



**Yuxing InfoTech Holdings Limited**

**裕興科技控股有限公司\***

(incorporated in Bermuda with limited liability)

<http://www.yuxing.com.cn>

**Annual Report 2003**

\* for identification purposes only

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## 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 home 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 home appliance industry.

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

**BOARD OF DIRECTORS***Executive Directors*Zhu Wei Sha (*Chairman*)

Chen Fu Rong

Shi Guang Rong

Wang An Zhong

*Independent Non-executive Directors*

Wu Jia Jun

Zhong Peng Rong

**COMPANY SECRETARIES**

Di Yu Zeng

Lai Yang Chau, Eugene, *Solicitor***QUALIFIED ACCOUNTANT**

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

**AUDITORS**

Deloitte Touche Tohmatsu

*Certified Public Accountants***WEBSITES**<http://www.yuxing.com.cn>**PRINCIPAL BANKERS**

China Merchants Bank

Hang Seng Bank Limited

Industrial and Commercial Bank of China

Shanghai Commercial Bank Limited

Shanghai Pudong Development Bank

The Agricultural Bank of China

**REGISTERED OFFICE**

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

**PLACES OF BUSINESS***Hong Kong*

Unit 1808, 18th Floor

Tower III, Enterprise Square

9 Sheung Yuet Road

Kowloon Bay

Kowloon

*The PRC*

9-10/F, Tian Cheng Keji Building

No. 2, Xinfeng Street, De Shen Men Wai

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**

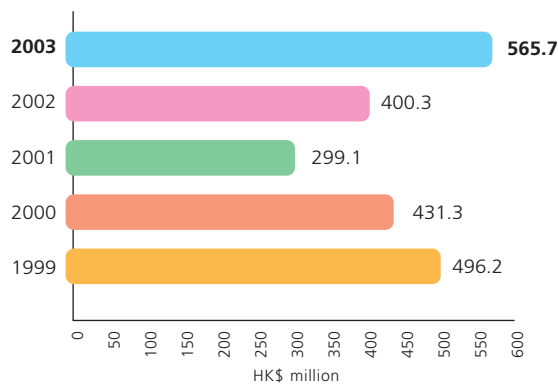
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## Financial Highlights and Calendar

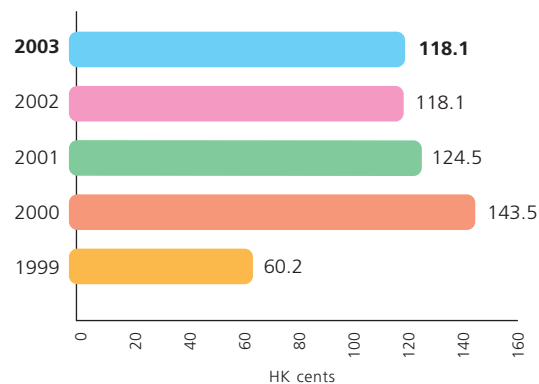
### FINANCIAL HIGHLIGHTS

	2003 HK\$'000	2002 HK\$'000
<b>Revenue</b>		
Turnover	565,726	400,296
<b>Profitability</b>		
Profit/(loss) from operations	2,466	(19,426)
Net profit/(loss) for the year	223	(25,597)
<b>Net worth</b>		
Shareholders' funds	472,488	472,220
<b>Per share</b>		
Earning/(loss) per share – Basic	0.06 cent	(6.40) cents
Net assets per share	118.1 cents	118.1 cents

### TURNOVER



### NET ASSETS PER SHARE



### FINANCIAL CALENDAR

Results for the year	Announcement on 23rd March 2004
Annual report	Despatched to shareholders in late March 2004
Annual general meeting	18th May 2004

**Chairman's  
Statement****Mr. Zhu Wei Sha**

the chairman of the Board and  
the president of the Company

**OVERALL REVIEW**

The year 2003 definitely marked a turbulent year for both the global economy and the Group. In the beginning of 2003, the global economy was sluggish with the US-Iraqi War and the outbreak of Severe Acute Respiratory Syndrome ("SARS") in Asia. Notwithstanding the global economic recession, there was a healthy economic growth in the PRC. However, the PRC market continued to experience a severe oversupply of electronic products and competition was increasingly intensive.

