Yuxing InfoTech Holdings Limited

裕興電腦科技控股有限公司*

(incorporated in Bermuda with limited liability)

2002 Annual Report

* for identification purposes only

IMPORTANT NOTICE

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CONTENT

CORPORATE PROFILE

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, manufacturing, marketing, distribution and sale of information appliances in the PRC. Through sales agents in many parts of the PRC, the Group sells VCD/DVD players, information appliances and e-learning products under "Yuxing" brandname. Currently, the sales network consists of over 5,000 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.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Zhu Wei Sha *(Chairman)*
Chen Fu Rong
Shi Guang Rong
Wang An Zhong

Independent Non-executive Directors
Wu Jia Jun
Zhong Peng Rong

COMPANY SECRETARIES

Di Yu Zeng
Lai Yang Chau, Eugene, *Solicitor*

QUALIFIED ACCOUNTANT

Wu Wai Ting, Wendy
Certified Practising Accountant of CPA Australia
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
(Sponsor's Agreement expired on 31st December 2002 pursuant to rule 6.01 of the GEM Listing Rules)

AUDITORS

Deloitte Touche Tohmatsu
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
Industrial and Commercial Bank of China
The Agricultural Bank of China

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PLACES OF BUSINESS

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

In the PRC
No. 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
Computershare Hong Kong Investor Services Limited
17th Floor Hopewell Centre
183 Queen's Road East
Hong Kong

STOCK CODE

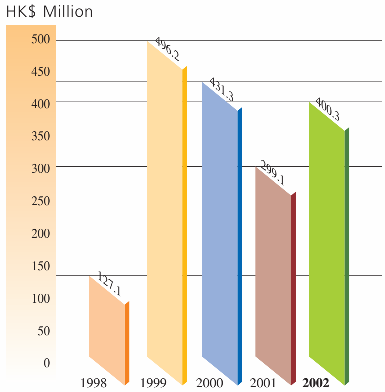
8005

FINANCIAL HIGHLIGHTS AND CALENDAR

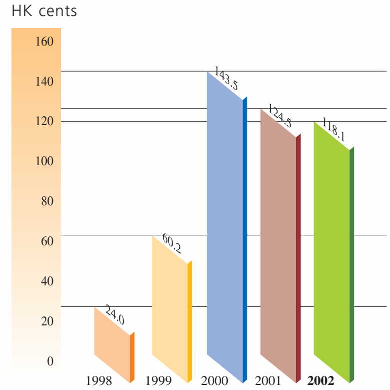
FINANCIAL HIGHLIGHTS

	2002 HK$'000	2001 HK$'000
Revenue		
Turnover	**400,296**	299,121
Profitability		
Loss from operations	**19,426**	71,493
Net loss for the year	**25,597**	76,233
Net worth		
Shareholders' funds	**472,220**	497,843
Per share		
Loss per share – Basic	**6.4 Cents**	19.1 Cents
Net assets per share	**118.1 Cents**	124.5 Cents

TURNOVER



NET ASSETS PER SHARE



FINANCIAL CALENDAR

Results for the year	Announcement on 24th March 2003
Annual Report	Despatched to shareholders in late March 2003
Annual general meeting	13th May 2003

OVERALL REVIEW

Although the economy of the PRC maintained a healthy growth in 2002, the global economy remained gloomy and recovered slowly. Under the continuing global economic recession, the overall demand for consumer products was sluggish. In respect of the electronic products market in the PRC, there was severe oversupply of electronic products and competition was increasingly intensive. Notwithstanding the severe environment, the Group has managed to improve its overall operating results amidst challenges and pressure.

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

Turnover of the Group for the year 2002 was approximately HK$400.3 million, representing a 33.8% increase as compared to last year. Gross profit amounted to approximately HK$23.2 million. The Group recorded a net loss of approximately HK$25.6 million, representing a significant improvement over a net loss of approximately HK$76.2 million for the last year. The year 2002 saw substantial improvements in both of the Group's operating results and quality of assets.

The results were attributable to the following factors. Firstly, effective adjustments were made to the Group's business and product structure. Dedicated efforts were put into upgrading the e-learning products during the year. The pre-launch adjustment and testing of new products have been completed. Although the new products were scheduled to be introduced to the PRC market in the fourth quarter of the year, in order to keep in pace with upstream enterprises, the introduction of the products was postponed until the second quarter of 2003. As the new information appliance products are in an initial stage of development, the turnover has yet to become substantial but a rapid growth on sales was recorded during the year. Newly introduced audio and visual products ("AV products") demonstrated more rapid growth and are still the core income stream of the Group's business. Secondly, the Group made a vast adjustment to its sales channels, strengthened its sales management system and reinforced the credit management of distributors of the Group. As a result, the operational risk on the whole was more effective control, cost of sales was further reduced and the level of operating assurance was further enhanced. This is the justification for a short-term slowdown in sales. However, the management improvement measures have undoubtedly laid a solid foundation for the Group's future development.

In response to the intense market competition and a more complicated business environment, the Group took the initiative to implement various improvement and adjustment measures. These proceedings are gradually taking effect.

During the year, the Group made a series of adjustments to the management structure and established a new set of internal operating procedures. Moreover, the Group carried out a series of management improvement measures including the formulation and implementation of the systems of planning, reporting, training and performance evaluation which accomplished a system of accountability for various positions. At the same time, we managed to further enhance our capability of quality control management and obtained accreditation from the National Quality Certification. As such, our management procedures have become more systematic and standardised. Regarding the Group's financial position, the lowering of the Group's inventory levels and trade receivables has resulted in an effective control of the operating and production costs. These measures strengthened the overall operation efficiency and established a solid foundation for the steady development of the Group in the long run.

ACHIEVEMENTS BY THE GROUP DURING THE YEAR

1. Achieving a breakthrough in the OEM business based on the expansion of production capacity

In early 2002, the Group acquired the 100% equity interest in Sheng Bang Qiang Dian Electronics (Shenzhen) Co., Ltd. ("Sheng Bang") for a consideration of approximately HK$3.4 million. After integrating the management and resources of Sheng Bang, benefits were realised in the expansion of production capability, reduction in production cost and accumulation of technology. The acquisition laid a solid foundation particularly in exploring overseas markets and the OEM market in the PRC and fostered the development of these business segments. Regarding the OEM business in the PRC, the Group stayed closed to the technology of upstream enterprises. The Group also entered into a research and development cooperation agreement with a world-renowned company and became its exclusive agent in the Asia Pacific Region to produce the new generation of laser-head cores for disc players at low cost. Installation and testing have been completed and the product will be launched in the PRC market during the first half of 2003. It is expected that the new product will have a promising future in the market. The OEM business of the Group achieved vast progress in the PRC as we received a large volume of purchase orders. For the fourth quarter of 2002, OEM bulk purchase orders for disc players have already amounted to a few hundred thousand. A satisfactory sign was also seen in the import and export business segment where the Group recorded bulk purchase orders for export to overseas markets comprising Japan, India and Southeast Asia. It is anticipated that sales will further expand in 2003 and boost the results of the Group correspondingly.

ACHIEVEMENTS BY THE GROUP DURING THE YEAR *(continued)*

2. Enriching the product lines based on accumulated technology

In 2002, the Group successfully launched various new super slim products including DVD players, super VCD players and VCD players with the incorporation of the super slim laser-head core technology and a standardised module production method. These new products were improved both in terms of appearance and practical functionality and won excellent remarks from domestic consumers and OEM customers as soon as they were introduced to the market. These product lines recorded a rapid growth in sales during the fourth quarter of 2002, which was a peak season, and have been the core support for the Group's business. At the same time, the research and development as well as related preparation works of the new generation e-learning products was also completed and ready for commercial production. It is expected that these products will be launched to the PRC market in the first half of next year. The new generation e-learning products have a synchronisation feature which caters to the practical needs of the education market in the PRC. Educational software is also installed as part of the package. Production of the educational software has been completed and it is expected that market response will be positive. The market for information appliance products have further matured and been refined. Sales volume demonstrated an upward trend, especially in the fourth quarter of 2002.

3. Adjusting sales channels and strengthening management improvement

The Group adopted numerous measures to adjust its sales channels in a year's time. Through its sales channel flattening measures, the Group achieved a substantial cut in its operating costs and strengthened the competitiveness of its products. A new selling and marketing pattern was formed in which the Group started to explore city markets in the PRC by obtaining direct control over city sales outlets and relying on regional distributors to oversee local markets. As such, the sales channels are able to enhance efficiency and respond more promptly to the needs of the market. Furthermore, the Group has tightened credit policy in the sales channels by price protection within a definite period of time and cash-based sales in order to reduce the financial risks of the Group. In addition, stringent agreements have been reached between the Group and its distributors to better define the rights and obligations of both parties so that the legitimate interests of the Group can be strictly protected.

In adjusting its sales channels, the Group developed and directly controlled its city sales outlets which, at present, have reached certain level of scale and contributed to nearly 10% of the Group's aggregate sales volume. A set of managerial and controlling measures on directly controlled city sales outlets has been formulated to provide systematic service support and business supervision. The Group introduced several disc player products particularly for sale in the city sales outlets and the response was encouraging. As a result of direct control over the city sales outlets, the Group succeeded in enhancing its efficiency, competitiveness and brand prestige. To summarise, the improvement in the management of sales channels was obvious. Sales management has become more standardised and organised while continuously improving the capability of the Group in monitoring regional sales and product sales which, in turn further reinforcing the capability of the Group's sales management.

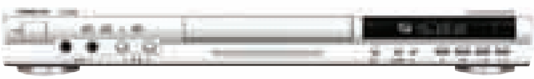
CHAIRMAN'S STATEMENT

OVERALL PROSPECTS

Looking forward into 2003, the Group will continue to face a more complex business environment and intensified market competition. Nevertheless, we will further explore new business opportunities, strengthen our OEM business and import and export business, foster our corporate management and improve working efficiency. Leveraging on its solid foundation in research and development, the Group will continuously introduce new products under three major categories, namely AV products, e-learning products and information appliance products designed to cater to the changing demand of the PRC market. In addition, the Group will reinforce its sales channels and revamp its brand image in order to boost up the revenue from its principal businesses.

