of measures including flattening of sales channel, controlling the production and operating cost, revamping brand image and improving customer services, the Group is expected to strengthen its competitive edges of digital AV products.

On the e-learning products front, leveraging on its state-of-the-art technology and know-how, a rich content and selection of educational software and the extensive experiences in the PRC's educational market, the Group will actively develop e-learning products of higher quality and functionality to cater for the needs in the market.

Currently, the Group's turnover was mainly derived from its business in the PRC and Hong Kong. In anticipation of the changes in the global economy, especially after the PRC's accession into WTO, the Group will focus on enhancing its production capability and actively study the demand and characteristics of overseas markets so as to explore the opportunities in exports, hence widening its source of revenue.

I firmly believe that with these combined efforts, a foreseeable worldwide economic recovery and together with the continuing market growth in the PRC, the Group's business performance is set to improve. All in all, the management and our staff will strive for satisfactory results for its shareholders in the years ahead.

Zhu Wei Sha

Chairman

Hong Kong, 21st March 2002

Consolidated results

For the year ended 31st December

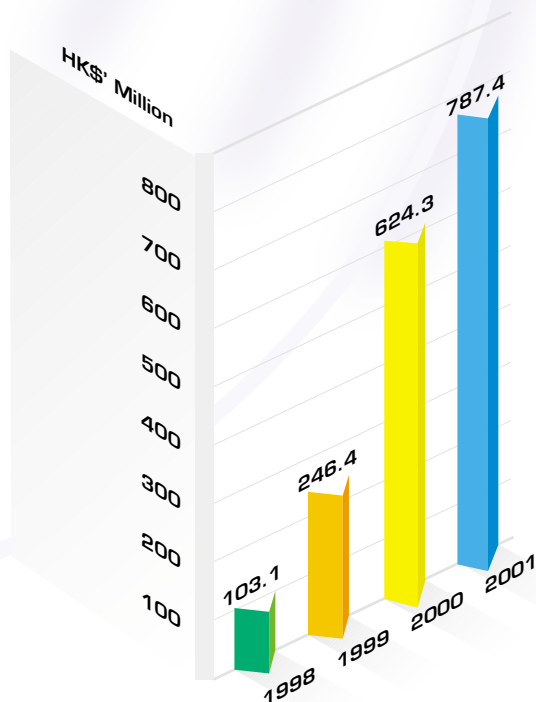
	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Turnover	299,121	431,342	496,157	127,118
(Loss)/Profit before taxation	(75,077)	40,978	162,961	51,972
Taxation	(349)	–	(53,930)	(17,859)
(Loss)/Profit after taxation	(75,426)	40,978	109,031	34,113
Minority interests	(807)	–	–	–
(Loss)/Profit attributable to shareholders	(76,233)	40,978	109,031	34,113
(Loss)/Earnings per share – Basic	(19.1) Cents	10.5 Cents	36.3 Cents	11.4 Cents

Consolidated assets and liabilities

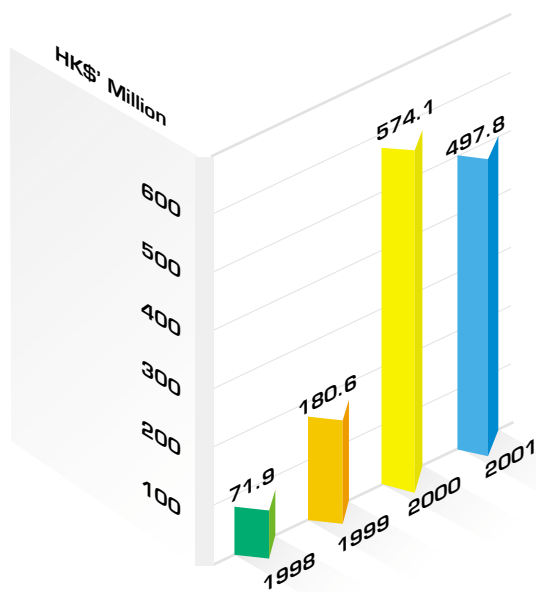
As at 31st December

	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
Assets				
Non-current assets	17,549	19,538	9,533	4,551
Short-term investments	260,430	2,610	2,933	3,500
Pledged bank deposits	236,056	16,240	–	–
Bank balances and cash	122,820	368,804	48,882	25,580
Other current assets	150,559	217,097	185,039	69,455
Total assets	787,414	624,289	246,387	103,086
Liabilities				
Other loans, secured	198,001	–	–	–
Bank loans, secured	18,857	14,548	–	–
Other current liabilities	67,006	35,689	65,757	31,217
Total liabilities	283,864	50,237	65,757	31,217
	503,550	574,052	180,630	71,869
Financial by:				
Share capital	40,000	40,000	30,000	–
Reserves	457,843	534,052	150,630	71,869
Shareholders' funds	497,843	574,052	180,630	71,869
Minority interests	5,707	–	–	–
	503,550	574,052	180,630	71,869

Total Assets



Net Assets



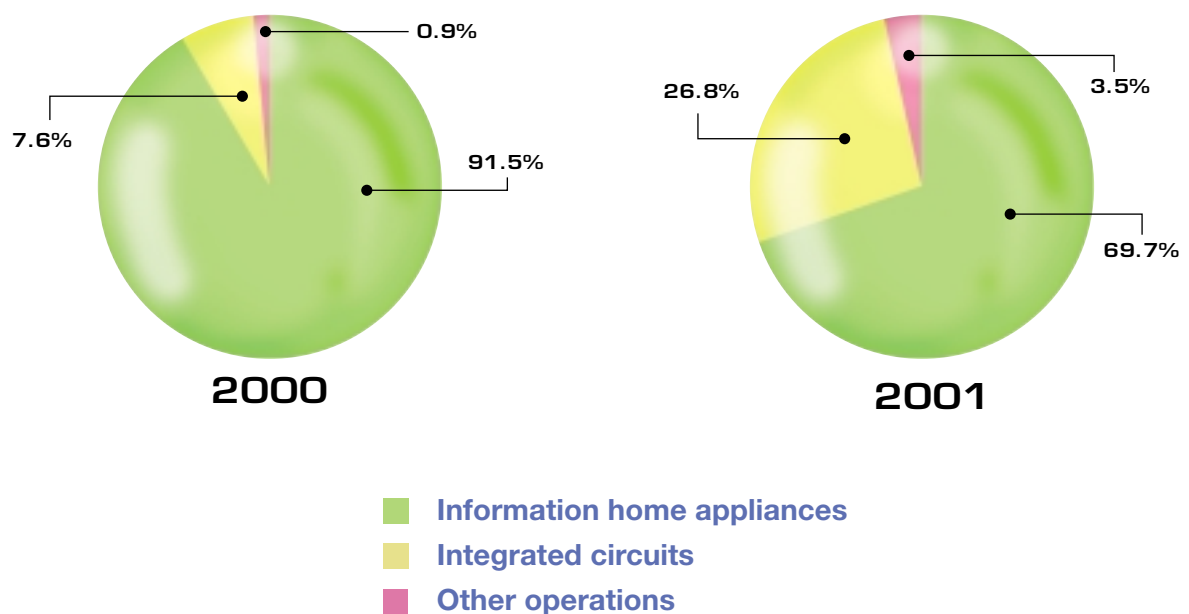
Financial Review

Turnover and Gross Loss

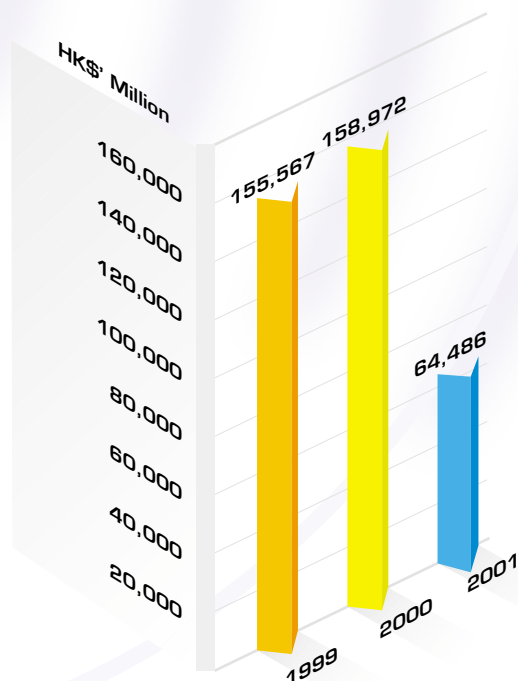
In the midst of global economic slump and the downturn of information technology industry in the PRC, upstream enterprises slackened their research and development efforts, which in turn caused the Group's delay in launching its new products in the financial year of 2001. As a result, revenue and profit contributions from new products were less than expected. Turnover decreased by 30.7% to approximately HK\$299.1 million as compared to the previous year. The drop was mainly due to the decrease in turnover of information home appliances by 47.2% to approximately HK\$208.5 million, of which the sales of computer VCD players dropped substantially by 49.1% in view of the keen competition in both PC and VCD players markets in the PRC. In addition, sales of dancing mats slumped to approximately HK\$1.3 million as a result of stock clearance.

The composition of turnover changed in which the new business of integrated circuits distribution, though with a thinner profit margin, increased by 143.6% to approximately HK\$80.0 million and became one of the major sources of revenue of the Group. The integrated circuits distribution business was mainly contributed by Hi-Level Technology Limited ("Hi-Level"), a subsidiary which is 51% owned by the Group. Turnover from other operations increased by 177.0% to approximately HK\$10.6 million due to the sales of raw materials to business partners for the purpose of reducing the Group's inventory level. Although the cost of inventories sold dropped by 7.2%, provision for inventories of approximately HK\$27.7 million was made as fierce price competition brought a substantial decrease in the selling price of our products. Hence, the Group substantially reduced its inventories to approximately HK\$64.5 million (2000: HK\$159.0 million). Gross loss of approximately HK\$11.3 million was recorded for the year as compared to gross profit of approximately HK\$101.4 million in the previous year.