Notwithstanding the severe environment, the Group through its innovative design and technology successfully introduced a variety of unique and niche products to improve its overall turnover and gross margin. The strong revenue growth in 2003 also reflected that the efforts of the Group's internal restructuring and reengineering over the past two years have started to take apparent and affirmative effect. In addition, business cooperation with the Group's newest partners and customers such as Philips Optical Storage ("Philips") and PCCW Limited ("PCCW") further boosted the Group's overall presence in the international market and thus led the Group to a higher turnover.

As a result, turnover of the Group for the year 2003 rose significantly to approximately HK\$565.7 million, representing a 41.3% increase as compared to last year. The gross profit of the Group in 2003 also showed a magnificent rise of 133.8% to approximately HK\$54.3 million as compared to last year. For the first time since 2001, the Group recorded a net profit of approximately HK\$0.2 million.

**ACHIEVEMENTS IN 2003**

Since the Group's listing of its shares on the GEM back in January 2000, the Group has focused and continued to make its effort on its three main product lines: audio-visual ("AV") products, information appliance ("IA") products, and e-learning products. Despite the economic downturn over the past few years, the Group has constantly believed in the future of networked home entertainment and related technologies.

Based on this belief, the Group continued to make investment in research & development ("R&D") in designing the latest technology products. Even though the Group met some hurdles, after few years

## Chairman's Statement



of solid investment, the Group began to realize its expected returns on its investments in 2003. During the year of 2003, the Group achieved several important milestones:

1. **Introduction of SuperDVD technology and Player** – SuperDVD technology, which enables a regular DVD disc with extended play of up to 8 hours, is designed specifically to meet the PRC local culture where mini drama series and Karaoke are often the staple of home entertainment. With this technology, consumers can save more money on buying content and reducing hassles on disc-changing while still enjoying the high quality of audio-visual entertainment.
2. **Successful Implementation of Internet Protocol Television (“IPTV”) in Hong Kong** – The cooperation with PCCW in implementing its IPTV service operation in Hong Kong is possibly the first of its kind in Asia Pacific. Through our unique design and internally developed middleware, the Group provides PCCW with a state-of-the-art set-top box that is capable of receiving up to several hundred channels of broadcasting quality video contents through the connection of a single telephone line.
3. **Successful cooperation with Philips in manufacturing key optical components** – The Group has commenced in manufacturing a series of key optical components on an original equipment manufacturing (“OEM”) basis for Philips, one of world’s largest technology companies. These optical components currently include optical pick-up units, loader and traverse for VCD/CD players. It is intended that the cooperation will be further extended to DVD players in 2004.
4. **Commencing the construction of Zhong Shan Facility in Guang Dong Province** – Since the business activities of the Group keep increasing, the existing manufacturing facility located in Shenzhen can no longer accommodate the Group’s current production needs. As such, the Group has commenced constructing a new manufacturing facility located in Zhong Shan, Guangdong Province, the PRC. The first phase of construction is expected to be completed by the end of May in 2004. It is expected that the new facility will significantly increase the Group’s current production capacity and thus, lead to a higher business volume and turnover.







## Chairman's Statement

5. **Introduction of a digital home media center** – PC-Mate, based on the Group's unique networking technology, is capable of bringing enormous multimedia content available on the Internet directly onto television and thus, truly making home entertainment available at any time.
6. **Development and launching of Mobile Classroom** – a new generation language-learning device in the PRC. The product, which combines with 300 hours of interactive lessons, has received warm responses from the Group's distribution agents since its official launch in the PRC by the Group in late August 2003. Given the success of Mobile Classroom, the Group has already begun in developing a second edition of Mobile Classroom which is expected to be introduced in 2004.

### OVERALL PROSPECT

Given the improving prospect for growth of the global economy, the Group will continue its investment in research and development in the three main product lines with more emphasis on IA products. The IA division, which focuses on the provision of set-top boxes used for applications such as VOD "video-on-demand", IPTV and digital home media center, is expected to enjoy high growth rate over the next few years.

For the VOD/IPTV set-top box market, according to renowned US-based research institute "In-Stat/MDR", the global demand will double from just around 500,000 units in 2003 to 1 million units in 2004. The research has further suggested that the strong growth trend will continue throughout 2007 with total global demand reaching 8 million units, representing a compound annual growth rate of 100%. Given the number of the Group's shipment in 2003, I confidently believe that the Group is possibly one of the world's largest providers in this market.