In 2003, the Group plans to undergo substantial realignment in its business structure to seek product structure optimisation, industry upgrade and product upgrade. In Shenzhen, Sheng Bang, as a production base of the Group, will expand its production scale. In the first quarter of 2003, it is anticipated that the Group will, by conducting research, development and production of AV products, procurement of raw materials and production of related parts and components under the brand name of "盛邦光電", further expand its OEM business and exports. In particular, for its OEM business, the Group will continue to cooperate with world-renowned manufacturers and keep abreast of technology updates in an attempt to integrate with the upstream industry. The integration will enlarge its scale in the production of parts and components so as to establish a foothold in the disc player production arena. As to its exports, the Group will keep expanding its markets in Japan, India and Southeast Asia and will dedicate its efforts to achieve a substantial growth in trade volume. In Beijing, Golden Yuxing will act as the flagship of the Group for marketing the products of the Group, engaging in the research and development of the new generation e-learning and information appliance products and leveraging on the "Yuxing Digital" brand name to set up a sales base for the Group's products. In short, in order to enhance efficiency and to form optimal scales for competition, the Group segregated the two aforesaid businesses and has kept separate books and accounts for each of them.

In 2003, the Group will fully utilise its competitive strengths to achieve certain breakthroughs. First of all, the Group will launch the new e-learning products to the PRC market as soon as practicable to replace of the older versions. The new generation e-learning products will boost the market competitiveness of the Group's products, accelerate sales and marketing, and promote the development of the Group. The growth of AV products is also expected to be fast. Following the launch of various new products in 2002, the Group will apply the digital AV products for use in multi-media teaching at schools in 2003. This will not only enrich methods of teaching, but also widen the application of digital AV products. Pre-launch preparation including market research, production of auxiliary teaching software and other relevant preparation work has all been completed. It is expected that the sales of digital AV products will rise substantially in 2003, bringing in enormous market return. For information appliance products, after a year of exploration, the business model has been established. Furthermore, the sales volume of broadband set-top box products is steadily increasing and a better result is anticipated.



The Group will continue to strengthen its corporate management, implement measures to improve the effectiveness of sales channels, reinforce direct monitoring on regional markets, consolidate existing network of regional distributors, enhance selling and marketing capability and refine the after-sale service policy to ensure the quality of customer services. The rapid growth of DVD player products in the PRC offers a golden opportunity for the Group. In respect of its sale of DVD products, the Group is set to further consolidate and boost its market position in big cities. It will also expand its market coverage to small and medium cities and eventually tap into markets in village localities. With these strategies, the Group anticipates new momentum for further development after its market consolidation and exploration.

The Group will continue its existing businesses and the directors of the Company (the "Directors") will conduct a review of the financial position and operations of the Group with a purpose to further strengthening the current operations and formulating the future development of the Group. Upon such review, the Company will consider proceeding through the Group, with investments which complement or add value to the business of the Group, in the interests of the Company and its shareholders as a whole. The Group will also capitalise on new opportunities in its current business under the three major categories of AV products, e-learning products and information appliance products. The Group currently has no specific projects in respect of such new investments or opportunities.

All in all, I firmly believe that with the dedication of our staff, the launch of innovative state-of-the-art products and the implementation of various management improvement measures mentioned above, togethered with the recovery of the global economy and the continuous growth of the electronic products market in the PRC, the Group's results is set to improve. Leveraging on our research and development capability and technological know-how accumulated over years, innovative ideas in product development and the strengthened competitiveness through management improvement measures, the management of the Group will work closely with our staff to capitalise on the growth and expansion opportunities upon the introduction of new products. We will strive for satisfactory results in the year ahead to reward shareholders for their support.

Zhu Wei Sha
Chairman

Beijing, the PRC, 24th March 2003

GROUP FINANCIAL SUMMARY

CONSOLIDATED RESULTS

For the year ended 31st December

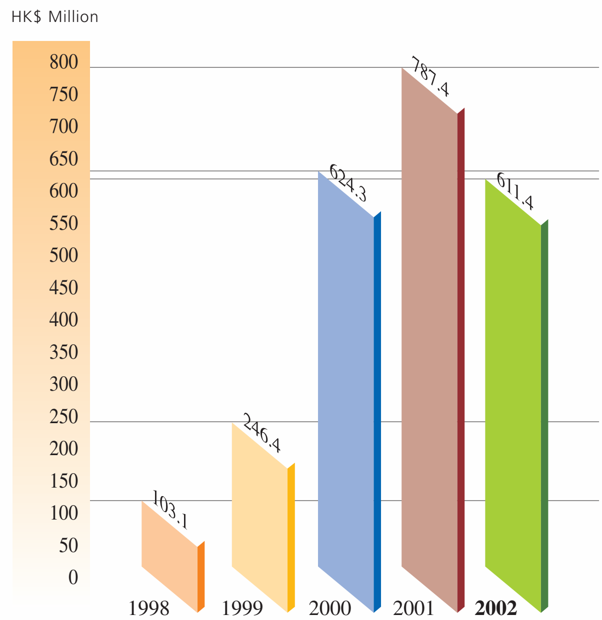
	2002	2001	2000	1999	1998
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**400,296**	299,121	431,342	496,157	127,118
(Loss)/profit before taxation	**(24,093)**	(75,077)	40,978	162,961	51,972
Taxation	**(507)**	(349)	–	(53,930)	(17,859)
(Loss)/profit before minority interests	**(24,600)**	(75,426)	40,978	109,031	34,113
Minority interests	**(997)**	(807)	–	–	–
Net (loss)/profit for the year	**(25,597)**	(76,233)	40,978	109,031	34,113

CONSOLIDATED ASSETS AND LIABILITIES

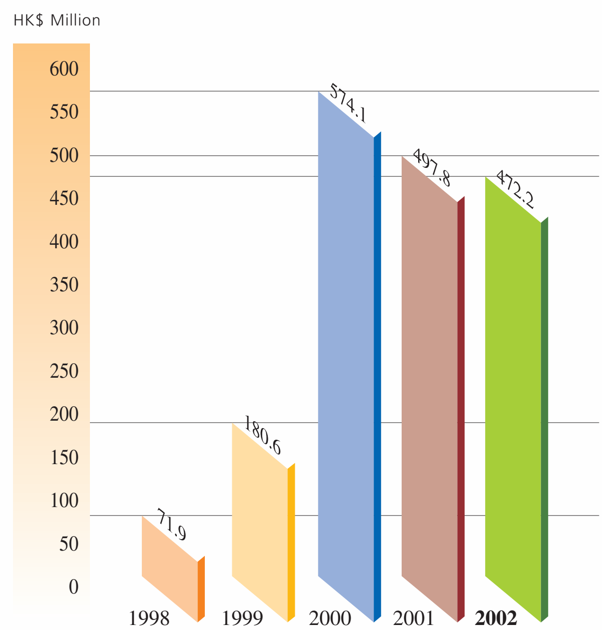
As at 31st December

	2002	2001	2000	1999	1998
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**611,359**	787,414	624,289	246,387	103,086
Total liabilities	**(132,819)**	(283,864)	(50,237)	(65,757)	(31,217)
Minority interests	**(6,320)**	(5,707)	–	–	–
Shareholders' funds	**472,220**	497,843	574,052	180,630	71,869

TOTAL ASSETS



NET ASSETS



FINANCIAL REVIEW

Turnover and Gross Profit

Turnover of the Group for the year increased by 33.8% to approximately HK$400.3 million, as compared to last year. The Group recorded a gross profit of approximately HK$23.2 million for the year as compared to a gross loss of approximately HK$11.3 million last year. This was attributed to the emerging effects of the Group's management improvements and cost control measures.

Operating Results

Other Operating Income

Other operating income increased to approximately HK$28.6 million (2001: HK$23.1 million) which was mainly due to an appreciation in the market price of the PRC government bonds as at 31st December 2002. In order to take advantage of the rising bond price and enjoy a higher bond interest rate as compared to the relatively lower interest rate for bank deposits, the Group invested in the PRC government bonds during the year. As at 31st December 2002, the Group's government bonds worth a market value of approximately HK$76.5 million (2001: HK$252.9 million).

Operating Expenses

The Group managed to improve its operations during the year. A decrease in the advertising and promotion expenses and a well-received launch of the latest products both drove down the overall selling expenses to approximately HK$23.1 million (2001: HK$46.2 million).

As the sales channels have been flattened and the market competition has intensified, the financial position of some of the Group's distributors deteriorated. This unfavourable situation led to an increase in allowance for bad and doubtful debts (which was included in general and administrative expenses) to approximately HK$9.8 million (2001: HK$3.0 million).

Finance Costs

Finance costs increased to approximately HK$4.7 million (2001: HK$3.6 million). The increase was mainly due to the drawdown of several bank loans for the operation of the Group, of which a loan in the amount of approximately HK$198.0 million (RMB210.0 million) was fully repaid during the year.

FINANCIAL REVIEW *(continued)*

Net Loss for the Year

Net loss for the year of approximately HK$25.6 million was recorded, representing a significant improvement over a net loss of approximately HK$76.2 million for last year. The financial position of the Group has improved gradually.

Liquidity, Charge on Group Assets and Financial Resources

As at 31st December 2002, the Group had a net current assets of approximately HK$458.1 million. The Group had cash and bank deposits totalling approximately HK$238.0 million, of which approximately HK$37.1 million were pledged with two different banks for banking facilities. Short-term bank loans reached approximately HK$29.2 million which represented short-term loans of approximately RMB31.0 million granted by a PRC bank to Golden Yuxing at an average interest rate of 4.9% per annum. Taking into consideration of the existing financial resources available to the Group, it is anticipated that the Group would have adequate financial resources to meet its ongoing operating and development requirements.

Save for the short-term loans disclosed herein, the Group had no long-term financing as most of the Group's financial resources were funded by its shareholders' funds. As at 31st December 2002, the Group's gearing ratio, representing total interest-bearing liabilities divided by shareholders' funds, was 6.2% (2001: 43.6%).

Capital Structure

The shares of the Company were listed on GEM on 31st January 2000. There has been no change in the capital structure of the Company since that date.