Turnover Composition



Inventories



Operating Results

Other Revenue

Other revenue, representing interest income, dropped to approximately HK\$14.5 million (2000: HK\$21.2 million) as a result of interest rate cuts.

Other Operating Income

Other operating income increased to approximately HK\$7.1 million (2000: HK\$0.9 million) which was mainly brought by the appreciation in the market price of the PRC government bonds as at 31st December 2001. To take advantage of the rising bond price and to enjoy a higher bond interest as compared to the relatively lower interest rate as set out in the bank deposits, the Group invested in the PRC government bonds which were worth in a sum of approximately HK\$252.9 million as at 31st December 2001.

Operating Expenses

The Group managed to improve some aspects of its operation during the year. Decrease in the advertising and promotion expenses and well-received launch of the latest products both drove down the overall selling expenses to approximately HK\$46.2 million (2000: HK\$56.7 million).

As the market competition intensified, financial position of some of our distributors deteriorated. Such unfavourable situation led to an increase in provision for doubtful debts which was included in general and administrative expenses, to approximately HK\$3.0 million (2000: HK\$0.4 million).

Finance Costs

Finance costs increased significantly to approximately HK\$3.6 million (2000: HK\$21,000), which was mainly due to the drawdown of a loan amounting to RMB210 million with interest payable at 1.5% per annum.

Loss Attributable To Shareholders

Loss attributable to shareholders of approximately HK\$76.2 million was recorded for the year, as compared to a net profit of HK\$41.0 million in the previous year.

Liquidity, Financial Resources and Capital Structure

As at 31st December 2001, the Group showed a net current assets of approximately HK\$486.0 million. The Group had cash and bank deposits of approximately HK\$358.9 million in total, of which HK\$236.1 million were pledged with three different banks for banking facilities. Short-term borrowings reached approximately HK\$216.9 million. A cash deposit of HK\$200 million was placed by the Group with a PRC bank as security for banking facilities granted to Grand Pacific Investment Corporation ("Grand Pacific"). Simultaneously, Grand Pacific, pursuant to an agency loan agreement, appointed Xin Jiang Jin Xin Trust Investment Joint Stock Company Limited as an agent and granted a loan of RMB210 million to Golden Yuxing as working capital and proceed for business development, with a fixed term of one year at an interest rate of 1.5% per annum. Another short-term loan of RMB20 million was granted by a bank to Golden Yuxing at an interest rate of 5.85% per annum. Basically, the Group remained in a fairly liquid financial position.

Save as the short-term loan disclosed herein, the Group had no long-term financing as most of the Group's financial resources were funded by its shareholders' fund. Contingent liability on a guarantee for a bank loan for a distributor of the Group decreased from RMB6 million to RMB5 million. As at 31st December 2001, the Group's gearing ratio, representing total interest-bearing liabilities divided by shareholders' fund, was 43.6%.

Most of the trading transactions and assets of the Group were denominated in Renminbi and the remaining portions were denominated in US dollars and Hong Kong dollars. As the Group believed that both US dollars and Renminbi remain relatively stable in the foreseeable future, it would increase the proportion of US dollars and Renminbi-denominated financial assets to eliminate the downside of exchange risk. As at the year ended 2001, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

Business Review

New Products and Technological Improvements

On information appliance front, despite the delay in launching certain new products, the Group test-launched two types of set-top boxes in October 2001, namely online stockbroker with online stock trading and broadband video player with video-on-demand function respectively. The target market of the broadband video player was aimed to the broadband community, hotel, entertainment and education sectors. The trial-launch of the online stockbroker through sales channels of one of the leading telecommunications operators in the PRC achieved a satisfactory result. Since these products were developed on a disk player platform, they were of better imaging capability and value-for-money. As the broadband internet market in the PRC is developing, this product series is expected to give a promising return to the Group in the next few years. The Group also established good business relationships with various telecommunications operators, system providers, system facilities providers and application solution providers, hence providing a good foundation for the development of the Group in the future.

During the period under review, the Group launched various products including web-super VCD players, game VCD players and web-DVD players. The valuable experience gained from the successful development of the web-super VCD products helped facilitate the research and development of other web-based products in the future. To



harmonize with the upturn of the DVD market in the PRC, the Group launched its super slim DVD player model toward the end of the year. The launch has received favourable market response and gained a fair market share. The Group believes that the product will establish a solid foundation for the development in the DVD market in 2002.

As for e-learning products, in order to pave its way for more powerful and quality e-learning tools, the “Integrated Solution for Computer Networking Classroom” project is under a feasibility study by the Group. The Group gathered and analysed over 70,000 secondary school exercises for the development of an intelligent education system. Such system consists functions of intelligent test and intelligent correction. We believed that this will establish a solid foundation for the Group’s future development on e-learning business in the PRC.

For the research and development of software, the Group not only successfully developed the third generation information application multimedia software development platform (“IAMSDP”), but also accumulated useful experience for the research and development of other application software.

By integrating with the original middleware technology of the Group, the third generation IAMSDP, also named as the middleware system, has empowered a stronger support function in cross-platform development. The middleware system of the Group provides a unified development platform for different base hardware. This enables application software developers to easily develop application software, which were compatible to the Group’s hardware platform,

on their PC platforms. This technological advancement allowed further opening of our hardware platform, exchanging information among application software developers, establishing of relationship between the Group and the application software developers and recognising by the application software developers in the future. The successful development of the middleware system effectively increased the core competitiveness of the Group's products. This also helped the core hardware and application software of the Group to establish as one of the benchmark systems in the information appliances market. Based on this reliable and stable middleware technology, the Group had already jointly developed various online games, off-line games, and educational software with application software partners.

To support launching of various hardware products, the Group developed over 30 application software products in different sectors including: education, web application, game and entertainment during the period under review. Based on the requirement of the teaching guidelines of the secondary school syllabus in the PRC, the Group also enriched its database of learning curriculum of the secondary school. By utilising the middleware system, the Group opened up its hardware platform to application software developers, which in turn complemented the Group's resources in the development of software.

As for the research and development of application products, the Group attained significant breakthrough in network technology and accumulated valuable experience. The launch of its web-super VCD and set-top box products allowed the Group to stay at the forefront of the audio and video technology-based information appliance market in the PRC. Concurrently,



the Group has launched the 32-bit hardware platform for upstream manufacturers. It also made an outstanding progress in the application development of Ziva5 platform which facilitated the launch of related products in 2002.

Operation Improvements

Despite the decrease in sales and profit margin in 2001, the Group implemented measures to improve its overall operation efficiency. The Group improved the marketing abilities of its distributors, the overall competitiveness of products, the efficiency of capital utilisation and the capabilities of financial risk management.

The Group's measures to improve operation efficiency mainly consisted of flattering of sales channels, reinforcement and control of sales channels management, reduction of inventory level, control of production costs, improvement of customer services and frequently updating of the latest customers needs. Through flattering of sales channels, the Group effectively reduced its selling expenses and enhanced the direct supervision of its distributors. By the establishment of sales forecast system of distributors, the Group raised accuracy of logistic and effectively reduced inventory level. Through the establishment of credit management system of distributors, it also effectively lowered its trade receivables in order to minimised the possibility of bad debts. Meanwhile, through the establishment of consolidated appraisal system of distributors, it effectively improved the competitiveness of distributors and their co-operation with the Group.

In 2001, to further enhance the corporate image and brand awareness, the Group launched a nationwide corporate identity campaign in the PRC in nearly 2,000 points of sales. Moreover, television commercials of the Group were broadcasted in over 100 channels each day to increase brand awareness in the target markets. As a result, both popularity and reputation of the brandname of “Yuxing” were greatly enhanced, laying good and solid foundation for launching new products in the market.

Equity Investment

The Group's 51% owned subsidiary, Hi-Level, achieved an optimal result in its integrated circuits distribution business in 2001. An external sales of approximately HK\$69.0 million was recorded for the year. In light of its performance, the Group increased its investment in Hi-Level from HK\$510,000 to HK\$5,100,000 on 17th December 2001 for expanding its operations. Given that it is a pro rata increase in investment, the Group's total shareholding in Hi-Level remains unchanged.

In 2001, the Group acquired 13% equity interests in Beijing SEL Systems Limited, an embedded operating system and application solution provider at a consideration of approximately HK\$2.5 million. Such acquisition is expected to provide a synergy to the Group's development of information appliance technologies.

In May 2001, the Group allied with other enterprises in the PRC to acquire the shares of Shanghai Founder Yanzhong Science & Technology Group Limited (“Founder Technology”), a listed company on the Shanghai Stock Exchange. This greatly enhanced the Group's reputation and the image as one of the leading information technology providers. However, due to readjustment of investment portfolio, the Group disposed of its strategic investment in Founder Technology. In total, no investment loss was incurred for the transactions.

Human Resources

During the year 2001, the Group carried out comprehensive internal review on operation procedures and performance improvement on overall management. Through the implementation of a series of measures, the Group's corporate value was enhanced as a whole. In early 2001, a new management team was hired. Staff at all levels of the Group underwent a training program. Based on the redeployment, their duty and responsibilities were also re-defined. Procedures for the improvement of marketing, sales and channel management were implemented. After a year of efforts, the strategies have improved the overall operation efficiency of the Group and its adoption to market changes and staff deployment.