Meanwhile, for digital home media centers, "In-Stat/MDR" also made a forecast expecting the overall market for this sector to grow from just over US\$100 million in 2002 to about US\$2.6 billion in 2007, representing a compound annual growth rate of 90%. With the bright outlook in this sector, the Group will dedicate more resources in both marketing and research and development for this sector.

In terms of PRC domestic marketing & distribution, the Group will continue to expand its sales channel with more emphasis on the Southern part of China. Because of historical reasons, the Group's brand name "Yuxing Digital", a well-known brand name in Northern China, has always been relatively weak in Southern part of China. Expanding our distribution network in Southern China is one of our key objectives in 2004. Furthermore, in order to fully utilize our existing distribution network, the Group further plans to source other digital products for distribution through the Group's already well-established sales channel. Through the implementation of these two strategies, the Group is expecting to enjoy a very strong growth in the AV division.

For the OEM division, we are expecting to further strengthen our cooperation with Philips by extending our cooperation from the existing optical components used in VCD and CD players onto for DVD players. Furthermore, the Group's OEM division will continue its aggressive expansion towards other customers in both domestic and overseas markets.

Lastly, I would like to extend my sincere gratitude towards the Group's shareholders, employees, partners, and customers for supporting the Group over the past few years when the Group is experiencing one of its most difficult periods since it was founded. Because of these support, the Group was able to recuperate and regroup to seize the opportunities that are ahead of us over the next few years.

**Zhu Wei Sha**  
Chairman

Hong Kong, 23rd March 2004

## Group Financial Summary

### CONSOLIDATED RESULTS

For the year ended 31st December

	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	<b>565,726</b>	400,296	299,121	431,342	496,157
Profit/(loss) before taxation	<b>2,321</b>	(24,093)	(75,077)	40,978	162,961
Taxation	<b>(699)</b>	(507)	(349)	–	(53,930)
Profit/(loss) before minority interests	<b>1,622</b>	(24,600)	(75,426)	40,978	109,031
Minority interests	<b>(1,399)</b>	(997)	(807)	–	–
Net profit/(loss) for the year	<b>223</b>	(25,597)	(76,233)	40,978	109,031