Significant Investments/Material Acquisitions and Disposals

For the year 2002, the Group had acquired 100% equity interest in Sheng Bang at a consideration of approximately HK$3.4 million. Other than that the Group had no significant investments and no material acquisitions or disposals.

FINANCIAL REVIEW *(continued)*

Segment Information

Due to the intensive competition of the information home appliances market in the PRC, the Group's external sales of the information home appliances for the year decreased significantly by 25.6% as compared to last year to approximately HK$155.0 million and an operating loss of approximately HK$25.0 million was incurred.

The Group's external sales of integrated circuits was mainly contributed by Hi-Level Technology Limited, a 51% owned subsidiary of the Group, which had been fully operating since March 2001. The Group's external sales of integrated circuits for the year increased by 195.0% to approximately HK$236.1 million as compared to last year with an operating profit of approximately HK$2.0 million incurred.

Geographical markets were mainly located in the PRC with an significant increase in turnover of 34.3% to approximately HK$374.3 million as compared to last year.

Exposure to Fluctuations in Exchange Rates

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 believes that Renminbi will remain relatively stable in the foreseeable future, it will increase the proportion of Renminbi-denominated financial assets to minimise the downside of exchange risk. No hedging or other alternative measures have been implemented by the Group. As at 31st December 2002, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

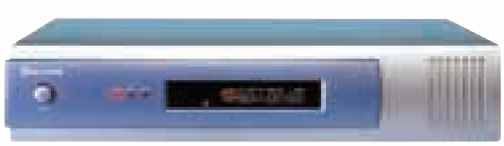
Human Resources

As at 31st December 2002, the Group had over 860 employees, of which 15 were based in Hong Kong and the rest were in the PRC. For the year ended 31st December 2002, staff costs (including Directors' emoluments) amounted to approximately HK$20.9 million (2001: HK$20.0 million). All employees of the Group's subsidiaries are selected and promoted based on their suitability to the position offered. The salary and benefit levels of the Group's employees are in line with that of the market. Employees are rewarded on a performance-related basis within the general framework of the Group's remuneration system which is reviewed annually. In addition to basic salaries, staff benefits include medical scheme, various insurance schemes and share options.

BUSINESS REVIEW

The year under review saw an increase in profit margin of the Group as well as its total turnover. The results were attributable to the enhancement of the management and continual implementation of various measures. Golden Yuxing and Sheng Bang, the PRC wholly-owned subsidiaries of the Group, underwent business segregation and started to keep separate books and accounts. These adjustments have clearly outlined the operation flow and further defined the operational procedures, the implementation of the accountability mechanism, resulting in the improvement in both work quality and efficiency. With the new organisational management structure, the Group established a mechanism of planning, reporting, training, performance evaluation and corresponding management practices. During the year, these policies had been improved and refined and achieved the desired effect. In addition, financial management of the Group has been boosted. In line with the increasing level of internal financial auditing, the Group established a customer credit management system and the inventory management system to strengthen its cost control and regulate the system risks of business operations, thereby ensuring the healthy development of the Group.

Strengthened production capability and expanded scale of production. After the acquisition of the entire equity interest in Sheng Bang in 2002 and under nearly a year of management improvement and resource integration, Sheng Bang is now capable of manufacturing laser-head cores in addition to disc players. Given this advancement, the Group's production capability of parts and components was substantially enhanced, which continuously drives the Group to develop the upstream industry. In light of the on-going expansion of production scale, the Group achieved industry integration and product diversification and achieved operation efficiency amidst intense competition in the market.



Launched various new AV products leveraging on its technological expertise. The Group took the lead in utilising super slim laser-head core technology in the PRC to launch various new models of DVD players, super VCD players and VCD players. These new products, with trendy appearance and advanced practical functions, were well received by the market during the peak seasons and became the core products of the Group's principal business. As a whole, a steady growth in the demand for DVD products in the PRC market can be foreseen. In view of this opportunity, the Group will leverage on its accumulated technological know-how and take full advantage of the competitive edge of its existing new products to facilitate its sales and marketing work as well as achieve better results in its principal business.

The gradual expansion of sales of broadband set-top box showed an optimistic development. For the year 2002, sales of the Group's broadband set-top boxes recorded growth in every quarter. The price competitiveness and high quality of the product have won excellent remarks from customers since its introduction to the market. In late 2002, the Group launched the latest broadband set-top box products as scheduled. The latest products are cheaper, catered more for the needs of consumers and enable easier operation. On the other hand, the cooperation with a well-known Hong Kong communication operator had resulted in substantial progress. The initial stages of joint experiments and trial production have been completed and it is expected that the cooperation will be mutually beneficial. At the same time, the new generation of products are in their testing stage and will soon be launched into the PRC market. These new products are installed with an electronic programme menu function, which enables selection of particular TV programmes, pre-set, timer setting and broadcasting alert. These products will cater more to the needs of the general public and the growing demand for customisation.

BUSINESS REVIEW *(continued)*

Introduction of new generation e-learning products. As to e-learning products, the Group has built up its technological know-how, research capability, brand name and image over the years. Due to the challenges from personal computer in recent years, the Group introduced a new generation of e-learning products to replace the older versions during the year. After more than a year of research and development as well as market research in the PRC, our new generation e-learning product – Mobile Classroom (移動課堂), has been completed and is expected to be launched next year. This new product is equipped with a synchronisation feature and a gigantic memory space to let students "attend classes at home". The classes are taught by famous teachers in the PRC. Students can obtain high quality education at a lower cost. This new product is an innovation of the Group and the intellectual property rights belong to the Group. This brand new e-learning product is another creation of the Group with strong market potential after the development of the computer VCD players previously launched.

The Group will incorporate educational content into its digital AV products and information appliance products. Given the price competitiveness, quality competitiveness and all-rounded functions, the above two principal products will be further promoted to the education arena to achieve multimedia teaching at schools.

Strengthened sales management and implemented sales channel improvement. During 2002, in order to further intensify sales management, reduce sales costs and enhance market efficiency, the Group adjusted and flattened its existing sales channels. Distributors were reduced to one layer and direct control and management over the sales outlets in major cities of the PRC were implemented. To this end, the Group established sales branches in five major cities, including Nanjing, Shenyang, Changsha, Chongqing and Jinan, the PRC. At the same time, sales management offices were also established in Zhengzhou, Chengdu, Taiyuan, Wuhan, Hangzhou and Fuzhou, the PRC. This extended the coverage of the Group's network, which was made up of sales channels and market service systems directly managed and controlled by the Group servicing almost all the major regional markets throughout the PRC. The branches have started to play an active role in developing regional markets, by directing regional sales as well as upgrading product brand image and competitiveness. On the other hand, the Group's intention to supply products directly to city sales outlets in the PRC has been realised. To date, there are more than 100 city sales outlets which have their supply directly procured from the Group. As such, the Group achieved compression of its sales layers in the PRC and effectively reduced its sales costs, thereby enhancing the competitiveness of the Group's products in major cities in the PRC. In 2002, the introduction of various new products enriched our product lines, but at the same time made it more difficult for sales management. Therefore, the Group refined the job duties during the sales processes, established various management systems, implemented the accountability mechanism, better defined operational procedures, and boosted working efficiency. The Group has basically accomplished adjustments to its sales channels and changes of sales and marketing models. Our mission ahead will be to consolidate this foundation and seek further improvement.

BUSINESS REVIEW *(continued)*

Established a corporate image and conducted brand improvement. In 2002, the Group basically completed the improvement in respect of the Group's brand name. In line with its overall sales strategy, the Group dedicated more effort to build its image in city sales outlets in the PRC, including advertising, sales promotion and so forth. The aim was to standardise the Group's image, revamp its brand name and promote sales. The Group adopted a strict approach in standardising its brand image and strived to reinforce its favorable brand name effect in its business operations.

Established a new market service system which made after-sales services more systematic, regulated and economical. To date, the Group has more than 200 after-sales service centers located all over the PRC. We provided our staff with technical training programmes and this remarkably improved their service quality, response time and customer relations. In line with a reduction in service costs, the Group established a standardised service system. Meanwhile, for the purpose of improving customer relation management, the Group constructed a computerised database of customers which will keep data up to date so that service workflows will be optimised and efficiency will be enhanced.

Obtained the ISO9000 Certification. The quality control system of the Group has been implemented since the beginning of 2002. The Group passed the on-the-spot examination of the China Certification Center for Quality System of Electronics and obtained the ISO9000 Quality Management System Certificate in November 2002. This accreditation will help the Group in standardising and regulating its management. It also reflected the fact that the quality management system of the Group had reached the level attained by advanced enterprises.

USE OF PROCEEDS

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 have developed and been transformed in a manner substantially different from that envisioned by the Group's forecast given the market situation at the time of the preparation of the Company's prospectus dated 25th January 2000 (the "Prospectus"). Therefore, the Company had decided not to follow the original development and marketing timetable in the Prospectus and the board of Directors (the "Board") accordingly adjusted, amended and postponed certain sizeable research and development, marketing and promotional plans 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 2002 is as follows:

		Amount stated in the new plans of the Board as per Annual Report 2000 (HK$ Million)	Proceeds already applied during the period from the date of listing to 31st December 2002 (HK$ Million)	*Notes*
Scheduled projects:				
1.	Research and development of information application multimedia software development platform ("IAMSDP") in 2000 and 2001	3	3.52	
2.	Research and development and promotion of a series of DVD products in 2000 and 2001	15	7.89	*1*
3.	Promotion of a series of VCD products in 2000 and 2001	65	52.11	*2*

		Amount stated in the new plans of the Board as per Annual Report 2000 (HK$ Million)	Proceeds already applied during the period from the date of listing to 31st December 2002 (HK$ Million)	*Notes*
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	5.27	*3*
5.	Research and development and general promotion of educational computers in 2000 and 2001	1	1.48	
6.	Research of advanced digital video graphic and broadband Internet access technology in 2000 and 2001	2	3.64	
7.	Purchase of testing and research and development related equipment from 2000 to 2002	4	1.21	
8.	Development of application software and the purchase of copyrights from 2000 to 2002	3	2.60	
9.	Expansion of the Group's distribution and sales network in 2000 and 2001	50	32.92	*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	5.67	*1*

		Amount stated in the new plans of the Board as per Annual Report 2000 (HK$ Million)	Proceeds already applied during the period from the date of listing to 31st December 2002 (HK$ Million)	*Notes*
12.	General working capital for maintaining the day-to-day operations of the Group from 2000 to 2002	188	8.21	
13.	Establishment of distribution business for electronic components in 2001 and 2002	20	5.61	
14.	Acquisition of production plant and purchase of production equipment in 2002	–	8.57	*5*
	Total	392	142.95	

Notes:

1. Since the DVD market of the PRC was in its preliminary stage, the Group did not commit as much resources as expected. The project has not been progressing as quickly as originally expected but has been extended.