As at 31st December 2001, the Group has over 250 full time employees. Staff costs, including Director's emoluments, totalling approximately HK\$19.7 million (2000: HK\$13.2 million). All employees of the Group's subsidiary companies are selected and promoted based on suitability for the position offered. The salary and benefit levels of the Group's employees are in line with the market and employees are being rewarded on a performance-related basis within the general framework of the Group's salary system which is being reviewed annually. In addition to basic salaries, staff benefits include medical scheme, various insurance schemes and share options.

As mentioned in the Group's annual report for the year ended 31st December 2000 ("Annual Report 2000"), the VCD and DVD markets in the PRC 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"). Therefore, the Company decided not to follow the original development and marketing timetable in the Prospectus and the board of Directors (the "Board") adjusted, amended and postponed certain sizeable research and development, marketing and promotional plans, which was considered to be in the best interest for the Company and its shareholders. The details of the new plans of the Board on the use of proceeds were disclosed in Annual Report 2000.

A comparison of the use of proceeds between the new plans of the Board per Annual Report 2000 and the amount of application of the proceeds to achieve the Group's business objectives during the period from 31st January 2000 (date of listing) to 31st December 2001 is as follows:

	Amount stated in the new plans of the Board per Annual Report 2000 (HK\$' Million)	Proceeds already applied during the period from the date of listing to 31st December 2001 (HK\$' Million)	Notes
Scheduled projects:			
1. Research and development of IAMS DP in 2000 and 2001	3	2.85	
2. Research and development and promotion of a series of DVD products in 2000 and 2001	15	5.63	1
3. Promotion of a series of VCD products in 2000 and 2001	65	49.51	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	18	4.67	3
5. Research and development and general promotion of educational computers in 2000 and 2001	1	1.17	

Use of Proceeds

	Amount stated in the new plans of the Board per Annual Report 2000 (HK\$' Million)	Proceeds already applied during the period from the date of listing to 31st December 2001 (HK\$' Million)	Notes
Scheduled projects:			
6. Research of advanced digital video graphic and broadband Internet access technology in 2000 and 2001	2	2.24	
7. Purchase of testing and research and development related equipments from 2000 to 2002	4	1.17	
8. Development of application software and the purchase of copyrights from 2000 to 2002	3	1.93	
9. Expansion of the Group's distribution and sales network in 2000 and 2001	50	32.34	4
10. Establishment of the new office by the Group in Hong Kong in 2000 and 2001	5	4.25	
11. Meeting additional working capital requirement for the sales and marketing of a series of DVD products from 2000 to 2002	18	6.54	
12. General working capital for maintaining the day-to-day operations of the Group from 2000 to 2002	188	5.32	
13. Establishment of distribution business for electronic components in 2001 and 2002	20	5.10	

	Amount stated in the new plans of the Board per Annual Report 2000 (HK\$' Million)	Proceeds already applied during the period from the date of listing to 31st December 2001 (HK\$' Million)	Notes
Additional projects:			
14. Acquisition of production plant and purchase of production equipment in 2002	–	–	5
Total	392	122.72	

Notes:

1. Since the DVD market of the PRC was at its preliminary stage, the Group did not commit too much resources as expected. The progress for the project is slowed down and extended as the DVD products is expected to anticipate growth in 2002.
2. The Group reduced its commitment in the promotion of VCD products due to the improvement of sales channels and brand awareness as a support for sales and the gradual shrinkage of the VCD market.
3. The Group intends to research and develop novel e-education products with enhanced functions in accordance with development of the market and to promote those products; therefore, the time for utilisation of the fund for such project is extended and the commitment for promotion of the existing products was correspondingly reduced.
4. During the year, the Group strengthened the management, supervision and training of its sales channels and constantly expedited the streamlining of sales channels so as to reduce the sales layers. This greatly improved the operation efficiency of the sales network and enhanced efficient application of the fund injected for the sales network. As a result, the fund applied by the Group for the establishment of sales network decreased.
5. In order to have a more comprehensive chain of enterprise value and increase the control of the Group over the purchase and manufacturing cycles so as to improve the efficiency of its supply chain, the Board determined to apply proceeds of approximately HK\$10 million to acquire Shenzhen Senbo Qiang Dian Electronics Co., Ltd., a production plant in Shenzhen, and purchase production equipment.

To the extent that the net proceeds are not immediately used, the Group will deposit the net proceeds into banks or other financial institutions and engage in short-term investments with higher returns for its shareholders.

Business Progress Against Business Objectives

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

Business objectives as set out in 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 has become a business platform that has marked the transformation from simple PC software to information appliance software. Approximately 70 types of software products were launched, bringing the total number of commercialised information appliance software to over 200. |
| (b) Completing the development of the second generation IAMSDP and licensing it to professional software developers in the PRC | Development of the second generation IAMSDP was completed in 2000 and the platform was licensed to five domestic multimedia software developers. Magic Island Adventure, an encyclopedic educational software game for children and developed under such platform, was launched in the same year. |
| (c) Supplying Mask ROM embedded with software engine to the manufacturers of Venus Computers in the PRC | Currently, the Group has successfully developed a third-generation IAMSDP.

Mask ROM has been 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 the Prospectus:

For the year ended 31st December 2000

Promoting IAMS DP to domestic software developers for further conceiving multimedia software applications

Actual business progress to date:

In 2000, The Group had signed a letter of intent with Educational Technology Office, which is under the Ministry of Education of the PRC. The Educational Technology Office will provide user training to teachers in the PRC, which helps promoting IAMS DP and encouraging multimedia software development.

In promoting the “Integrated Solution for Computer Networking Classroom”, IAMS DP has been provided to schools and gained popularity.

For the year ended 31st December 2001

Developing more sophisticated versions of IAMS DP in order to exploit high quality multimedia softwares with interactive and intelligent functions.

The Group has successfully developed the third generation IAMS DP (also known as “middleware system”), which provided stronger support for multi-platform development as it consolidates the middleware technology of the Group. The successful development of the system will effectively enhance the core competitive edge of the Group’s products and facilitate the gradual development of a leading standard for the development of the core hardware and application software of the Group in the information appliances sector.



By using the middleware system, the Group has successfully developed various application software for products such as DVD players and broadband set-top boxes which have verified the reliability and stability of the system. Meanwhile, the Group has also offered the system to some of the application software developers and broadband operators, who by applying such system, have successfully developed application software, such as offline games, online games and online stock dealings for the Group’s products, and the set-top box navigating system for the set-top boxes.

Business objectives as set out in the Prospectus:

Actual business progress to date:

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

For the period ended 30th June 2000

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

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.



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

Over 550,000 sets of wide voltage VCD players and super VCD players were produced in 2000. In 2001, the Group produced over 580,000 sets. Demand for the Group's VCD players has been under expectation and competition from other market players is keen.

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



Based on its 32-bit hardware platform, the Group's self-developed web-VCD products were launched to the market in mid 2001. Furthermore, multimedia DVD products also based on such 32-bit hardware platform and with various functions including games, entertainment and learning, will be launched in the first quarter of 2002.

**Business objectives as set out in
the Prospectus:**

For the year ending 31st December 2001

Developing and launching a series of regular DVD and computer DVD products in co-operation with C-Cube Microsystems Inc. and focusing on promoting such products throughout 2001.

Actual business progress to date:

Development of regular DVD and computer DVD products utilising the Ziva4 chip was completed and the products were launched during 2000.

Due to the global economic recession in 2001, the upstream enterprises deferred their launch of DVD core chips and firmware. Consequently, the development of the Group's DVD products utilising Ziva5 chip was postponed and only be completed close to the end of 2001. The launch of the related products was postponed to the first quarter of 2002.

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

For the period ending 31st December 2002

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

During 2000, the Group launched more than 40 types of software products.

In 2001, the Group developed more than 30 types of application software regarding education, network application, games and entertainment. The Group also built up larger databases for topics and textbooks which were based on the syllabus for secondary information education curriculum. With the continuous resources accumulation and the strengthening of the development capability of the Group, the middleware development platform of the Group became more mature and was successfully open for the system developers. A considerable quantity of application software, which were compatible to the Group's hardware platform, could be developed and provided by professional application software developers. This greatly improved the efficiency of software development of the Group and saved its development resources.

Business objectives as set out in the Prospectus:

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

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

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

Actual business progress to date:

The project has been completed and educational computers equipped with 3097 processor launched.

In 2000, the Group had 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 has 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 has also provided a comprehensive solution ranging from software and hardware to sales and services. The Group has 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 was made in promoting the solution in 2000. However, such progress has slowed down as the Group is now focus on launching e-education products with more enhanced functions.

The Group has successfully developed intelligent education system which can provide network education services for the Group's network product users. At the same time, the Group has cooperated with domestic websites in the PRC to promote the system.

**Business objectives as set out in
the Prospectus:**

For the year ended 31st December 2001

Launching new models of educational computers with enhanced functions and faster CPU speed by replacing regular LAN with a thin client network to develop e-education business

Actual business progress to date:

The educational computers of the Group has been phased out from the market upon the change of demand in the market.

For the purpose of launching new substitute products with enhanced functions, the Group has conducted intensive researches in respect of the development direction of e-learning products. The Group has redefined its e-learning products and carried out research and development for such products. Related products are scheduled for launching in 2002.

The launch of the thin client network, which was initially scheduled in the second half of 2001, has been postponed to 2002 due to the delay in technology development of the upstream enterprises.

Business Prospects

In spite of the intensified competition of the electronics market of the PRC in 2002, the Group believes that the improvement measures which were implemented by the Group in 2001 will take effect. The Group will continue to strengthen its control over the organisational structure, operating procedures, duties and responsibilities of employees as well as performance evaluation. It will also closely monitor its financial management, inventory and cost control. The Group believes that the operating results in 2002 will be considerably improved.