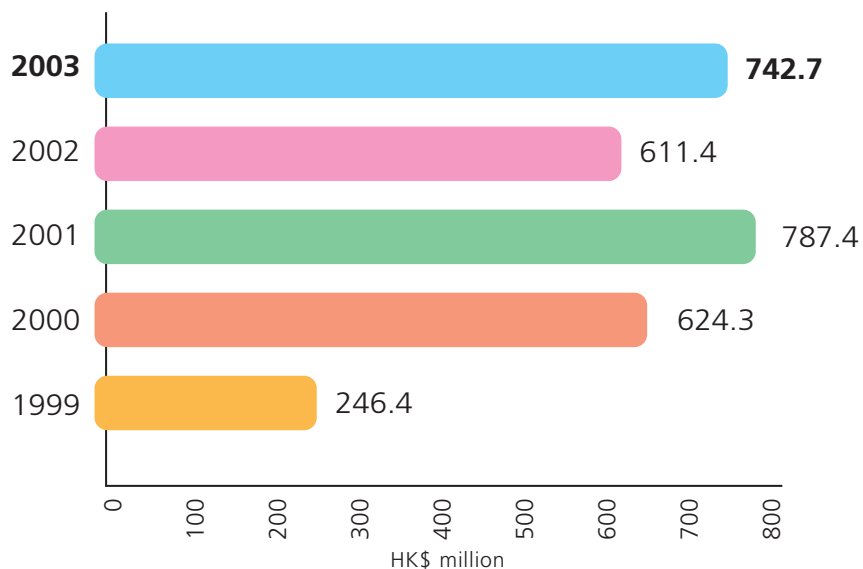
### CONSOLIDATED ASSETS AND LIABILITIES

As at 31st December

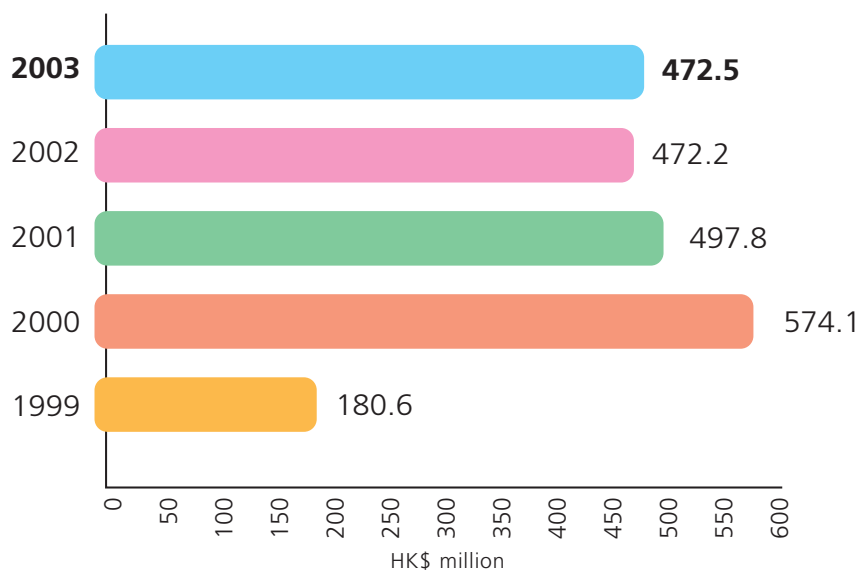
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Total assets	<b>742,728</b>	611,359	787,414	624,289	246,387
Total liabilities	<b>(261,149)</b>	(132,819)	(283,864)	(50,237)	(65,757)
Minority interests	<b>(9,091)</b>	(6,320)	(5,707)	–	–
Shareholders' funds	<b>472,488</b>	472,220	497,843	574,052	180,630

**Group  
Financial  
Summary**

**TOTAL ASSETS**



**NET ASSETS**



## Management Discussion and Analysis

### FINANCIAL REVIEW

#### TURNOVER AND GROSS PROFIT

Although the financial year 2003 was a turbulent year for the Group, the Group through its innovative design and technology successfully introduced a variety of unique and niche products to improve its overall turnover and gross profit. The Group's turnover enjoyed over 41.3% growth to approximately HK\$565.7 million and gross profit increased by 133.8% to approximately HK\$54.3 million as compared to last year.

#### OPERATING RESULTS

##### Other Operating Income

Other operating income decreased to approximately HK\$20.5 million (2002: approximately HK\$28.6 million). This was mainly due to the low interest rate of the bank and other deposits and the drop in the market price of PRC government bonds in the fiscal year as compared to last year.

##### Operating Expenses

In 2003, the Group incurred additional selling and promotion expenses for an one-time advertising campaign to promote its SuperDVD technology and to enhance the brand image of "Yuxing Digital" and thus selling expenses increased by 72.8% to approximately HK\$39.9 million (2002: approximately HK\$23.1 million).

##### Finance Costs

Finance costs decreased significantly to approximately HK\$0.6 million (2002: approximately HK\$4.7 million) as the Group repaid most of its outstanding loans in mid 2002 but did not borrow most of its existing loans until late 2003.

#### NET PROFIT FOR THE YEAR

Net profit for the year of approximately HK\$0.2 million was recorded by the Group, representing a significant improvement over a net loss of approximately HK\$25.6 million for last year.

#### LIQUIDITY, CHARGE ON GROUP ASSETS AND FINANCIAL RESOURCES

As at 31st December 2003, the Group had net current assets of approximately HK\$419.9 million. The Group had cash and pledged bank deposits totalling approximately HK\$323.3 million, of which approximately HK\$22.8 million were pledged with banks for banking facilities. In addition, the Group had no long-term financing as the Group's financial resources were mainly funded by its shareholders' funds. The current ratio of the Group at the year end was 2.6 times. Overall, the financial and liquidity positions of the Group remain at a stable and healthy level.

#### 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 2003, the Group had no significant investments and no material acquisitions or disposals.