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 in the PRC.

3. The Group intends to conduct research and development as well as promotion of novel e-learning products with enhanced functions in accordance with the development of the PRC market; therefore, the time for utilisation of the funds for such project was extended and the commitment for promotion of the existing products was likewise reduced.

4. Since 2001, the Group strengthened the management and supervision of its sales channels and the training of the personnel therein. At the same time, the Group 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 funds injected for the sales network. As a result, the fund applied by the Group for the establishment of sales network was less than originally anticipated.

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 decided to apply proceeds of approximately HK$10 million at the end of 2001 to acquire Sheng Bang, a production plant in Shenzhen, and to 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 or engage in short-term investments with higher returns for its shareholders.

Set out below is a comparison between the Group's actual business progress for the year ended 31st December 2002 and its business objectives as set out in and extended from the Prospectus.

Business objectives as set out in and extended from the Prospectus for the year ended 31st December 2002:	Actual business progress for the year ended 31st December 2002:

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

Enhancing the technical capability of IAMSDP, and developing other multimedia software development tools to meet the demands for a wide-range of information appliances	The Group achieved various breakthroughs in the application technology of IAMSDP. Among others, a new compact disc standard has been formulated, which integrates the interactive function of VCD 2.0, the high compression technology of voice data for use in MP3 applications and high compression technology of graphical data for use in JPG applications. This new application technology allows the Group to store tens of hours of education content in one compact disc, surpassing the current storage limit of a VCD. Given this advancement, the Group has successfully developed e-learning products and developed a proprietary software development tool, which is user-friendly and highly efficient. Furthermore, a series of software based on the DVD technology platform of the Group has been launched into the market. However, the varieties of such products have yet to be expanded.

Business objectives as set out in and extended from the Prospectus for the year ended 31st December 2002:	Actual business progress for the year ended 31st December 2002:

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

Continuing its ongoing research and development to launch new models of computer DVD player products with more advanced application technology

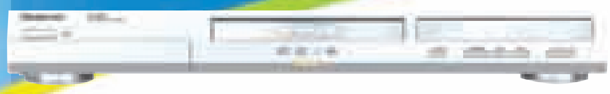
In the first half of 2002, the Group launched two new models of DVD players. The first was a multi-function DVD player with the incorporation of Internet access, game and e-learning functions while the second was a "flip-open" DVD player. Both products drew extensive market attention. The Group adopted super slim core technology in all of its AV products. Such technology takes a leading position in the PRC and is believed obtains a competitive edge throughout the world. In respect of research and development, standard designs and components were adopted, which greatly enriched the variety of products and satisfied the diversified demand from the market. In 2002, the sales of DVD players of the Group increased steadily.

Moreover, in response to the demand from the PRC information appliance market, the Group also launched a variety of new broadband set-top box products. Through the cooperation with telecom operators and system facility suppliers in the PRC, the Group established new broadband community experimental networks in Zhengzhou City of Henan Province, the PRC and Zhenjiang City of Jiangsu Province, the PRC. As the broadband set-top box products of the Group are widely used in karaoke lounges and hotels in the PRC, such market segments have in turn become important sectors for promoting such products. Meanwhile, based on the Group's accumulated experience in promotion of the broadband set-top box products, the Group will actively extend its sales of the broadband set-top box products to the education sector in the PRC with an aim to create multimedia classrooms. The Group is now in a process of negotiating with some educational institutions in the PRC to explore cooperation opportunities.

Business objectives as set out in and extended from the Prospectus for the year ended 31st December 2002:	Actual business progress for the year ended 31st December 2002:

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

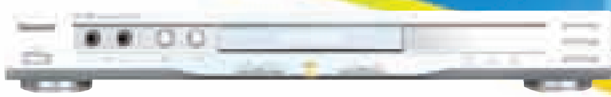
Developing at least 100 sets of multimedia application software annually to be applied and installed in the hardware manufactured by the Group	Currently, the Group has completed the development of a series of entertainment software and English learning software with high compression capacity. The multi-platform feature of these products enables them to be compatible with a wide array of information appliances manufactured by the Group. Owing to the successful open of the source code of the Group's middleware system, application software developers can develop and supply a considerable quantity of application software which are compatible with the Group's hardware platform. In such regard, the efficiency of the software development has improved and the Group's resources have correspondingly saved. As at the end of 2002, the Group has been cooperating with more than 30 software developers to develop over 50 supportive application software that are compatible with the hardware platform manufactured by the Group.



Business objectives as set out in and extended from the Prospectus for the year ended 31st December 2002:	Actual business progress for the year ended 31st December 2002:

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

Reviewing the latest trend in the market for educational computers in the PRC and offering a comprehensive range of other information appliances with an aim to enhance the penetrating rate into the education sector in the PRC	Due to changes of market demand in the PRC, the Group's educational computers gradually faded out from the market. In order to launch new substitute products, the Group accomplished the planning and research and development of the new generation e-learning products during the year. The new generation products with the high compression technology of voice data for use in MP3 application and the high compression technology of graphic data for use in JPG application, enable the Group to realise e-classmate teaching at a low cost but with large capacity. During the same period, the production of a large number of supportive educational software was completed. These software can narrow the gap among the teaching levels in different districts and relieve the shortage of qualified teachers in the PRC. In addition, in order to boost the sales of its existing computer VCD player products, the Group collaborated closely with educational content providers and well-known educational software developers in the PRC to strengthen the synchronisation feature into its computer VCD player products. A variety of educational aids software as complementary tools for secondary and primary school textbooks were completely developed by the Group and launched into the market. These software have proved to receive good market response and maintain a stable sales performance.



Looking ahead in 2003, the Group will be confronted with more drastic market competition and a more complicated business environment. However, with the enormous market opportunities brought on the launch of new products by the Group, the management and the staff of the Group are confident that they will be able to do a good job in all aspects, build up a good corporate image and further improve the Group's operating results.

Implementing various measures to uplift the modernisation level of the management of the Group. In 2003, a variety of management measures will be implemented within the Group. First of all, management planning will be introduced. Annual plans of the Group will be implemented on a monthly basis so that the tasks of each department and its staff are better defined and carried out. Secondly, the reporting policy will be put in full operation. Employees of the Group will be required to report their work plan and submit their work progress reports to their respective head officers on a regular basis. Furthermore, the training system will be further reinforced. Experts in the relevant fields will be invited to conduct regular training programs to employees. This will play an important role in enhancing the quality of our staff. At last, a performance evaluation system will be established to assess, on a quarterly basis, the staff in respect of their fulfilment of work tasks and work plans. The establishment and introduction of these new management systems have great significance for improving working efficiency and fostering development of the Group.

Adjusting the Group's product structure and boosting its industry upflow. In 2003, the Group will continue to launch various new products in its three major product lines, namely AV products, information appliance products and e-learning products. These new products will be improved in terms of both appearance and function, which will satisfy the diversified demands in the PRC market. Especially for the new generation of e-learning products, the Group will strengthen its marketing and promotion efforts to establish its leading position in the area of e-learning products. Meanwhile, the Group plans to add educational content and teaching functionality to its digital AV products and information appliance products. By realising multimedia teaching in schools at a lower cost, the Group's products will see a wider scope of application. In addition, the Group's cooperation with upstream manufacturers will provide a momentum for the Group to develop in the upstream direction of the industry. It is anticipated that the Group will launch the laser-head cores for its DVD and VCD players in the first half of 2003. To date, the preliminary work for the project has been completed. In addition to the continual adjustment to its product structure, the Group is heading towards the more sophisticated arena of the industry, marking a strategic development of the Group.

As regards AV products, tremendous consumption potential is seen in the market of DVD products in the PRC and its sales volume is expected to grow in a steady manner. Given the gradual drop in its prices, market sales will further penetrate into small and medium cities as well as counties in the PRC. The advantage of the Group's existing sales channels will manifest.

Consolidating and improving the result of sales channel adjustment to achieve overall enhancement in marketing ability. It is anticipated that the total demand, in terms of quantity, for DVD players in 2003 will record 25% growth as compared with that in 2002 (according to the China Center for Information Industry Development) to reach approximately 6,000,000 DVD players. It poses a challenge and yet provides an opportunity for the Group. After more than a year of adjustment in sales channels, the Group has achieved the goal of better adaptation to the PRC market and lowering cost of sales. In 2003, the objective of our work will be focused on consolidating and improving our sales channels. Further refinement of our marketing management planning will be the key.

In 2003, more new products will be launched to enrich our product lines, but at the same time it also brings us a greater difficulty in marketing management. As such, it is necessary to take measures to refine our marketing and sales channels according to product categories so that the existing sales channels can more promptly respond to the changes in the market. Meanwhile, it is the Group's intention to strengthen regional sales management and to seek sales management improvement in the subordinate branches. This would facilitate the sales of new e-learning products, AV products and information appliance products and also improve our services quality. By fully understanding and controlling the marketing plans of subordinate branches, conducting regular trainings to sales personnel, and performing more comprehensive performance assessment on the implementation and execution of various systems and plans, the marketing capability of our sales channels will be boosted.