In view of the rapid development of the global DVD market, especially the PRC market in 2002, selling prices of the major components and parts of DVD players will be lowered due to the economies of scale in production of the overall market. This will further stimulate the growth of consumer demand. Meanwhile, although the broadband and information appliances market are still in its preliminary development stage, the prospects of the market will become clearer and gain expansion momentum. Amongst which, information appliances products based on DVD platform technology are expected to be well received in the market in light of its competitive pricing, reliable functions and practicality.



As for the development strategy, the Group has made DVD technology as its core hardware platform, and will dedicate its efforts in the development of three major products markets, namely, information appliances, digital AV products and e-learning products. As for information appliance products, the Group will further enhance its cooperation with major broadband services operators and system developers in the PRC and overseas. Joint efforts will be made to stimulate the demand of broadband products in order to capture the opportunities arising from the broadband market as it becomes more mature. On digital AV products front, the Group will consolidate its foothold in the VCD market while actively expanding the DVD products as one of the major income sources of the Group in the current financial year. On e-learning product front, leveraging on its state-of-the-art technology, a rich content and selection of educational software and extensive experiences in the educational market, the Group will actively develop products of higher quality and functionality to cater for the needs in the educational market.

As for research and development, the Group will closely co-operate with the upstream manufacturers for optimising the development of its middleware system. Its ultimate goal is to achieve the transfer of seamless connection and actively open up its hardware platform and middleware system to application software developers so as to set up application software development benchmark which are based on the DVD platform technology developed by the Group. Concurrently, the Group will continue its research and development of Ziva 5 platform with an aim to launch superior application products.

Products

1. In the area of information appliances products, the Group will continue its launch of online stockbroker and broadband video player. To cater for the needs of customers and strategic partners, the Group will further explore other broadband application functions and solutions based on this hardware platform. As the core components of upstream manufacturers are refined, the Group will further enhance the functions of its products.

2. In the area of digital AV products, besides maintaining its competitive advantages in the VCD market, the Group will focus on the sales of DVD products. In 2002, the Group will launch a series of DVD products to meet demands from different customer groups. The Group has recently launched multi-functional DVD player products in February 2002. These products are differentiated from our competitors by possessing additional games, entertainment, online and learning functions over ordinary DVD products. As a results, the products have received encouraging response in the market.
3. In the area of e-learning products, the Group is set to deploy the product development strategy by using DVD platform technology. The strategy of promoting the sales of software for activating the sales of hardwares will be implemented. In 2001, research and development staff utilised its middleware technology to develop interactive and interesting education-aid software on Ziva5 platform and explored new version of software for disk players. In 2002, the Group will closely cooperate with educational information providers and educational software developers. E-learning products with enhanced functions and competitive prices for catering the needs of the PRC market will be launched in the second half of the year.



As for market development, the Group strives to establish strategic alliances with other enterprises in the area of information appliance products and will actively promote its products among corporate customers. For digital AV products and e-learning products, the Group will pursue its sales and promotion through its nationwide sales channels. In 2002, the Group will continue to strengthen training, management and its sales channels in order to raise the selling and marketing techniques of its distributors. At the same time, by way of sales forecast and credit control, logistic accuracy will be improved while inventory and trade receivables will be reduced. Moreover, the Group will establish branch offices in various regions in the PRC to achieve flattening of sales channels and reduction of selling and marketing expenses. This will increase the price competitiveness of the Group's products and flexibilities to market changes. The Group will further strengthen its distribution channels in the northern part of the PRC and simultaneously empower the sales and marketing ability in the southern part of the PRC. Brand awareness and corporate image will be improved through a massive of marketing campaigns. With the continuing improvement in the quality of customer services, brand preference will be created.

As for production, the Group will significantly increase its investment to increase its production capacity and to reduce its production and operating costs. In 2002, the Group plans to utilise the proceeds from listing to acquire Shenzhen Senbo Qiang Dian Electronics Co., Ltd. In addition, the Group is actively exploring the feasibility of entering the OEM market for the electronic industry.

As in previous years, the Group will make every endeavours in pursuing better operation results through the reduction of operating cost and expenditure. To cater for the long-term benefits of our shareholders, the Group will also seek investment and development opportunities which are beneficial to its growth in the long run. In view of the plans for improving operation efficiency at all levels and the continuous efforts on technological developments, the Group will stay at the forefront to achieve a more satisfying growth in 2002.

Executive Directors

Mr. Zhu Wei Sha, aged 47, 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 14 years' experience in management of technological enterprises. He is a co-founder of the Group. Mr. Zhu is currently a director of Super Dragon Co., Ltd. ("Super Dragon") which held a 41.25% shareholding in the Company.

Mr. Chen Fu Rong, aged 41, 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 11 years' experience in research and development and engineering management. He is a co-founder of the Group. Mr. Chen is currently a director of Super Dragon.

Mr. Shi Guang Rong, aged 40, 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 14 years' experience in product marketing and promotion. Mr. Shi is currently a director of Dragon Treasure Ltd. ("Dragon Treasure") which held a 33.75% shareholding in the Company.

Mr. Wang An Zhong, aged 45, 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 69, 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 47, 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.

Company secretaries

Mr. Di Yu Zeng, aged 41, is the director of investment division of the Group. He has obtained a certificate of completion from the Beijing Employee Institute of Machinery Industry Bureau. Before joining the Group in 1997, he served as the chief secretary of the president's office, an assistant manager of the research department and the head of the equity securities department at Beiren Printing Machinery Holdings Limited, a PRC company listed on the Stock Exchange, and was responsible for the administration of securities related matters. Mr. Di was appointed as a company secretary in October 1999.

Mr. Lai Yang Chau, Eugene, aged 32, is a practising solicitor in Hong Kong. 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 39, is the vice president of the Group. He graduated with a bachelor degree in engineering from the Department of Automatic Control of the Beijing Industrial University. He had worked at the Beijing Machinery group and the Industrial Economic Research Department of the China Social Science Institute. He is a co-founder of the Group and has 11 years' experience in financial management.

Dr. Yang Mu, aged 55, a Singaporean Chinese, is the vice president of the Group. 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 the PRC, 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.

Biographical Details of Directors and Senior Management

Mr. Feng Pei Ran, aged 35, is the vice president of the Group. He graduated with a LL. B. degree from Politics and Administration Department of Peking University. He had 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.

Miss Yuen Wai Man, Shirine, aged 29, 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. Miss Yuen is an associate member of both the Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. Miss Yuen had worked at an international accounting firm and has seven years' experience in accounting and finance. Miss Yuen joined the Group in December 1999.

The Directors have pleasure in submitting to shareholders their report together with the audited accounts for the year ended 31st December 2001.

Principal activities and geographical analysis of operations

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 13 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 41.

The Directors do not recommend the payment of a dividend.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 21 to the accounts.

Property, plant and equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 12 to the accounts.

Share capital

Details of the movements in share capital of the Company during the year are set out in note 20 to the accounts.

Distributable reserves

Distributable reserves of the Company as at 31st December 2001, calculated under the Companies Act of Bermuda, amounted to HK\$163,768,000 (2000: HK\$154,602,000).

Pre-emptive rights

There is no provision for pre-emptive rights under the Company's bye-laws and there was no restriction against such rights under the laws of Bermuda.

Four-year financial summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 9.

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.

Share Options

Under the share option scheme approved by the shareholders of the Company on 18th January 2000 (the "Share Option Scheme"), the Directors may, at their absolute discretion, within a period of ten years from 31st January 2000, invite continuous contract employees ("Participants") of the Group, including Executive Directors, to take up options to subscribe for shares of the Company subject to the terms and conditions stipulated therein. The Share Option Scheme will be terminated on 31st January 2010.

The principal purposes of the Share Option Scheme are to recognise the significant contributions of the employees and Executive Directors to the growth of the Group by rewarding them with opportunities to obtain the ownership interest in the Company and to further motivate and give incentives to these persons to continue to contribute to the Group's long-term success and prosperity.

As at the date of 2001 Annual Report, 21st March 2002, the total number of shares available for issue under the Share Option Scheme is 40,000,000, which represents 10% of the issued share capital of the Company. The maximum entitlement of each Participant cannot exceed 25% of the maximum aggregate number of shares issued and which may fall to be issued under the Share Option Scheme.

An offer of the share options shall be deemed to have been accepted by way of consideration of HK\$1.00 payable by the Participant to the Company within 21 days from the date of offer of the share options.

The exercise price of the share options is determined, at the discretion of the Directors, and must be at least the higher of:

- (a) the average of the closing price of the shares of the Company as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the relevant date of offer of the share options;
- (b) the closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheet on the relevant date of offer of the share options, which must be a business day; and
- (c) the nominal value of the shares of the Company.