## FINANCIAL REVIEW (Continued)

### SEGMENT INFORMATION

Regardless of the severe environment in the first half of 2003, the Group's total turnover of information home appliances increased significantly by 60.2% to approximately HK\$248.3 million as compared to last year and an operating profit of approximately HK\$2.2 million was incurred as compared to an operating loss of approximately HK\$25.0 million last year. This significant improvement was mainly due to the Group successfully introducing a variety of unique and niche products to the market in the fourth quarter of 2003.

In addition to the sales of integrated circuits ("IC"), the Group also included the sales of its new product, key optical components in the segment of electronic components in this fiscal year. Hence, the total turnover of electronic components for the year increased significantly by 23.8% to approximately HK\$292.4 million as compared to last year. As the new product was only recently launched, its profit generation has yet to become apparent after the deduction of operating expenses. Hence, an operating loss of approximately HK\$4.4 million was incurred this year.

Geographical markets of the Group were mainly located in the PRC. However, during the year 2003, the Group has actively explored its Hong Kong and overseas market with turnover increased by 844.2% and 601.7% respectively 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 2003, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

### HUMAN RESOURCES

As at 31st December 2003, the Group had over 1,725 full time employees, of which 15 were based in Hong Kong and the rest were in the PRC. For the year ended 2003, staff costs amounted to approximately HK\$16.2 million (2002: approximately HK\$20.9 million). All employees of the Company'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 the basic salaries, staff benefits include medical scheme, various insurance schemes and share options.

## Management Discussion and Analysis



### BUSINESS REVIEW AND PROSPECTS

#### SUMMARY

For the year under review, despite the severe business environment caused by the US-Iraqi war and the epidemic of SARS in Asia in the beginning of the year, the general economic conditions had since seen an improvement. However, the domestic consumers electronics market continues to be flooded with a series of low-quality standardized AV products manufactured by various small producers within the PRC. Thus, the increase in overall competition had put a squeeze on profit margin for most companies in the AV industry in 2003.

In order to combat such competition, the Group had since introduced a series of innovative and unique product lines which enjoyed relatively higher price margin and thus, had led to a higher gross margin. Furthermore, the Group's expansion into the international market and the securing of various important strategic partners and customers such as Philips and PCCW both helped the Group to see a significant rise in overall turnover in 2003.

All the above led the Group to another impressive sales revenue growth of 41.3% reaching approximately HK\$565.7 million in 2003, surpassing the Group's historical record set in 2000. Furthermore, the Group's profit margin continued to improve and the result led to a net profit of approximately HK\$0.2 million, first time since 2001.

Looking forward in 2004, the Group will endeavour to improve this strong growth trend by making the necessary investments in all fronts to enhance its R&D capability, to expand its business presence and to increase its overall production capacity. In view of an improving global economic outlook and an effect to strengthen the Group's overall management team, the Group expects that it will be able to capture a larger share of the global

demand for digital home multimedia products. As such, the Group expects that its revenue and profit margin will continue to see solid growth over the next few years.

#### 2003 IN REVIEW

During the year under review, the Group achieved several significant milestones for each one of the Group's four major product divisions.

##### AV Division

In 2003, the supply of consumer electronics products continued to flood the PRC market. Despite the PRC's healthy economic growth, the fierce competition between various suppliers caused the general average selling price of consumer electronics products to fall. AV related products were without exception. According to a PRC-based research institute, the average retail price for AV related products has dropped by 25% in 2003.

For the year 2003, the division's revenue accounted for approximately 18% of the Group's total turnover, a sharp drop from about 30% in 2002. In terms of geographical region, the division continued to enjoy success and derived about 70% of its revenue from Northern China while less than 30% of the division's AV products were sold in either Eastern or Southern China.

Nevertheless, in order to stabilize the selling price and profit margin, the Group used its superb design capabilities to introduce a series of products with unique features and functions. First of all, the Group's AV division introduced a series of unique product lines which were tailor-made to accommodate the specific Chinese culture. In the PRC, mini-series drama and Karaoke shows are often enjoyed. As such, the Group's AV division introduced



## BUSINESS REVIEW AND PROSPECTS *(Continued)*

a pioneering technology, SuperDVD technology, that allows a DVD player to play back up to 8 hours of high-quality video content. The players equipped with this technology immediately received strong demand upon their introduction. One of the PRC's largest chain electronics mall, Gome Electronics Mall, immediately placed a significant order with the Group after the introduction of this product by the Group.