Continuation of efforts to boost our brand image for all the relevant products effectively. Looking at the overall development of the PRC market, price wars will continue to exist and remain intensive. However, with further reduction in the costs of hardware for disc players, the difference in hardware costs among different manufacturers will gradually diminish. Therefore, marketing strategies and approaches will be the key to success amidst the fierce competition. In the meantime, competition among manufacturers will hardly be a matter of price but will turn to the areas of quality, functionality and appearance. Brand name, image, promotion arrangement and after-sale service will also be the arrays of competition. In 2003, the Group will strengthen its marketing and promotion efforts in the PRC market in conformity with its overall marketing strategy. The key objective of brand building is to establish the image of "Yuxing" as an innovator in the e-learning products market in the PRC, strengthen its image as a market leader in information appliance products and maintain its image as an active competitor in the AV product market. Meanwhile, the Group will strengthen its image building activities for the city sales outlets which are under its direct control in the PRC, establish its new image for those without image construction, and renovate the image for the older outlets in order to standardise its market image as such. Efforts will also be put in to enhance brand recognition, boost the sales of products by various means and expand sales volume with a view to improve the operating results of the Group.

EXECUTIVE DIRECTORS

Mr. Zhu Wei Sha, aged 48, is a co-founder of the Group. He 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 Shanchuan Jinji Technology Company. He is a committee member of the Political Consultative Committee and Democracy and Constructive Alliance in Beijing. Mr. Zhu has an extensive experience and insights in corporate management and operation as well as solid technological background. He also has an in-depth understanding of the growth of a corporation by combining the concept of both capital investment and business operation. He has accumulated years of successful experience in this regard. Mr. Zhu is currently a director of Super Dragon Co., Ltd. ("Super Dragon") which holds a 41.25% shareholding in the Company.

Mr. Chen Fu Rong, aged 42, is a co-founder of the Group. He 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. Mr. Chen possesses 11 years' experience in research and development and engineering management. Mr. Chen is currently an executive president of Sheng Bang, a wholly-owned subsidiary of the Group and is a director of Super Dragon.

Mr. Wang An Zhong, aged 46, is an 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. He is currently in charge of operations of Golden Yuxing as Vice President-Operations.

Mr. Shi Guang Rong, aged 42, has been an executive 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 various enterprises in the PRC. 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 Yuxing Technology Company Limited, a wholly-owned subsidiary of the Group in Hong Kong and is a director of Dragon Treasure Ltd. ("Dragon Treasure") which holds a 33.75% shareholding in the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Wu Jia Jun, aged 70, 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 indepth 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 48, 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 42, is the director of investment division of the Group. 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 33, 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 41, 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. Mr. Sun is currently a director of Dragon Treasure.

Mr. Feng Pei Ran, aged 36, 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 and is currently the Vice President-Marketing of Golden Yuxing.

Miss Wu Wai Ting, Wendy, aged 30, is the finance manager of the Group. She is a graduate of the Australia Monash University with a master degree in Practising Accounting and holds a bachelor degree of business (International Trade). Miss Wu is a Certified Practising Accountant of CPA Australia and an associate member of the Hong Kong Society of Accountants. She has five years' experience in accounting and finance. Miss Wu joined the Group in March 2000.

The Directors have pleasure in submitting to shareholders their report together with the audited financial statements for the year ended 31st December 2002.

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 31 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 39.

The Directors do not recommend the payment of a dividend for the year.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 42 and note 24 to the financial statements respectively.

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 financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 22 to the financial statements.

DISTRIBUTABLE RESERVES

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

At 31st December 2002, the reserves available for distribution to shareholders is HK$107,910,000 (2001: HK$163,768,000) which represents the net of contributed surplus of HK$146,000,000 (2001: HK$146,000,000) and accumulated loss of HK$38,090,000 (2001: retained profits of HK$17,768,000).

PRE-EMPTIVE RIGHTS

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 10.

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

Particulars of the Company's share option scheme are set out in note 23 to the financial statements.

The following table discloses movement in the Company's share options held by an Executive Director during the year.

			Number of share options			
Director	Exercise price per share HK$	Exercise period	At 1st January 2002	Granted during the year	Exercised during the year	At 31st December 2002
Mr. Wang An Zhong	0.95	28th November 2001 – 27th November 2005	1,000,000	–	–	1,000,000

Other than as disclosed above, at no time during the year was the Company, or its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the chief executives, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out on pages 27 and 28.

DIRECTORS

The Directors during the year and up to the date of this report (24th March 2003) 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

In accordance with bye-law 87 of the Company's bye-laws, Mr. Chen Fu Rong retires by rotation and, being eligible, offers himself for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years from 7th October 1999 (which is automatically renewed upon expiry for successive terms of one year) subject to termination on or after 7th October 2002 by either party given not less than 6 months' notice in writing expiring at the end of the initial term of the relevant service contract or at any time thereafter.

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, no Director 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

Save as 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY

At 31st December 2002, the interests of the Directors and their associates 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 which are required, pursuant to rules 5.40 to 5.59 of the Rules Governing the Listing of Securities in the Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

	Number of ordinary shares of HK$0.10 each of the Company held			
Name	**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 held 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 approved by the shareholders of the Company on 18th January 2000. 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. Details of the share options granted are disclosed in the section "Share Options" of this 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 2002, 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 held	Percentage of holding
Super Dragon *(Note 1)*	165,000,000	41.25%
Dragon Treasure *(Note 2)*	134,528,000	33.63%

Notes:

1. Super Dragon is 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 equity" of this report.

Saved as disclosed above, the Company has not been notified of any other interests representing 10% or more of issued share capital of the Company as at 31st December 2002.

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

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

Purchases	
– the largest supplier	42.0%
– five largest suppliers combined	63.4%
Sales	
– the largest customer	15.0%
– five largest customers combined	50.2%

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 and major customers 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 Company established an audit committee (the "Committee") on 20th November 1999 with written terms of reference in compliance with rules 5.23, 5.24 and 5.25 of the GEM Listing Rules.

The Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external 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 as the chairman of the Committee. 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 during the year.

SPONSOR'S INTERESTS

Neither the Company's former sponsor, ICEA Capital Limited ("ICEA"), or current sponsor of the Company, TIS Securities (HK) Limited ("TIS"), nor their associates obtained any material benefit as a result of the listing of the Company on the GEM of the Stock Exchange, other than by sponsor agreements entered into between the Sponsors and the Company, pursuant to which the Sponsors received, fees for acting as the Company's retained sponsor.

As updated and notified by TIS, since its appointment on 16th March 2002:

(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 share options or rights to subscribe such securities);

(2) no director or employee of TIS who is involved in providing advice to the Company has an interest in any class of securities of the Company or any other company in the Group (including share options or rights to subscribe such securities); and

(3) no director or employee of TIS has a directorship in the Company or any other company in the Group.

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.

AUDITORS

During the year, Messrs. PricewaterhouseCoopers, who acted as auditors of the Company for the past three years, had resigned on 9th July 2002 and Messrs. Deloitte Touche Tohmatsu was appointed as auditors of the Company on 16th August 2002 to fill in the casual vacancy.

A resolution will be submitted to the 2003 annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
Yuxing InfoTech Holdings Limited

Zhu Wei Sha
Chairman

Beijing, the PRC, 24th March 2003

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
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香港中環干諾道中111號
永安中心26樓

Deloitte
Touche
Tohmatsu

TO THE SHAREHOLDERS OF YUXING INFOTECH HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 39 to 72 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 financial statements which give a true and fair view. In preparing financial statements 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 statements 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

AUDITORS' REPORT

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 24th March 2003

Consolidated Income Statement

For the year ended 31st December 2002

	Notes	**2002**	2001
		HK$'000	HK$'000
Turnover	4	**400,296**	299,121
Cost of sales		**(377,075)**	(310,378)
Gross profit/(loss)		**23,221**	(11,257)
Other operating income	5	**28,589**	23,138
Selling expenses		**(23,089)**	(46,226)
General and administrative expenses		**(41,323)**	(35,018)
Other operating expenses		**(6,824)**	(2,130)
Loss from operations	6	**(19,426)**	(71,493)
Finance costs	9	**(4,667)**	(3,584)
Loss before taxation		**(24,093)**	(75,077)
Taxation	10	**(507)**	(349)
Loss before minority interests		**(24,600)**	(75,426)
Minority interests		**(997)**	(807)
Net loss for the year		**(25,597)**	(76,233)
Loss per share			
– Basic	11	**(6.4) cents**	(19.1) cents

Consolidated Balance Sheet

As at 31st December 2002

	Notes	**2002**	2001
		HK$'000	HK$'000
Non-current assets			
Property, plant and equipment	12	**13,899**	12,939
Intangible assets	13	**384**	648
Investments in securities	15	**6,194**	3,962
		20,477	17,549
Current assets			
Inventories	16	**79,225**	64,486
Trade and other receivables	17	**170,417**	86,073
Loans and interest receivables	18	**25,464**	–
Investments in securities	15	**77,812**	260,430
Pledged bank deposits	19	**37,112**	236,056
Bank balances and cash		**200,852**	122,820
		590,882	769,865
Current liabilities			
Trade and other payables	20	**103,287**	66,657
Taxation payable		**309**	349
Bank and other loans	21	**29,223**	216,858
		132,819	283,864
Net current assets		**458,063**	486,001
Total assets less current liabilities		**478,540**	503,550
Capital and reserves			
Share capital	22	**40,000**	40,000
Reserves		**432,220**	457,843
Shareholders' funds		**472,220**	497,843
Minority interests		**6,320**	5,707
		478,540	503,550

The financial statements on pages 39 to 72 were approved and authorised for issue by the Board of Directors on 24th March 2003 and are signed on its behalf by:

Zhu Wei Sha
Chairman and President

Shi Guang Rong
Executive Vice President

Balance Sheet

As at 31st December 2002

	Notes	2002 HK$'000	2001 HK$'000
Non-current asset			
Interests in subsidiaries	14	**412,554**	323,867
Current assets			
Trade and other receivables	17	**266**	6,150
Pledged bank deposits	19	**20,000**	236,056
Bank balances and cash		**99,238**	22,385
		119,504	264,591
Current liabilities			
Trade and other payables	20	**762**	1,304
Amount due to a subsidiary		**1,673**	1,673
		2,435	2,977
Net current assets		**117,069**	261,614
Total assets less current liabilities		**529,623**	585,481
Capital and reserves:			
Share capital	22	**40,000**	40,000
Reserves	24	**489,623**	545,481
Shareholders' funds		**529,623**	585,481

Approved by the Board of Directors on 24th March 2003 and signed on behalf of the Board by

Zhu Wei Sha
Chairman and President

Shi Guang Rong
Executive Vice President

Consolidated Statement of Changes in Equity

For the year ended 31st December 2002

	Share capital HK$'000 *(Note 22)*	Share premium HK$'000	Statutory reserves HK$'000 *(Note)*	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st January 2001	40,000	381,713	11,767	1,036	139,536	574,052
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong not recognised in the consolidated income statement	–	–	–	24	–	24
Net loss for the year	–	–	–	–	(76,233)	(76,233)
At 31st December 2001	40,000	381,713	11,767	1,060	63,303	497,843
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong not recognised in the consolidated income statement	–	–	–	(26)	–	(26)
Net loss for the year	–	–	–	–	(25,597)	(25,597)
At 31st December 2002	**40,000**	**381,713**	**11,767**	**1,034**	**37,706**	**472,220**

Note: Statutory reserves comprise statutory surplus reserve and statutory public welfare fund of the subsidiaries in the Peoples' Republic of China (other than Hong Kong) (the "PRC") and form part of the shareholders' funds.