Details of the share options outstanding as at 31st December 2001 which have been granted under the Share Option Scheme are as follows:

	Share options held at 1st January 2001	Share options granted during year	Share options exercised during year	Share options held at 31st December 2001	Exercise price HK\$	Grant Date (Acceptance Date)	Exercisable from	Exercisable until
Director								
- Mr. Wang An Zhong	1,000,000	-	-	1,000,000	0.95	28th November 2000	28th November 2001	27th November 2005
Continuous contract	5,000,000	-	-	5,000,000	4.80	27th June 2000	27th June 2001	26th June 2005
employees	6,635,000	-	-	6,635,000	0.95	28th November 2000	28th November 2001	27th November 2005
	610,000	-	-	610,000	0.95	3rd December 2000	3rd December 2001	2nd December 2005
	310,000	-	-	310,000	0.95	4th December 2000	4th December 2001	3rd December 2005
	40,000	-	-	40,000	0.95	5th December 2000	5th December 2001	4th December 2005
	-	4,500,000 ¹	-	4,500,000	0.83	9th February 2001	9th February 2002	8th February 2006
	-	3,800,000 ²	-	3,800,000	0.75	11th April 2001	11th April 2002	10th April 2006
	-	600,000 ³	-	600,000	1.45	15th June 2001	15th June 2002	14th June 2006
Total outstanding share options				22,495,000				

All the above outstanding share options may be exercisable in stages at any time during the period commencing one year after the date of grant of the share options and ending five years after the date of grant of the share options in accordance with the following schedule (each anniversary below refers to the anniversary of the date of grant of the share options):

Period since date of grant of the share options	Percentage of shares comprised in share options which become exercisable
Date of grant of the share options – first anniversary	Zero
First anniversary – second anniversary	Up to 25%
Second anniversary – third anniversary	Up to 50% (less the percentage of shares which arose upon the exercise of share options between the first anniversary and the second anniversary)
Third anniversary – fourth anniversary	Up to 75% (less the percentage of shares which arose upon the exercise of share options between the first anniversary and the third anniversary)
Forth anniversary and thereafter	All outstanding share options have not been previously exercised

Notes:

1. The closing price of the shares of the Company immediately before the date on which the share options were granted, 9th February 2001, was HK\$0.83.
2. The closing price of the shares of the Company immediately before the date on which the share options were granted, 11th April 2001, was HK\$0.75.
3. The closing price of the shares of the Company immediately before the date on which the share options were granted, 15th June 2001, was HK\$1.28.

According to the Black-Scholes option pricing model¹, the value of share options granted on 9th February 2001, 11th April 2001 and 15th June 2001 was estimated to be approximately HK\$2,458,000, HK\$1,876,000 and HK\$487,000 respectively. The following variables and assumptions were made to derive the value:

- (i) share price: HK\$0.83, HK\$0.75 and HK\$1.28, being the closing price of the shares of the Company on 9th February 2001, 11th April 2001 and 15th June 2001 respectively.
- (ii) risk-free interest rate: 5.40%, 5.41% and 5.38%, being the corresponding yield of 5-year Exchange Fund Note traded on 9th February 2001, 11th April 2001 and 15th June 2001 respectively, were assumed to remain constant over the life of the share options
- (iii) expected life of share options: 5 years
- (iv) expected volatility of the shares of the Company: 76.30%, being the annualised volatility of the monthly closing price of the shares of the Company from January 2001 to December 2001, were assumed to remain constant over the life of the share options
- (v) no dividends would be declared during the life of the share options

No charge is recognised in the profit and loss account in respect of the value of share options granted in the year.

¹ The Black-Scholes option pricing model is one of the commonly used models developed to estimate the fair value of publicly traded options that have no vesting restriction and are fully transferable. Any changes in the variables adopted may materially affect the estimation of the value of an option.

Directors

The Directors 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

(resigned on 4th June 2001)

In accordance with bye-law 87 of the Company's bye-laws, Mr. Shi Guang Rong, Mr. Wu Jia Jun and Mr. Zhong Peng Rong 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 since 7th October 1999 (which is automatically renewed upon expiry for successive terms of one year) subject to termination on or since 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.

The Independent Non-executive Directors, Mr. Wu Jia Jun and Mr. Zhong Peng Rong, were appointed for a two-year term expiring on 24th October 2001 and accepted to continue their appointment for another two-year term expiring on 24th October 2003.

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 within one year without payment of compensation, other than statutory compensation.

Directors' interests in contracts

Mr. Chen Man Fai, Steven, an Independent Non-executive Director of the Company during the period from 25th October 1999 to 4th June 2001, was also a director of ICEA Capital Limited ("ICEA"), the sponsor of the Company for its listing on GEM, which received a normal underwriting commission and a normal documentation fee in connection with the placing of 100,000,000 shares on 28th January 2000, and received a fee for acting as the Company's retained sponsor for the period from 31st January 2000 to 15th March 2002. Mr. Chen Man Fai, Steven had already resigned from his post as director of ICEA during the year.

Save as disclosed above and the directors' service contracts disclosed in this annual report, no contracts of significance in relation to the Group's business to which the Company or 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.

Biographical details of Directors and senior management

Brief biographical details of Directors and senior management are set out on page 28.

Directors' and chief executive's interests in equity

At 31st December 2001, the interests of the Directors and chief executive in the shares and share 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)

Notes:

1. Mr. Zhu Wei Sha and Mr. Chen Fu Rong held these shares through 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.
2. Dragon Treasure acted as the trustee and held these shares on behalf of Mr. Shi Guang Rong and Mr. Wang An Zhong.
3. It represents the share options granted under the Share Option Scheme. The share 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 2001 to 27th November 2005. Refer details under Share Options of this annual report.

Save as disclosed above, 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).

Save as disclosed above, 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 acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial shareholders

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st December 2001, 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

Notes:

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%.
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 share options of the Company are disclosed in the section "Directors' and chief executive's interests in securities" of this annual report.

Saved as disclosed above, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests in equity" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

Management contracts

None of the 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 sold less than 30% of its goods and services to its 5 largest customers.

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

The largest supplier	25.23%
Five largest suppliers combined	61.06%

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

Board practices and procedures

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules.

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 of the Company (the "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 of both 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. Zhong Peng Rong. Mr. Wu Jia Jun, was appointed by the Board as the new chairman of the Committee for the replacement of Mr. Chen Man Fai, Steven who tendered his resignation as an Independent Non-executive director of the Company with effect from 4th June 2001 while Mr. Zhong Peng Rong was appointed by the Board as a member of the Committee, with both appointments taking effect from 4th June 2001. Four meetings were held during the current financial year.

Competing interests

None of the Directors, management shareholders or controlling 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:

- (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) save that Mr. Chen Man Fai, Steven, an ex-director of ICEA who has resigned from his post during the year, was also an Independent Non-executive Director of the Company during the period from 25th October 1999 to 4th June 2001, 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. The appointment of ICEA as the sponsor to the Company has been terminated on 15th March 2002 with the mutual agreement between the Company and ICEA. TIS Securities (HK) Limited ("TIS") was subsequently appointed as the new sponsor to the Company with effect from 16th March 2002.

As notified by TIS, the new sponsor, since its appointment after the listing of the shares of the Company on GEM of the Stock Exchange:

- (1) neither TIS 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); and
- (2) no director or employee of TIS who is involved in providing advice to the Company has any interests in any class of securities of the Company or any other company in the Group (including options or rights to subscribe such securities).

Pursuant to the agreement dated 16th March 2002 entered into between the Company and TIS, TIS would receive a fee for acting as the Company's retained sponsor for the period from 16th March 2002 to 31st December 2002.

Subsequent events

The Company has changed its sponsor from ICEA to TIS with effect from 16th March 2002 due to more favourable terms under a new sponsorship agreement as considered by the Directors of the Company.

Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Yuxing InfoTech Holdings Limited

Zhu Wei Sha

Chairman

Hong Kong, 21st March 2002



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 41 to 73 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 of the Group as at 31st December 2001 and of the Group's loss and cash flows 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, 21st March 2002

Consolidated Profit and Loss Account

For the year ended 31st December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Turnover	2	299,121	431,342
Cost of sales	3	(310,378)	(329,893)
Gross (loss)/profit		(11,257)	101,449
Other revenue	2	14,500	21,233
Other operating income		7,128	903
Selling expenses		(46,226)	(56,665)
General and administrative expenses		(35,018)	(25,226)
Other operating expenses		(620)	(2,159)
Operating (loss)/profit	4	(71,493)	39,535
Finance costs	5	(3,584)	(21)
Non-operating income		–	1,464
(Loss)/Profit before taxation		(75,077)	40,978
Taxation	6	(349)	–
(Loss)/Profit after taxation		(75,426)	40,978
Minority interests		(807)	–
(Loss)/Profit attributable to shareholders	7	(76,233)	40,978
Dividends		–	40,000
(Loss)/Earnings per share			
– Basic	8	(19.1) Cents	10.5 Cents

Consolidated Balance Sheet

As at 31st December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Intangible assets	11	648	1,766
Property, plant and equipment	12	12,939	16,311
Investment securities	14	3,962	1,461
Current assets			
Inventories	15	64,486	158,972
Trade and other receivables	16	86,073	58,125
Short-term investments	17	260,430	2,610
Pledged bank deposits	18	236,056	16,240
Bank balances and cash		122,820	368,804
		769,865	604,751
Current liabilities			
Trade and other payables	19	66,657	35,689
Taxation payable		349	–
Other loans, secured	18	198,001	–
Bank loans, secured		18,857	14,548
		283,864	50,237
Net current assets		486,001	554,514
Total assets less current liabilities		503,550	574,052
Financed by:			
Share capital	20(a)	40,000	40,000
Reserves	21	457,843	534,052
Shareholders' funds		497,843	574,052
Minority interests		5,707	–
		503,550	574,052

Approved by the Board of Directors on 21st March 2002 and signed on behalf of the Board by

Zhu Wei Sha
Chairman and President

Wang An Zhong
Executive Vice President

Balance Sheet

As at 31st December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Investments in subsidiaries	13	322,194	287,304
Current assets			
Trade and other receivables	16	6,150	1,130
Pledged bank deposits	18	236,056	10,156
Bank balances and cash		22,385	279,143
		264,591	290,429
Current liabilities			
Trade and other payables	19	1,304	1,418
Net current assets		263,287	289,011
Total assets less current liabilities		585,481	576,315
Financed by:			
Share capital	20(a)	40,000	40,000
Reserves	21	545,481	536,315
Shareholders' funds		585,481	576,315

Approved by the Board of Directors on 21st March 2002 and signed on behalf of the Board by