In 2003, the Group introduced its newest e-learning product, Mobile Classroom, that is a new generation language-learning device in the PRC. The product, which incorporates 300 hours of interactive lessons, has received warm responses from the Group's distribution agents since its official launch in the PRC in late August 2003. Given the success of Mobile Classroom, the Group has already begun developing a second edition of Mobile Classroom, which is expected to be introduced in 2004.

Both of the above product lines helped the Group stabilize its average selling price and profit margin as well as helped the Group improve its brand name awareness and facilitate its distribution channel. As such, the division was able to meet the challenges of fierce domestic competition in 2003.

### IA Division

In 2003, IA division saw a significant growth in both shipments and overall turnover as the division's revenue grew from less than 1% in 2002 to over 18% of the Group's total turnover in 2003. There are two significant reasons attributing to the strong growth. The most important reason is the shipment of Digital Subscriber's Line ("DSL") set-top box to PCCW for its IPTV broadcast service operation. Comparing the figures provided by renowned US-based research institute "In-Stat/MDR" with the Group's internal account of shipment, the Group is possibly one of the world's largest DSL set-top box providers.

The commencement of the above operation marks the first of its kind in Asia Pacific (excluding Japan) i.e., the provision of TV broadcasting through regular telephone lines. Carried out with the successful implementation in Hong Kong, the Group began aggressively building other strategic partners globally. By the end of the fiscal year 2003, the Group cooperated with two major technology companies, one based in Israel and the other one based in USA, that provide head-end video server technology. These two enterprises have begun bundling certain projects with our existing set-top boxes. In addition, the Group has discussed with another European-based system integrator to explore the opportunities to tap into the European market.

In addition to the success in building partnerships overseas, the division has also commenced discussions with various telecommunication companies within the PRC for the provision of a variety of services based on the division's IPTV and DSL technologies and set-top boxes. These services include but are not limited to VOD, remote education, broadcasting services, advertisement insertion services and etc. Although most of the projects are currently under discussion and negotiation, the division experienced very little obstacles. Therefore, the Group expects that many of these initiative will realize a fruitful results in the foreseeable future.

In addition to the success of DSL set-top box, another star product within this division is the Group's newly introduced digital home media center, PC-Mate. In 2003, there was a clear trend that the global technology focus has been gradually shifting from the traditional PC-based and mobile communication based products to digital home entertainment products. Major global technology companies such as Microsoft, Intel, Dell, Hewlett-Packard/Compaq and etc. have all introduced similar products. One of the most important features of

## Management Discussion and Analysis

### BUSINESS REVIEW AND PROSPECTS *(Continued)*

the digital home entertainment products is the capability of accessing the vast resources that the Internet has to offer or exchanging multimedia information among family and friends with a few simple clicks on your remote control in the comfort of the living room. Although the industry is still in its embryonic stage, it is expected that the market will grow by an average of 90% per year over the next four years according to the research of "In-Stat/MDR".

Over the past few years, the Group has constantly believed in the vision of converging technology products such as consumer entertainment electronics with Internet capability. Thus, the Group has dedicated much resources focusing on this area for many years. Since late 2003, the Group has begun to realize successful results from its investments. Upon the introduction of PC-Mate, the Group received immediate attention from local major technology companies. By the end of 2003, one of China's major technology companies already placed an OEM order for the division's PC-Mate.

Given the initial success of DSL/IPTV set top box and PC-Mate, the division will continue its aggressive expansion through both increasing R&D resources and expanding our sales & marketing personnel in order to capture the opportunities in this industry over the next few years.

#### OEM and Optical Component Division

Despite its relatively young history, the division marked another year of strong growth in 2003 with approximately a high double-digit rise in revenue derived from OEM customers for both players manufacturing services and optical components. The division's revenue accounted for over 21% of the Group's turnover in 2003 up from about 15% in 2002. One of key drivers for this growth is the cooperation with Philips in the manufacturing of

key optical components. The cooperation actually began in late 2002 but the Group did not enter mass production until the second quarter of 2003. These optical components include optical pick-up units, loader and traverse for VCD/CD players. As such, the division's output in optical components grew by more than 300% and accounted for more than 30% of the division's total revenue in 2003. The Group's efficiency and high yield output further strengthened the relationship with Philips. By the end of 2003, the Group and Philips agreed to extend their cooperation to include optical components for DVD players.