Consolidated Cash Flow Statement

For the year ended 31st December 2002

	Note	**2002**	2001
		HK$'000	HK$'000
OPERATING ACTIVITIES			
Loss from operations		**(19,426)**	(71,493)
Adjustments for:			
Interest income		**(17,818)**	(14,500)
Depreciation of property, plant and equipment		**1,760**	1,524
Amortisation of intangible assets		**505**	1,118
Loss on disposal of property, plant and equipment		**–**	188
(Gain)/loss on disposal of other investments		**(6,683)**	1,510
Net unrealised holding loss/(gain) on other investments		**509**	(8,199)
Impairment loss on investments in securities		**1,668**	–
Allowance for inventories		**3,490**	27,710
Allowance for bad and doubtful debts		**9,847**	2,968
Operating cash flows before movements in working capital		**(26,148)**	(59,174)
(Increase)/decrease in inventories		**(18,229)**	66,776
(Increase)/decrease in trade and other receivables		**(72,409)**	2,970
Increase in trade and other payables		**35,198**	29,037
Cash (used in)/generated from operations		**(81,588)**	39,609
Income taxes paid		**(547)**	–
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		**(82,135)**	39,609
INVESTING ACTIVITIES			
Proceeds from disposal of other investments		**275,784**	73,265
Decrease/(increase) in pledged bank deposits		**198,944**	(219,816)
Interest received		**14,874**	9,520
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	26	**30**	–
Purchase of investments in securities		**(90,892)**	(327,244)
Increase in loans and interest receivables		**(25,000)**	–
Deposits with securities houses		**(18,140)**	(28,559)
Purchase of property, plant and equipment		**(2,482)**	(660)
Purchase of intangible assets		**(241)**	–
Proceeds from disposal of property, plant and equipment		**–**	2,320
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**352,877**	(491,174)

Consolidated Cash Flow Statement

For the year ended 31st December 2002

	2002 HK$'000	2001 HK$'000
FINANCING ACTIVITIES		
Repayment of bank and other loans	**(216,858)**	(57,731)
Interest paid	**(4,667)**	(1,653)
Dividend paid to minority shareholders of subsidiaries	**(784)**	–
New bank and others loans raised	**29,223**	260,041
Contribution from minority shareholders of subsidiaries	**400**	4,900
NET CASH (USED IN)/GENERATED FROM IN FINANCING ACTIVITIES	**(192,686)**	205,557
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**78,056**	(246,008)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**122,820**	368,804
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(24)**	24
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, representing bank balances and cash	**200,852**	122,820

1. GENERAL

The Company is incorporated as an exempted company with limited liability in Bermuda and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 31.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, and the adoption of the following new and revised accounting policies. The adoption of these new and revised accounting policies has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Foreign Currencies

The revisions to SSAP 11 "Foreign Currency Translation" have eliminated the choice of translating the income statements of overseas subsidiaries at the closing rate for the period, the policy previously followed by the Group. They are now required to be translated at an average rate. This change in accounting policy has not had any material effect on the results for the current or prior accounting years.

Cash Flow Statements

In the current year, the Group has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends, which were previously presented under a separate heading, are classified as investing or financing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. Cash flows of subsidiaries outside Hong Kong have been re-translated at the rates prevailing at the dates of the cash flows rather than the rate of exchange ruling on the balance sheet date.

Employee Benefits

In the current year, the Group has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group's participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the valuation of investments in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Revenue recognition

Sales of goods, net of value added tax where applicable, are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of the assets over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	3% or over the term of the land use rights, if shorter
Leasehold improvements	33% or over the term of the lease, if shorter
Office equipment, furniture and fixtures	20% – 33%
Plant and machinery	10%
Motor vehicles	10%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average method.

Intangibles assets

Patents and trademarks

Patents and trademarks are measured initially at cost and amortised on a straight-line basis over their estimated useful lives.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generally intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Operating leases

Rentals payable in respect of operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at the exchange rates prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rate for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserves. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Retirement benefit scheme

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due. The amount of contributions payable to pension schemes in jurisdictions other than Hong Kong are also charged to the income statement.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

4. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into two major operating divisions – information home appliances and integrated circuits. These divisions are the basis on which the Group reports its primary segment information.

The Group is organised into two main business segments:

- Information home appliances – sales, manufacture and distribution of information home appliances and complimentary products 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.

An analysis of the Group's turnover and operating results and segment assets and liabilities by business segments is as follows:

For the year ended 31st December 2002

	Information home appliances HK$'000	Integrated circuits HK$'000	Other operations HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER					
External sales	155,044	236,102	9,150	–	400,296
Inter-segment sales*	35,670	30,881	–	(66,551)	–
Total	190,714	266,983	9,150	(66,551)	400,296
RESULTS					
Segment results	(24,966)	2,043	(1,763)	–	(24,686)
Unallocated income					26,401
Unallocated expenses					(21,141)
Loss from operations					(19,426)
Finance costs					(4,667)
Loss before taxation					(24,093)
Taxation					(507)
Loss before minority interests					(24,600)
Minority interests					(997)
Net loss for the year					(25,597)

* Inter-segment sales were charged at terms determined and agreed between the Group companies.

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

As at 31st December 2002

	Information home appliances HK$'000	Integrated circuits HK$'000	Other operations HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	121,931	76,005	5,696	203,632
Unallocated assets				407,727
Total assets				611,359
LIABILITIES				
Segment liabilities	90,555	27,638	1,898	120,091
Unallocated liabilities				12,728
Total liabilities				132,819
OTHER INFORMATION				
Capital additions	2,497	107	359	2,963
Depreciation and amortisation	1,770	457	38	2,265

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended 31st December 2001

	Information home appliances HK$'000	Integrated circuits HK$'000	Other operations HK$'000	Elimination HK$'000	Consolidated HK$'000
TURNOVER					
External sales	208,521	80,045	10,555	–	299,121
Inter-segment sales*	–	28,989	–	(28,989)	–
Total	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 expenses					(10,541)
Loss from operations					(71,493)
Finance costs					(3,584)
Loss before taxation					(75,077)
Taxation					(349)
Loss before minority interests					(75,426)
Minority interests					(807)
Net loss for the year					(76,233)

* Inter-segment sales were charged at terms determined and agreed between the Group Companies.

4. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

As at 31st December 2001

	Information home appliances HK$'000	Integrated circuits HK$'000	Other operations HK$'000	Consolidated HK$'000
ASSETS				
Segment assets	129,074	49,758	1,432	180,264
Unallocated assets				607,150
Total assets				787,414
LIABILITIES				
Segment liabilities	57,419	22,168	455	80,042
Unallocated liabilities				203,822
Total liabilities				283,864
OTHER INFORMATION				
Capital additions	429	231	–	660
Depreciation and amortisation	2,217	412	13	2,642

4. SEGMENT INFORMATION *(continued)*

Geographical segments

The Group's information home appliances division is located in 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.

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

	Turnover	
	2002	2001
	HK$'000	HK$'000
The PRC	**374,288**	278,761
Hong Kong	**23,106**	19,096
Other Asian countries	**2,902**	1,264
	400,296	299,121

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**	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**479,615**	635,323	**2,881**	429
Hong Kong	**125,085**	150,630	**82**	231
Other Asian countries	**6,659**	1,461	**–**	–
	611,359	787,414	**2,963**	660

5. OTHER OPERATING INCOME

	2002 HK$'000	2001 HK$'000
Interest income	16,313	14,500
Interest income from other investments	1,505	–
Gains on disposal of other investments	6,683	–
Net unrealised holding gains on other investments	–	8,199
Sundry income	4,088	439
	28,589	23,138

6. LOSS FROM OPERATIONS

	2002 HK$'000	2001 HK$'000
Loss from operations has been arrived at after charging:		
Auditors' remuneration	868	752
Depreciation of property, plant and equipment	1,760	1,524
Amortisation of intangible assets (included in general and administrative expenses)	505	1,118
Directors' emoluments *(note 7)*	753	758
Other staff costs	19,372	18,899
Retirement benefits scheme contributions (excluding the Directors)	799	296
Total staff costs	20,924	19,953
Research and development costs	812	2,330
Losses on disposal of property, plant and equipment	–	188
Losses on disposal of other investments	–	1,510
Impairment loss on investments in securities	1,668	–
Net unrealised holding losses on other investments	509	–
After crediting:		
Net unrealised holding gains on other investments	–	8,199

7. DIRECTORS' EMOLUMENTS

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

	2002 HK$'000	2001 HK$'000
Fees:		
– Independent non-executive Directors	**94**	94
Other emoluments:		
– Executive Directors		
Basic salaries, other allowances and benefits in kind	**656**	661
Retirement benefits schemes contributions	**3**	3
	753	758

The emoluments of each of the Directors for both years were less than HK$1,000,000.

For the year ended 31st December 2002, four executive Directors received remuneration of approximately HK$262,000, HK$133,000, HK$133,000 and HK$131,000 respectively and two independent non-executive Directors received remuneration of approximately HK$47,000 each.