Zhu Wei Sha

Chairman and President

Wang An Zhong

Executive Vice President

Consolidated Cash Flow Statement

For the year ended 31st December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash inflow/(outflow) from operating activities	22(a)	39,609	(25,801)
Returns on investments and servicing of finance			
Interest received		9,520	20,228
Interest paid		(1,653)	(21)
Dividends paid		–	(40,000)
Net cash inflow/(outflow) from returns on investments and servicing of finance		7,867	(19,793)
Taxation			
Hong Kong profits tax paid		–	–
Overseas taxation paid		–	(14,016)
Total taxation paid		–	(14,016)
Investing activities			
Purchase of property, plant and equipment		(660)	(9,813)
Sale of property, plant and equipment		2,320	–
Purchase of intangible assets		–	(723)
Purchase of investment securities		(2,501)	(1,461)
Purchase of short-term investments		(324,743)	(7,000)
Sale of short-term investments		73,265	7,813
Other receivables from securities houses		(28,559)	–
Net cash outflow from investing activities		(280,878)	(11,184)
Net cash outflow before financing – carried forward		(233,402)	(70,794)

Consolidated Cash Flow Statement

For the year ended 31st December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Net cash outflow before financing – brought forward		(233,402)	(70,794)
Financing	22(b)		
Issue of ordinary shares		–	420,000
Share issue expenses		–	(28,287)
New bank loans		62,040	14,548
Repayment of bank loans		(57,731)	–
New other loans		198,001	–
New bank deposits pledged		(225,900)	(16,240)
Withdrawal of bank deposits pledged		6,084	–
Contribution from minority shareholders on issue of shares from a subsidiary		4,900	–
Net cash (outflow)/inflow from financing		(12,606)	390,021
(Decrease)/Increase in cash and cash equivalents		(246,008)	319,227
Cash and cash equivalents at 1st January		368,804	48,882
Effect of foreign exchange rate changes		24	695
Cash and cash equivalents at 31st December		122,820	368,804
Analysis of balances of cash and cash equivalents:			
Bank balances and cash		122,820	368,804

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits with banks with maturity of three months or less from the date of placement.

Consolidated Statement of Recognised Gains and Losses

For the year ended 31st December 2001

	Note	2001 HK\$'000	2000 HK\$'000
Exchange differences arising on translation of subsidiaries	21	24	731
(Loss)/Profit for the year		(76,233)	40,978
Total recognised (losses)/gains		(76,209)	41,709

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain investments in securities are stated at fair value.

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAPs") issued by the HKSA which are effective for accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised)	:	Events after the balance sheet date
SSAP 14 (revised)	:	Leases (effective for periods commencing on or after 1st July 2000)
SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The adopting of SSAP 28 regarding provisions has no effect on the Group's accounts. The effect of adopting SSAP 28 (other than provisions) and other new standards listed above is set out in the accounting policies below.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

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.

1 Principal accounting policies (continued)

(b) Group accounting (continued)

(i) Consolidation (continued)

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) 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.

(c) Property, plant and equipment

(i) Construction-in-progress

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.

(ii) Other fixed assets

Other fixed assets, comprising buildings, leasehold improvements, plant and machinery, office equipment, furniture and fixtures and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses.

1 Principal accounting policies (continued)

(c) Property, plant and equipment (continued)

(ii) Other fixed assets (continued)

Other fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses 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%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that assets included in construction-in-progress and other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment loss is recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

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.

(d) 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.

1 Principal accounting policies (continued)

(e) Intangibles

(i) Patents and trademarks

On the adoption of SSAP 29, expenditure on acquired patents, trademarks and licenses is capitalised and amortised using the straight-line method over their useful lives, but not exceeding 20 years. Patents, trademarks and licenses are not revalued as there is no active market for these assets.

(ii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(f) Investments in securities

(i) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

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 impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(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.

1 Principal accounting policies (continued)

(g) Inventories

Inventories comprise stocks and work-in-progress and 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.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

A contingent asset is not recognised but is disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(j) 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.

1 Principal accounting policies (continued)

(k) 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.

Dividend income is recognised when the right to receive payment is established.

(l) Retirement benefit costs

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes 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 funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are not reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

The assets of the schemes are held separately from those of the Group in independently administered funds.

(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.

(n) Research and development costs

Research and development costs are expensed as incurred.

1 Principal accounting policies (continued)

(o) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated income represents mainly interest income and investment income. Unallocated costs represent mainly corporate expenses and investment losses. Segment assets consist primarily of intangible assets, property, plant and equipment, inventories, receivables and operating cash, and mainly exclude investments in securities, pledged bank deposits and corporate cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets (note 11) and property, plant and equipment (note 12).

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

(p) Dividends

In accordance with the revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively which has no effect on the comparatives presented.

2 Turnover, other revenue and segment information

The Group is principally engaged in the research and development, design, marketing, distribution and sales of information appliances and integrated circuits. Revenues recognised during the year are as follows:

	2001	2000
	HK\$'000	HK\$'000
Turnover		
Sales of goods	299,121	431,342
Other revenue		
Interest income	14,500	21,233
Total revenues	313,621	452,575

Primary reporting format – business segments

The Group is organised into two main business segments:

- Information home appliances – sales and distribution of information home appliances and complimentary products, which target to consumer market
- Integrated circuits – sales and distribution of integrated circuits

Other operations of the Group mainly comprise selling of e-educational products to schools, set-top boxes to institutional customers and raw materials to business partners, none of which are of a sufficient size to be reported separately.

Inter-segment sales are charged at cost with an addition of handling services charges.

2 Turnover, other revenue and segment information (continued)

Primary reporting format – business segments (continued)

	Information home appliances 2001 HK\$'000	Integrated circuits 2001 HK\$'000	Other operations 2001 HK\$'000	Eliminations 2001 HK\$'000	Group 2001 HK\$'000
TURNOVER					
– External sales	208,521	80,045	10,555	–	
– Inter-segment sales	–	28,989	–	(28,989)	
	208,521	109,034	10,555	(28,989)	299,121
RESULTS					
Segment results	(77,433)	(6,063)	(2,956)	–	(86,452)
Unallocated income					25,500
Unallocated costs					(10,541)
Operating loss					(71,493)
Finance costs					(3,584)
Loss before taxation					(75,077)
Taxation					(349)
Loss after taxation					(75,426)
Minority interests					(807)
Loss attributable to shareholders					(76,233)
ASSETS					
Segment assets	129,074	49,758	1,432		180,264
Investment securities					3,962
Short-term investments					260,430
Pledged bank deposits					236,056
Other unallocated assets					106,702
Total assets					787,414
LIABILITIES					
Segment liabilities	57,419	22,168	455		80,042
Other loans, secured					198,001
Other unallocated liabilities					5,821
Total liabilities					283,864
OTHER INFORMATION					
Capital expenditure	429	231	–		660
Depreciation	1,099	412	13		1,524
Amortisation	1,118	–	–		1,118
Other significant non-cash expenses					
– Provision for inventories	20,599	6,302	809		27,710
– Provision for doubtful debts	2,802	157	9		2,968

2 Turnover, other revenue and segment information (continued)

Primary reporting format – business segments (continued)

	Information home appliances	Integrated circuits	Other operations	Eliminations	Group
	2000	2000	2000	2000	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
TURNOVER					
– External sales	394,676	32,856	3,810	–	
– Inter-segment sales	–	24,310	–	(24,310)	
	394,676	57,166	3,810	(24,310)	431,342
RESULTS					
Segment results	29,395	(4,130)	(2,013)	–	23,252
Unallocated income					22,113
Unallocated costs					(5,830)
Operating profit					39,535
Finance costs					(21)
Non-operating income					1,464
Profit attributable to shareholders					40,978
ASSETS					
Segment assets	248,168	33,806	5,512		287,486
Investment securities					1,461
Short-term investments					2,610
Pledged bank deposits					16,240
Other unallocated assets					316,492
Total assets					624,289
LIABILITIES					
Segment liabilities	43,110	3,186	2,022		48,318
Unallocated liabilities					1,919
Total liabilities					50,237
OTHER INFORMATION					
Capital expenditure	9,430	1,092	14		10,536
Depreciation	850	150	–		1,000
Amortisation	1,020	–	–		1,020
Other significant non-cash expenses					
– Provision for inventories	22,730	2,507	7		25,244
– Provision for doubtful debts	227	135	–		362

2 Turnover, other revenue and segment information (continued)

Secondary reporting format – geographical segments

The Group's information home appliances division is located in the People's Republic of China (other than Hong Kong) (the "PRC") and its products are also distributed in the PRC. The integrated circuits division is located in Hong Kong and its goods are distributed in Hong Kong, the PRC and other Asian countries (principally Korea).

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market	
	2001 HK\$'000	2000 HK\$'000
The PRC	278,761	412,487
Hong Kong	19,096	18,855
Other Asian countries (principally Korea)	1,264	–
	299,121	431,342

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
The PRC	635,323	255,839	429	9,444
Hong Kong	150,630	366,989	231	1,092
Other countries	1,461	1,461	–	–
	787,414	624,289	660	10,536

3 Cost of sales

	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	282,668	304,649
Provision for inventories	27,710	25,244
	310,378	329,893

4 Operating (loss)/profit

Operating (loss)/profit is stated after crediting and charging the following:

	2001 HK\$'000	2000 HK\$'000
Crediting:		
Realised gains on disposal of short-term investments	738	880
Unrealised gains on short-term investments	10,257	–
Charging:		
Depreciation of owned property, plant and equipment	1,524	1,000
Staff costs including Directors' emoluments		
– Research and development	4,231	2,937
– Other operations	15,426	10,286
	19,657	13,223
Provision for doubtful debts	2,968	362
Operating lease rental in respect of land and buildings		
– Research and development	1,578	1,206
– Other operations	2,637	2,603
	4,215	3,809
Net exchange loss	46	1,271
Retirement benefit costs (Note 9)	299	109
Auditors' remuneration	752	938
Advertising and promotion expenses	34,348	37,365
Losses on disposal of property, plant and equipment	188	8
Research and development costs, inclusive of staff costs and operating lease rental in respect of land and buildings	8,139	7,278
Amortisation of intangible assets (Note 11)		
– Patents and trademarks (included in general and administrative expenses)	1,118	1,020
Realised losses on disposal of short-term investments	2,248	–
Unrealised losses on short-term investments	2,058	390

5 Finance costs

	2001	2000
	HK\$'000	HK\$'000
Interest on bank loans	1,653	21
Interest on other loans		
– Wholly repayable within five years	1,931	–
	3,584	21

6 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the year.