In addition to the strong growth in optical components, the division's OEM shipments increased by over 100% as well in 2003. Major consumer electronics companies such as TCL, Skyworth and etc. were all purchasing from the division.

Due to increasing business activities, the existing manufacturing facility located in Shenzhen, the PRC has restricted the Group's current business development. As such, the Group has commenced constructing a new manufacturing facility located in Zhong Shan, Guang Dong Province, the PRC. The first phase of construction is expected to complete by the end of May in 2004. The new facility will double the Group's current production capacity and thus, lead to a higher business volume and turnover.

#### Distribution and Sales of IC

The IC distribution and embedded software division, which is 51% owned by the Group, had a strong year in 2003 with total revenue grew by about 20% as comparing to last year. The recovery in global economy and strong demand for China-made electronic products pushed this division to a new level. In addition, the division's strenuous effort in pushing out its new product lines such as digital still camera and digital music player also contributed



## BUSINESS REVIEW AND PROSPECTS *(Continued)*

a strong growth in the second half of the fiscal year. For the fiscal year of 2003, while the division's traditional IC distribution business remained relatively flat, the Group's digital still camera line grew by over 10 times from less than US\$300,000 in 2002 to over US\$4,000,000 in 2003.

### Outlook into 2004

The year of 2003 was definitely a superb success for the Group. Given the overall improvement in the global economy, the Group continues to expect equally strong growth in the year 2004. For the year 2004, the Group will continue to focus its resources on three main product lines with more emphasis on IA products, which the Group is expecting to enjoy another year of excellent growth. The IA division, which focuses on the provision of set-top boxes used for applications such as VOD, IPTV and digital home media center, is expected to enjoy a high growth rate over the next few years. As for the VOD, IPTV set-top box and the digital home entertainment market, according to "In-Stat/MDR", global demand will increase by between 90% and 100% per annum over the next few years. Given the Group's experience, years of investment in this field and the low-cost structure, the Group is well-positioned to capture the first-mover advantage to enjoy the expected strong demand growth in this market.

In terms of PRC domestic marketing and distribution, the Group will continue to expand its distribution channel with more emphasis on the Southern China. Because of historical reasons, the Group's brand name "Yuxing Digital", a well-known brand name in Northern China, has always been relatively weak in the Southern part of China. Expanding our distribution network in Southern China is one of our key objectives in 2004. Furthermore, in order

to fully utilize our existing distribution network and our well-known brand name, the Group further plans to source other digital products for distribution using the Group's already well-established sales channel. Through the implementation of these two strategies, the Group is expecting to better utilizing its assets thus leading to a higher turnover without incurring much additional cost.

For the OEM division, we are expecting to further strengthen our cooperation with Philips by extending our cooperation from the existing optical components used in VCD and CD players to DVD players. In addition, the Group's OEM division continues to observe a strong rising demand for OEM players manufacturing orders. As such, the Group's OEM division is expected to enjoy another year of strong growth in 2004. Therefore, the Group's OEM division will continue its aggressive expansion towards increasing its manufacturing capacity to meet the demand from both domestic and overseas customers. The expected completion of phase I of Zhong Shan facility will further increase the Group's output capacity to meet the expected rise in business activity.

For the IC distribution and embedded software division, the division is expected to enjoy another strong growth in 2004. Currently, several of new product lines such as digital still cameras and digital music players with more advanced functions are in strong demand by the market. Given the expected solid economic conditions for 2004, this division is expected to have another strong growth in both revenue and profit.

## Biographical Details of Directors and Senior Management

### EXECUTIVE DIRECTORS

**Mr. Zhu Wei Sha**, aged 49, 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 43, 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 47, is a 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 the Vice President-Operations of Golden Yuxing.

**Mr. Shi Guang Rong**, aged 43, has been a vice president of the Group since 1996. He graduated with a bachelor degree in engineering from the Department of Automatic Control of the Beijing Industrial University. He had worked at various enterprises in the PRC. He is responsible for the marketing and public relation matters of the Group and possesses 14 years' experience in product marketing and promotion. Mr. Shi is currently the Chief Executive Officer 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.