For the year ended 31st December 2001, four executive Directors received remuneration of approximately HK$262,000, HK$137,000, HK$133,000 and HK$132,000 respectively and two independent non-executive Directors received remuneration of approximately HK$47,000 each.

During the year, no emoluments was paid by the Group to any Director as an inducement to join or upon joining the Group or as compensation for loss of office. None of the Directors has waived any emoluments during the year.

8. EMPLOYEES' EMOLUMENTS

During the year, none of the Director (2001: one Director) is included in the five highest paid individuals of the Group. Details of Directors' emoluments are set out in note 7 above. The aggregate emoluments of the five (2001: four) highest paid individuals, who are employees of the Group, are as follows:

	2002 HK$'000	2001 HK$'000
Basic salaries, housing allowances, other allowances and benefits in kind	**2,550**	2,634
Retirement benefits scheme contributions	**35**	43
	2,585	2,677

The emoluments of each of the five highest paid individuals for both years were less than HK$1,000,000.

9. FINANCE COSTS

	2002 HK$'000	2001 HK$'000
Interest on loans wholly repayable within five years:		
– Bank loans	**3,507**	1,653
– Other loans	**1,160**	1,931
	4,667	3,584

10. TAXATION

	Group	
	2002 HK$'000	2001 HK$'000
The charge comprises:		
Profit for the year		
Hong Kong profits tax	**507**	349

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the estimated assessable profits for the year.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next consecutive three years. No provision for PRC income tax has been made in the financial statements as certain of the PRC subsidiaries were exempted from PRC income tax and certain of the PRC subsidiaries have no assessable profit during the year.

Details of deferred taxation are set out in note 25.

11. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss for the year of approximately HK$25,597,000 (2001: HK$76,233,000) and on 400,000,000 (2001: 400,000,000) ordinary shares in issue during the year.

No diluted loss per share has been presented for either year as the exercise of the Company's share options would result in a decrease in loss per share.

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings	Leasehold improvements	Office equipment, furniture and fixtures	Plant and machinery	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST:						
At 1st January 2002	8,890	701	3,489	397	2,264	15,741
Exchange adjustments	(2)	–	–	–	–	(2)
Acquisition of a subsidiary	–	–	–	240	–	240
Additions	–	–	513	1,645	324	2,482
Disposals	–	–	(4)	–	–	(4)
Reclassification	241	–	–	(241)	–	–
At 31st December 2002	**9,129**	**701**	**3,998**	**2,041**	**2,588**	**18,457**
ACCUMULATED DEPRECIATION:						
At 1st January 2002	303	304	1,572	106	517	2,802
Exchange adjustments	–	–	–	–	–	–
Charge for the year	299	234	767	213	247	1,760
Eliminated on disposals	–	–	(4)	–	–	(4)
Reclassification	48	–	–	(48)	–	–
At 31st December 2002	**650**	**538**	**2,335**	**271**	**764**	**4,558**
NET BOOK VALUES:						
At 31st December 2002	**8,479**	**163**	**1,663**	**1,770**	**1,824**	**13,899**
At 31st December 2001	8,587	397	1,917	291	1,747	12,939

At 31st December 2002 and 2001, the buildings of the Group are held under medium term land use rights in the PRC.

13. INTANGIBLE ASSETS

Group

	Patents and trademarks HK$'000	Others HK$'000	Total HK$'000
COST:			
At 1st January 2002	5,399	86	5,485
Exchange adjustments	(1)	–	(1)
Additions	241	–	241
At 31st December 2002	**5,639**	**86**	**5,725**
ACCUMULATED AMORTISATION:			
At 1st January 2002	4,820	17	4,837
Exchange adjustments	(1)	–	(1)
Charge for the year	488	17	505
At 31st December 2002	**5,307**	**34**	**5,341**
NET BOOK VALUES:			
At 31st December 2002	**332**	**52**	**384**
At 31st December 2001	579	69	648

Patents and trademarks of the Group represents the cost paid for obtaining the right to use the licence in manufacturing of home information appliances.

All of the Group's intangible assets were acquired from third parties and are amortised over five years.

14. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	**176,000**	176,000
Loans to subsidiaries	**227,503**	118,368
Amounts due from subsidiaries	**66,451**	29,499
	469,954	323,867
Less: Impairment loss recognised	**(57,400)**	–
	412,554	323,867

14. INTERESTS IN SUBSIDIARIES *(continued)*

The loans to and amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the Directors, the above amounts are therefore unlikely to be repaid within one year and are shown as non-current.

During the year, the Directors of the Company consider that in the light of the recurring operating losses of certain subsidiaries and unfavourable market conditions, the recoverable amount of these subsidiaries has been reduced to the estimated net realisable value of their identifiable net assets. Accordingly, the aggregate impairment losses of approximately HK$57,400,000 in respect of the Company's interests in subsidiaries, loans to and amounts due from subsidiaries have been recognised in the income statement for the year.

Details of principal subsidiaries as at 31st December 2002 are set out in note 31.

15. INVESTMENTS IN SECURITIES

Group

	Investment securities		Other investments		Total	
	2002	2001	**2002**	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Equity securities:						
– Unlisted	**6,194**	3,962	**1,297**	7,552	**7,491**	11,514
Debt securities:						
– Listed in PRC	**–**	–	**76,515**	252,878	**76,515**	252,878
Total	**6,194**	3,962	**77,812**	260,430	**84,006**	264,392
Classified under:						
Current	**–**	–	**77,812**	260,430	**77,812**	260,430
Non-current	**6,194**	3,962	**–**	–	**6,194**	3,962
	6,194	3,962	**77,812**	260,430	**84,006**	264,392
Market value of listed debt securities	**–**	–	**76,515**	252,878	**76,515**	252,878

At the balance sheet date, the equity securities, which are included in other investments, are stated at their quoted price.

16. INVENTORIES

	Group	
	2002	2001
	HK$'000	HK$'000
Merchandise	**8,680**	1,764
Raw materials	**31,627**	33,293
Work-in-progress	**7,042**	3,149
Finished goods	**31,876**	26,280
	79,225	64,486

Included above are merchandise of approximately HK$947,000 (2001: HK$757,000), raw materials of approximately HK$6,621,000 (2001: HK$5,955,000), work in progress of nil (2001: HK$2,957,000) and finished goods of approximately HK$7,177,000 (2001: HK$10,322,000) which are carried at net realisable values.

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables *(Note a)*	**55,382**	30,478	**–**	–
Bills receivables	**499**	1,320	**–**	–
Prepayments and deposits	**20,356**	7,655	**266**	250
Other receivables *(Note b)*	**94,180**	46,620	**–**	5,900
	170,417	86,073	**266**	6,150

Notes:

(a) The Group allows its trade customers with an average credit period of 60 to 90 days. The aged analysis of trade receivables at the balance sheet date is as follow:

	Group	
	2002	2001
	HK$'000	HK$'000
0–30 days	**33,764**	18,385
31–60 days	**16,154**	1,514
61–90 days	**1,123**	2,810
Over 90 days	**14,004**	10,877
	65,045	33,586
Less: Allowance for bad and doubtful debts	**(9,663)**	(3,108)
	55,382	30,478

(b) Included in other receivables are purchase deposit of HK$47,134,000 (2001: Nil) for purchase of merchandise for resale and deposit placed with securities houses in the PRC under the name of the PRC subsidiary of the Company of approximately HK$47,046,000 (2001: HK$28,906,000). The above deposits have been fully returned to the Group subsequent to the balance sheet date.

18. LOANS AND INTEREST RECEIVABLES

The loans have been advanced to a third party and are interest bearing at 12% per annum and secured by the assets of a company in which a Director of the Company has beneficial interests. The amount has been fully settled subsequent to the balance sheet date.

19. PLEDGED BANK DEPOSITS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Securities for bank loans and banking facilities of the Group	**37,112**	36,056	**2,000**	36,056
Security for banking facilities of Grand Pacific Investment Corporation Limited ("Grand Pacific") *(Note)*	**–**	200,000	**–**	200,000
	37,112	236,056	**20,000**	236,056

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; 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. During the year, the loan was fully repaid and the entire amount of the pledged bank deposit of the Company that had been pledged was released.

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables *(Note)*	**83,814**	41,211	**–**	–
Other payables	**10,607**	13,877	**288**	476
Accruals	**8,866**	11,569	**474**	828
	103,287	66,657	**762**	1,304

20. TRADE AND OTHER PAYABLES *(continued)*

Note:

The aged analysis of trade payables at the balance sheet date was as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
0–30 days	**73,087**	19,377
31–60 days	**7,077**	17,648
61–90 days	**1,124**	73
Over 90 days	**2,526**	4,113
	83,814	41,211

21. BANK AND OTHER LOANS

	Group	
	2002	2001
	HK$'000	HK$'000
Bank and other loans comprise:		
Bank loans	**29,233**	18,857
Other loans	**–**	198,001
	29,233	216,858
Analysed as:		
Secured	**26,600**	216,858
Unsecured	**2,623**	–
	29,223	216,858

22. SHARE CAPITAL

	Issued and Authorised 2002 & 2001 HK$'000	Issued and fully paid 2002 & 2001 HK$'000
Ordinary shares of HK$0.10 each	**200,000**	**40,000**

There were no movements in share capital during both years.

23. SHARE OPTION SCHEME

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 the directors' report, 24th March 2003, 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. At 31st December 2002, the number of shares in respect of which options had been granted and remained outstanding under the Share Option Scheme was 22,245,000, representing 5.56% of the Shares of the Company in issue at that date.

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.