Following the Group's reorganisation on 20th November 1999 (the "Reorganisation"), Beijing Golden Yuxing Electronics and Technology Co., Ltd. ("Golden Yuxing") became 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 the PRC income tax for the two years starting from its first profit making year following by a 50% reduction of the PRC income tax for the next consecutive three years. The preferential treatments commenced from year 2000 and therefore Golden Yuxing was fully exempt from the PRC income tax for the years ended 31st December 2001 and 2000.

The amount of taxation charged to the consolidated profit and loss account represents:

	2001	2000
	HK\$'000	HK\$'000
Hong Kong profits tax	349	–

Deferred taxation for the year has not been provided in respect of the following:

	2001	2000
	HK\$'000	HK\$'000
Tax losses	7,274	–
Excess of depreciation over tax allowances	5	–
Other timing differences	2,603	–
	9,882	–

7 (Loss)/Profit attributable to shareholders

The (loss)/profit attributable to shareholders is dealt with in the accounts of the Company to the extent of a profit of approximately HK\$9,166,000 (2000: HK\$4,906,000).

8 (Loss)/Earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of approximately HK\$76,233,000 (2000: profit attributable to shareholders of approximately HK\$40,978,000).

The basic (loss)/earnings per share is based on the weighted average of 400,000,000 (2000: 391,803,279) ordinary shares in issue during the year. Diluted earnings per share is not presented because there were no dilutive potential ordinary shares in existence during the year.

9 Retirement benefit costs

Contributions totalling approximately HK\$31,000 (2000: HK\$6,000) were payable to the fund at the year-end and are included in other payables.

10 Directors' and senior management's emoluments

(a) Directors' emoluments

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

	2001	2000
	HK\$'000	HK\$'000
Fees	94	94
Other emoluments:		
Basic salaries, other allowances and benefits in kind	661	656
Contributions to pensions schemes for Directors for other offices	3	4
	758	754

Directors' fees disclosed above were paid to Independent Non-executive Directors.

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

(a) Directors' emoluments (continued)

The Executive Directors received individual emoluments for the year ended 31st December 2001 of approximately HK\$262,000 (2000: HK\$262,000), HK\$137,000 (2000: HK\$134,000), HK\$133,000 (2000: HK\$133,000) and HK\$132,000 (2000: HK\$131,000) respectively. The Independent Non-executive Directors received individual emoluments for the year ended 31st December 2001 of approximately HK\$47,000 (2000: HK\$47,000) and HK\$47,000 (2000: HK\$47,000) respectively.

None of the Directors of the Company waived any emoluments and no inducement fees or compensation for loss of office were paid or payable to any Directors of the Company during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2000: two) Director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2000: three) individuals during the year are as follows:

	2001 HK\$'000	2000 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	2,634	1,002
Pensions	43	3
	2,677	1,005

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2001	2000
HK\$nil – HK\$1,000,000	4	3

11 Intangible assets

Acquired patents and trademarks

	Group HK\$'000
Cost:	
At 1st January 2001 and 31st December 2001	5,485
Accumulated amortisation:	
At 1st January 2001	3,719
Charge for the year	1,118
At 31st December 2001	4,837
Net book value:	
At 31st December 2001	648
At 31st December 2000	1,766

12 Property, plant and equipment

	Group						Total HK\$'000
	Construction- in-progress HK\$'000	Buildings in the PRC HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	
Cost:							
At 1st January 2001	94	11,075	696	401	3,916	2,456	18,638
Additions	223	-	5	-	432	-	660
Transfers	(317)	129	-	-	188	-	-
Disposals	-	(2,314)	-	(4)	(1,047)	(192)	(3,557)
At 31st December 2001	-	8,890	701	397	3,489	2,264	15,741
Accumulated depreciation:							
At 1st January 2001	-	20	71	67	1,804	365	2,327
Charge for the year	-	283	233	40	732	236	1,524
Disposals	-	-	-	(1)	(964)	(84)	(1,049)
At 31st December 2001	-	303	304	106	1,572	517	2,802
Net book value:							
At 31st December 2001	-	8,587	397	291	1,917	1,747	12,939
At 31st December 2000	94	11,055	625	334	2,112	2,091	16,311

13 Investments in subsidiaries

	Company	
	2001	2000
	HK\$'000	HK\$'000
Investments at cost:		
Unlisted shares	176,000	176,000
Loans to subsidiaries	118,368	82,140
Amounts due from subsidiaries	29,499	30,837
Amount due to a subsidiary	(1,673)	(1,673)
	322,194	287,304

The loans to and amounts due from/to subsidiaries are interest free and have no fixed terms for repayment.

The following is a list of all the subsidiaries of the Company at 31st December 2001:

Name	Place of incorporation / kind of legal entity	Principal activities / place of operation	Particulars of issued share capital / registered capital	Interest Held
<i>Direct subsidiaries:</i>				
Yuxing Electronics Company Limited	British Virgin Islands ("BVI") / limited liability company	Investment holding / BVI	2,000 ordinary shares of US\$1 each	100%
First I-Tech Limited	Republic of Mauritius ("Mauritius") / limited liability company	Investment holding / Mauritius	1 ordinary share of US\$1	100%

13 Investments in subsidiaries (continued)

Name	Place of incorporation / kind of legal entity	Principal activities / place of operation	Particulars of issued share capital / registered capital	Interest Held
<i>Indirect subsidiaries:</i>				
Beijing Golden Yuxing Electronics and Technology Co., Ltd.	The PRC / Sino-foreign co-operative joint venture	Research and development, design, marketing, distribution and sales of information appliances / the PRC	US\$3,042,000	100%*
E-Century Investments Limited	Mauritius / limited liability company	Holding of intangible assets / Mauritius	1 ordinary share of US\$1	100%
Yuxing Technology Company Limited	Hong Kong ("HK") / limited liability company	Trading of integrated circuits and investment / HK	2 ordinary shares of HK\$1 each	100%
Hi-Level Technology Limited	HK / limited liability company	Sales and distribution of integrated circuits / HK	10,000,000 ordinary shares of HK\$1 each	51%
Yangson Electronics Limited	HK / limited liability company	Sales and distribution of integrated circuits / HK	500,000 ordinary shares of HK\$1 each	51%

* 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.

14 Investment securities

	Group	
	2001 HK\$'000	2000 HK\$'000
Equity securities, at cost:		
Unlisted	3,962	1,461

15 Inventories

	Group	
	2001 HK\$'000	2000 HK\$'000
Merchandise	1,764	6,735
Finished goods	26,280	80,145
Raw materials	33,293	51,440
Work-in-progress	3,149	20,652
	64,486	158,972

At 31st December 2001, the carrying amount of inventories carried at net realisable value amounting to approximately HK\$19,991,000 (2000: HK\$24,947,000)

16 Trade and other receivables

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade receivables (<i>Note a</i>)	30,478	31,920	-	-
Bills receivables	1,320	47	-	-
Prepayments and deposits	7,655	16,888	250	297
Other receivables (<i>Note b</i>)	46,620	9,270	5,900	833
	86,073	58,125	6,150	1,130

Notes:

- (a) 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 2001, the ageing analysis of the trade receivables were as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
0-30 days	18,385	11,546
31-60 days	1,514	1,099
61-90 days	2,810	4,650
Over 90 days	10,877	15,263
Less: provision for doubtful debts	(3,108)	(638)
	30,478	31,920

16 Trade and other receivables (continued)

- (b) Included in other receivables of the Group are receivables from securities houses of approximately HK\$28,906,000 (2000: HK\$nil) which represented customer deposits, under the name of the PRC subsidiary of the Company, in these securities houses. As at 19th February 2002, approximately HK\$28,559,000 in cash had been received from the securities houses.

17 Short-term investments

	Group	
	2001 HK\$'000	2000 HK\$'000
Debt securities, at market value:		
Listed in the PRC	252,878	–
Unit trust funds, at market value:		
Unlisted	7,552	2,610
	260,430	2,610

18 Pledged bank deposits

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Security for bank loans and banking facilities of the Group	36,056	16,240	36,056	10,156
Security for banking facilities of Grand Pacific (<i>Note</i>)	200,000	–	200,000	–
	236,056	16,240	236,056	10,156

Note:

On 9th May 2001, the Group entered into a one-year financial arrangement pursuant to which (a) the Company charged a cash deposit of HK\$200,000,000 in favour of a bank established in the PRC (the "Bank") as security for banking facilities, of up to the principal amount of RMB210,000,000 (approximately HK\$198,001,000), granted by the Bank to Grand Pacific Investment Corporation Limited ("Grand Pacific"); and (b) Grand Pacific, through an agency loan agreement, appointed Xin Jiang Jin Xin Trust Investment Joint Stock Company Limited as agent and granted a loan of RMB210,000,000 (approximately HK\$198,001,000) to Golden Yuxing.

19 Trade and other payables

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Trade payables (<i>Note</i>)	41,211	21,243	–	–
Bills payables	–	852	–	–
Other payables	13,877	9,901	476	621
Accruals	11,569	3,693	828	797
	66,657	35,689	1,304	1,418

Note:

At 31st December 2001, the ageing analysis of the trade payables were as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
0-30 days	19,377	5,990
31-60 days	17,648	1,909
61-90 days	73	381
Over 90 days	4,113	12,963
	41,211	21,243

20 Share capital and share options

(a) Share capital

	Authorised Ordinary shares of HK\$0.10 each	
	No. of shares	HK\$'000
At 31st December 2000	2,000,000,000	200,000
At 31st December 2001	2,000,000,000	200,000

20 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
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
At 31st December 2001	400,000,000	40,000

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 placing of shares to professional and institutional investors.

(b) Share options

At 31st December 2001, the details of the outstanding share options exercisable in stages, commencing one year after the date of grant of the share options and ending five years after the date of grant of the share options, to subscribe for shares under the Company's Share Option Scheme were as follows:

Number of the shares in options outstanding	Exercise period	Exercise price
5,000,000	27th June 2001 to 26th June 2005	HK\$4.80
7,635,000	28th November 2001 to 27th November 2005	HK\$0.95
610,000	3rd December 2001 to 2nd December 2005	HK\$0.95
310,000	4th December 2001 to 3rd December 2005	HK\$0.95
40,000	5th December 2001 to 4th December 2005	HK\$0.95
4,500,000	9th February 2002 to 8th February 2006	HK\$0.83
3,800,000	11th April 2002 to 10th April 2006	HK\$0.75
600,000	15th June 2002 to 14th June 2006	HK\$1.45
22,495,000		

21 Reserves

	Share premium	Statutory reserves <i>(Note a)</i>	Group Exchange difference	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
2000 Interim dividend paid	–	–	–	(40,000)	(40,000)
At 31st December 2000	381,713	11,767	1,036	139,536	534,052
At 1st January 2001	381,713	11,767	1,036	139,536	534,052
Translation of the PRC subsidiary's accounts	–	–	24	–	24
Loss for the year	–	–	–	(76,233)	(76,233)
At 31st December 2001	381,713	11,767	1,060	63,303	457,843

	Share premium	Company Contributed surplus <i>(Note b)</i>	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
2000 Interim dividend paid	–	–	(40,000)	(40,000)
At 31st December 2000	381,713	146,000	8,602	536,315
At 1st January 2001	381,713	146,000	8,602	536,315
Profit for the year	–	–	9,166	9,166
At 31st December 2001	381,713	146,000	17,768	545,481

21 Reserves (continued)

Notes:

- (a) 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.
- (b) 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.

22 Notes to the consolidated cash flow statement

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

	2001 HK\$'000	2000 HK\$'000
Operating (loss)/profit	(71,493)	39,535
Non-operating income	–	1,464
Depreciation of owned property, plant and equipment	1,524	1,000
Amortisation of intangible assets	1,118	1,020
Losses on disposal of property, plant and equipment	188	8
Provision for inventories	27,710	25,244
Provision for doubtful debts	2,968	362
Realised losses on disposal of short-term investments	2,248	–
Unrealised losses on short-term investments	2,058	390
Realised gains on disposal of short-term investments	(738)	(880)
Unrealised gains on short-term investments	(10,257)	–
Interest income	(14,500)	(21,233)
Decrease/(Increase) in inventories	66,776	(28,649)
Decrease/(Increase) in trade and other receivables	2,970	(28,010)
Increase/(Decrease) in trade and other payables	29,037	(16,052)
Net cash inflow/(outflow) from operating activities	39,609	(25,801)

22 Notes to the consolidated cash flow statement (continued)

(b) Analysis of changes in financing during the year

	Share capital		Minority interests		Other loans		Bank loans		Pledged bank deposits	
	including premium									
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
At 1st January	421,713	30,000	-	-	-	-	14,548	-	(16,240)	-
Cash items:										
Issue of ordinary shares	-	420,000	-	-	-	-	-	-	-	-
Share issue expenses	-	(28,287)	-	-	-	-	-	-	-	-
New bank loans	-	-	-	-	-	-	62,040	14,548	-	-
Repayment of bank loans	-	-	-	-	-	-	(57,731)	-	-	-
New other loans	-	-	-	-	198,001	-	-	-	-	-
New bank deposits pledged	-	-	-	-	-	-	-	-	(225,900)	(16,240)
Withdrawal of bank deposits pledged	-	-	-	-	-	-	-	-	6,084	-
Contribution from minority shareholders on issue of shares from a subsidiary	-	-	4,900	-	-	-	-	-	-	-
Non-cash items:										
Minority interests' shares of profits	-	-	807	-	-	-	-	-	-	-
At 31st December	421,713	421,713	5,707	-	198,001	-	18,857	14,548	(236,056)	(16,240)

(c) Major non-cash transactions

During the year, the Group exchanged its shares in Shanghai Founder Yanzhong Science & Technology Group Limited, with a cost of approximately HK\$45,239,000, with a security house into 510,040 units of the PRC government bonds as short-term investments and an amount of approximately HK\$347,000 which was remained in the customer deposit account, under the name of the PRC subsidiary of the Company, in the security house as at 31st December 2001.

23 Contingent liabilities

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Guarantees for bank loans and banking facilities of subsidiaries	-	-	30,600	15,000
Guarantees for bank loan of a distributor	4,714	5,657	-	-
	4,714	5,657	30,600	15,000

Management anticipate that no material liabilities will arise from the above guarantees which arose in the ordinary course of business.

24 Commitments under operating leases

At 31st December 2001, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group	
	2001 HK\$'000	restated 2000 HK\$'000
Not later than one year	4,792	1,300
Later than one year and not later than five years	15,815	537
	20,607	1,837

The Company did not have any commitments at 31st December 2001 (2000: Nil).

25 Approval of accounts

The accounts were approved by the Board of Directors on 21st March 2002.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the annual general meeting of Yuxing InfoTech Holdings Limited (the “Company”) will be held at the Chater Room IV of The Ritz-Carlton Hong Kong, B1, 3 Connaught Road Central, Hong Kong on Monday, 13th May 2002 at 2:00 p.m. to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors and auditors for the year ended 31st December 2001;
2. to re-elect directors and to authorise the directors of the Company (the “Directors”) 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, pass the following resolutions as ordinary resolutions:

Ordinary Resolutions

4. **THAT:**
 - (a) subject to paragraph (c) of this resolution, pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”), the exercise by the Directors during the Relevant Period (as defined below) 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) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;
 - (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to (i) a Rights Issue (as defined below); 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% 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 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% 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 date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

“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 to eligible 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 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 during the Relevant Period (as defined below) of all powers of the Company to purchase its shares on the Stock Exchange or any other stock exchange outside Hong Kong on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong (“SFC”) and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the SFC, the GEM Listing Rules, the Companies Act 1981 of Bermuda and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

Notice of Annual General Meeting

- (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% 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 date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

6. **THAT:**

the Directors 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 in issue referred to in sub-paragraph (ii) of paragraph (c) of such resolution.

By Order of the Board

Yuxing InfoTech Holdings Limited

Zhu Wei Sha

Chairman

Hong Kong, 21st March 2002

Principal place of business in Hong Kong:

Unit 1808, 18th Floor

Tower III, Enterprise Square

9 Sheung Yuet Road

Kowloon Bay

Kowloon

Hong Kong

Notes:

1. A shareholder 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 shareholder 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 office of the Company's Hong Kong branch registrar, 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 the proposed resolutions nos. 4 and 6 above, approval is being sought from the shareholders of the Company for the grant to the Directors of a general mandate to authorise the allotment and issue of shares under the GEM Listing Rules. The Directors have no immediate plan 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 of the Company.
4. In relation to the 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 of the Company. An explanatory statement containing the information necessary to enable the shareholders of the Company to make an informed decision to vote on the proposed resolution as required by the GEM Listing Rules will be set out in a separate document to be despatched to the shareholders of the Company with the annual report for the year ended 31st December 2001.

Glossary of Technical Terms

“3098 processor”	developed by the Group in co-operation with Sunplus and used as the CPU of the Group’s computer VCD players, being a large scale integrated circuits 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 VCD players
“application software”	software that allows computer to possess different functions, such as word processing, databases and games
“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 set-top box”	a set-top box using the broadband internet access technology and equipped with Internet browsing and video-on-demand functions
“broadband video player”	a set-top box with a MPEG decoder to support video and audio applications on broadband Internet and provides video-on-demand function
“computer VCD player”	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
“DVD player”	digital video disk player that has MPEG II video decoding function
“educational application software”	a software with educational function and can be run in a disk player or a PC
“e-learning product”	electronic equipment especially use for running and playing educational application software
“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
“game VCD player”	a VCD player that can run game software

“IAMSDP”	information appliance multimedia software development platform, a technology developed by the Group for developing multimedia application software to enhance the functionality of information appliances
“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
“Mask ROM”	a type of ROM that can store a program or data
“middleware system”	a system provides a unified development platform for different base hardware and enables application software developers to easily develop application software, which are compatible to the Group’s hardware platform, on their PC platforms
“multimedia”	a combination of different communications tools such as sound, graphics, animation and video
“online stockbroker”	a set-top box with online stock trading function and provides online stock market information

Glossary of Technical Terms

“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
“platform”	a development environment for developing certain application software
“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
“Set-top box navigating system”	this is the user interface to guide end users going through all the functions and configurations of the set-top box
“slim DVD player”	a DVD player of thickness less than 55mm
“VCD”	video compact disc
“web-DVD player”	a device equipped with both regular DVD player 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 player”	a device equipped with both super VCD player and basic PC functions as well as some Internet-enabled functions such as Internet browsing, Internet chat, Internet games and email despatch
“wide voltage VCD player”	a VCD player that can function normally within a voltage range between 110V and 220V
“ZIVA4”	the MPEG 1/2 audio video decoding chip for DVD players
“ZIVA5”	the MPEG 1/2 video decoding chip for DVD players

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