23. SHARE OPTION SCHEME *(continued)*

The following table discloses details of the Company's share options held by employees (including an Executive Director) and movements during the year:

Date of grant	Exercise period	Exercise price per share HK$	At 1st January 2002	Exercised during the year	Granted during the year	Cancelled/ lapsed during the year	At 31st December 2002
			Number of share options				
27th June 2000	27th June 2001 – 26th June 2005	4.80	5,000,000	–	–	–	**5,000,000**
28th November 2000	28th November 2001 – 27th November 2005	0.95	7,635,000	–	–	(250,000)	**7,385,000**
3rd December 2000	3rd December 2001 – 2nd December 2005	0.95	610,000	–	–	–	**610,000**
4th December 2000	4th December 2001 – 3rd December 2005	0.95	310,000	–	–	–	**310,000**
5th December 2000	5th December 2001 – 4th December 2005	0.95	40,000	–	–	–	**40,000**
9th February 2001	9th February 2002 – 8th February 2006	0.83	4,500,000	–	–	–	**4,500,000**
11th April 2001	11th April 2002 – 10th April 2006	0.75	3,800,000	–	–	–	**3,800,000**
15th June 2001	15th June 2002 – 14th June 2006	1.45	600,000	–	–	–	**600,000**
			22,495,000	–	–	(250,000)	**22,245,000**

23. SHARE OPTION SCHEME *(continued)*

The following table discloses details of the Company's share options held by employees (including an Executive Director) and movements during the year of 2001:

			Number of share options				
Date of grant	Exercise period	Exercise price per share HK$	At 1st January 2001	Exercised during the year	Granted during the year	Cancelled/ Lapsed during the year	At 31st December 2001
27th June 2000	27th June 2001 – 26th June 2005	4.80	5,000,000	–	–	–	5,000,000
28th November 2000	28th November 2001 – 27th November 2005	0.95	7,635,000	–	–	–	7,635,000
3rd December 2000	3rd December 2001 – 2nd December 2005	0.95	610,000	–	–	–	610,000
4th December 2000	4th December 2001 – 3rd December 2005	0.95	310,000	–	–	–	310,000
5th December 2000	5th December 2001 – 4th December 2005	0.95	40,000	–	–	–	40,000
9th February 2001	9th February 2002 – 8th February 2006	0.83	–	–	4,500,000	–	4,500,000
11th April 2001	11th April 2002 – 10th April 2006	0.75	–	–	3,800,000	–	3,800,000
15th June 2001	15th June 2002 – 14th June 2006	1.45	–	–	600,000	–	600,000
			13,595,000	–	8,900,000	–	22,495,000

23. SHARE OPTION SCHEME *(continued)*

Details of the share options held by Mr. Wang An Zhong, Executive Director, included in the above table are as follows:

			Number of share options			
Exercise year	Exercise price per share	At 1st January	Exercised during the year	Granted during the year	Cancelled/ lapsed during the year	At 31st December
	HK$					
2001	0.95	1,000,000	–	–	–	1,000,000
2002	**0.95**	**1,000,000**	**–**	**–**	**–**	**1,000,000**

During the year ended 31st December, 2001, total consideration received from employees of the Group for taking up the share options granted amounted to HK$44.

No charge is recognised in the income statement in respect of the value of share options granted in the year (2001: nil).

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)
Fourth anniversary and thereafter	All outstanding share options have not been previously exercised

24. RESERVES

	Company			
	Share premium	Contributed surplus	Retained profits/ (deficit)	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1st January 2001	381,713	146,000	8,602	536,315
Net profit for the year	–	–	9,166	9,166
At 31st December 2001	381,713	146,000	17,768	545,481
Net loss for the year	–	–	(55,858)	(55,858)
At 31st December 2002	**381,713**	**146,000**	**(38,090)**	**489,623**

The contributed surplus represents the difference between the underlying net assets of the subsidiaries which were acquired by the Company and the nominal amount of the share capital issued by the Company for the acquisition at the time of the Group reorganisation.

25. DEFERRED TAXATION

The major components of the deferred taxation/(credit) charge not recognised for the year are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Tax effect of timing differences attributable to:		
Excess/(Shortfall) of depreciation allowances over accounting depreciation	**5**	(5)
Tax losses arising	**(3,121)**	(7,274)
Other timing differences	**810**	(2,603)
	(2,306)	(9,882)

25. DEFERRED TAXATION *(continued)*

At the balance sheet date, the major components of deferred tax asset not recognised in the financial statements are as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Tax effect of timing differences attributable to:		
Shortfall of depreciation allowances over accounting depreciation	**–**	5
Unutilised tax losses	**10,395**	7,274
Other timing differences	**1,793**	2,603
	12,188	9,882

The deferred taxation asset is not recognised because it is uncertain whether the tax benefit will be realised in the foreseeable future.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

26. ACQUISITION OF A SUBSIDIARY

During the year, the Group acquired the entire interests in Sheng Bang Qiang Dian Electronics (Shen Zhen) Co., Ltd. ("Sheng Bang") for a consideration of approximately HK$3.4 million. This acquisition has been accounted for using the acquisition method of accounting.

	2002	2001
	HK$'000	HK$'000
Net assets acquired:		
Property, plant and equipment	**240**	–
Other receivables	**1,162**	–
Bank balances and cash	**2,031**	–
Other payables	**(75)**	–
Net assets	**3,358**	–
Satisfied by:		
Cash consideration paid	**2,001**	–
Other payables	**1,357**	–
Total consideration	**3,358**	–

26. ACQUISITION OF A SUBSIDIARY *(continued)*

Analysis of net inflow of cash and cash equivalents in connection with the acquisition of a subsidiary:

	2002	2001
	HK$'000	HK$'000
Cash consideration paid	**(2,001)**	–
Bank balances and cash acquired	**2,031**	–
Net inflow of cash and cash equivalents	**30**	–

The subsidiaries acquired during the year contributed approximately HK$18,072,000 to the Group's turnover and loss of approximately HK$6,533,000 to the Group's loss from operations.

27. PLEDGE OF ASSETS

At 31st December 2002, the following assets were pledged to secure banking facilities granted to the Group:

(a) Bank deposits of the Group and the Company of HK$37,112,000 (2001: HK$236,056,000) and HK$20,000,000 (2001: HK$236,056,000), respectively; and

(b) Investments in securities of the Group with the carrying value of HK$3,900,000 (2001: Nil).

28. OPERATING LEASE COMMITMENTS

The Group made minimum lease payments of approximately HK$7,820,000 (2001: HK$4,215,000) under operating leases during the year in respect of office properties, warehouses and factories.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Group	
	2002	2001
	HK$'000	HK$'000
Within one year	**7,244**	4,792
In the second to fifth year inclusive	**16,845**	15,815
Over five years	**2,233**	–
	26,322	20,607

Leases are negotiated for an average term of one to two years with fixed rentals.

At 31st December 2002 and 2001, the Company had no commitments under non-cancellable operating leases.

29. CONTINGENT LIABILITIES

Guarantees

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	HK$'000	**HK$'000**	HK$'000
At the balance sheet date, the Group and the Company have given guarantees to banks in respect of banking facilities granted to:				
– subsidiaries	**–**	–	**30,600**	30,600
– a distributor	**–**	4,714	**–**	–
	–	4,714	**30,600**	30,600

Litigations

On 6th September 2002, Beijing Golden Yuxing Electronics and Technology Co., Ltd. ("Golden Yuxing"), an indirect wholly owned subsidiary of the Company, made a claim against Shanxi Lanhua Enterprises Company Group Co. Ltd. ("Shanxi Lanhua") for payment of an outstanding amount arised pursuant to two sale and purchase contracts (the "Contracts") entered into between Golden Yuxing and Shangxi Lanhua in 2001 and 2002 in respect of the sale of certain information home appliance products of the Group and the ancillary interest and legal cost in relation thereto with a claim involving in aggregate approximately RMB2.9 million at Beijing West City District People's Court. Shanxi Lanhua was one of the distributors of information home appliance products of the Group in Shanxi, PRC.

On 13th September 2002, Golden Yuxing was claimed by Shanxi Lanhua alleging failure to perform certain obligations under the contracts with a claim involving approximately RMB10.1 million at Beijing City First Immediate People's Court.

Golden Yuxing was further claimed by Shanxi Lanhua alleging infringement of right of reputation by issuing letters by the lawyer of Golden Yuxing to the advertisement department of Shanxi Satellite Television requesting them to stop broadcasting the advertisement on reduced prices of the products of the Group posted by Shanxi Lanhua with a claim involving approximately RMB1 million at Taiyuan City Wan Po Lin District Court.

As a the date of this report, the proceedings are still ongoing. The Group has vigorously defended the above claims from Shanxi Lanhua. After taking into consideration of the advice of the Group's legal counsel and in the opinion of the Directors, the Group has a good prospect in defending the above claims successfully and believed that the outcome of the proceeding will not have material adverse financial impact to the Group.

30. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group's subsidiary in the PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to income statements of HK$802,000 (2001: HK$299,000) represents contributions payable to these schemes by the Group in respect of the current year.

31. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December 2002 are as follows:

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

31. PRINCIPAL SUBSIDIARIES *(continued)*

Name	Place of incorporation/kind of legal entity	Principal activities/ place of operation	Particulars of issued share capital/ registered capital	Interest held
Indirect subsidiaries:				
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%*
Sheng Bang	The PRC/Foreign wholly owned enterprise	Manufacturing, distribution and sales of information appliances/the PRC	RMB8,000,000	100%
E-Century Investment Limited	Mauritius/limited liability company	Holding of intangible assets in the PRC	1 ordinary share of US$1	100%
Yuxing Technology Company Limited	HK/limited liability company	Trading and distribution of integrated circuits and investment holding/HK	2 ordinary shares of HK$1 each	100%
Hi-Level Technology Limited	HK/limited liability company	Trading and distribution of integrated circuits/HK	10,000,000 ordinary shares of HK$1 each	51%
Yangson Electronics Limited	HK/limited liability company	Trading and distribution of integrated circuits/HK	500,000 ordinary shares of HK$1 each	51%

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

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

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 East & West Room of Mandarin Oriental Hong Kong, 23/F, 5 Connaught Road Central, Hong Kong on Tuesday, 13th May 2003 at 2:30 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 2002;

2. to re-elect director and to authorise the directors of the Company (the "Directors") to fix the Directors' 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 of Hong Kong Limited (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 of Hong Kong Limited (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;

(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

Beijing, the PRC, 24th March 2003

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 annual general 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, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the annual general 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 2002.

GLOSSARY OF TECHNICAL TERMS

"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
"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
"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
"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
"Internet"	a global network of networks accessed by users with a computer and a modem via a service provider
"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

GLOSSARY OF TECHNICAL TERMS

"multimedia"	a combination of different communications tools such as sound, graphics, animation and video
"platform"	a development environment for developing certain application software
"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