## Biographical Details of Directors and Senior Management

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Wu Jia Jun**, aged 71, is currently a researcher at the China Social Science Institute, a mentor professor for doctorate students and an executive vice president of the Industrial and Economic Research and Development Association of China. He served as the vice general manager of the Chinese Industrial and Economic Research Institute from 1980 to 1993, and the vice president of the Young Entrepreneurs Association of China. Mr. Wu has extensive experience in conducting research in the economy and industries of the PRC and also in corporate management. He is a renowned scholar in Japanese corporate and industrial management of which he has an in-depth knowledge. He has published several books and articles on corporate management and economic reform. Mr. Wu was appointed as an Independent Non-executive Director in October 1999.

**Mr. Zhong Peng Rong**, aged 49, 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 43, is the company secretary 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. Lai Yang Chau, Eugene**, aged 34, 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 42, 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. Liu Chia Yao, Joseph**, aged 37, is the Chief Statelist of the Group. He is primarily responsible for the overall business planning, management and administration of the Group. Mr. Liu graduated from University of British Columbia with a Bachelor Degree in Engineering Physics and a Master Degree in Business Administration in the University of British Columbia. Prior to joining the Group in July 2003, Mr. Liu has worked for a number of investment banks and venture capital firms specialising in the technology industry throughout Asia and the United States.

**Miss Wu Wai Ting, Wendy**, aged 31, 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 six years' experience in accounting and finance. Miss Wu joined the Group in March 2000.

## Directors' Report

The Directors have pleasure in submitting to shareholders their report together with the audited financial statements for the year ended 31st December 2003.

### CHANGE OF CHINESE CORPORATE NAME

The Chinese corporate name of the Company was changed from 裕興電腦科技控股有限公司 to 裕興科技控股有限公司 with effect from 24th October 2003.

### 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 35 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 DIVIDENDS

The results of the Group for the year ended 31st December 2003 are set out in the consolidated income statement on page 29.

The Directors recommended the payment of a final dividend of HK2.5 cents per share in respect of the year. The dividend will be payable by the Company on or before 5th July 2004 to shareholders whose names appear on the register of members of the Company on 23rd June 2004.

### RESERVES

Movements in reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on page 32 and note 26 to the financial statements respectively.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

### SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 24 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 2003, the reserves available for distribution to shareholders is approximately HK\$111,059,000 (2002: HK\$107,910,000) which represents the net of contributed surplus of HK\$146,000,000 (2002: HK\$146,000,000) and accumulated loss of approximately HK\$34,941,000 (2002: HK\$38,090,000).

## PRE-EMPTIVE RIGHTS

There are no provisions 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 year is set out on page 8.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the year.

## Directors' Report

### SHARE OPTIONS

Details of the Company's share option schemes are set out in note 25 to the financial statements.

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

Name of Director	Exercise price per share HK\$	Exercisable period	Number of share options			
			At 1st January 2003	Exercised during the year	Granted during the year	At 31st December 2003
Mr. Wang An Zhong	0.95	28th November 2001 to 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 executive, 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.

Details of the movement in the Company's share options held by continuous contract employees (other than the Directors) during the year are set out in note 25 to the financial statements.

### BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

A brief biographical details of Directors and senior management are set out on pages 16 and 17.

## DIRECTORS

The Directors during the year and up to the date of this report (23rd March 2004) 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. Wang An Zhong, Mr. Wu Jia Jun and Mr. Zhong Peng Rong retires by rotation and being eligible, offers themselves for re-election at the forthcoming annual general meeting.

## DIRECTORS' SERVICE CONTRACTS

Each of the Executive Directors has entered into a service contract with the Company for a term of three years from 7th October 1999 and has automatically renewed the service contract upon the expiry of the initial term of three years on 7th October 2002. Their respective service contracts (which are automatically renewed upon expiry for successive terms of one year) are subject to termination by either party given not less than 6 months' notice in writing.

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 2003 and have accepted to continue their appointment for another two-year term expiring on 24th October 2005.

Save as disclosed above, no Directors 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' Report

### DIRECTORS' INTERESTS IN CONTRACTS

During the year, the Group entered into an agreement with a company (the "Borrower") in which a Director has less than 10% beneficial interest, whereby an advance of RMB60,000,000 (approximately HK\$56,604,000) was made to the Borrower. Details of the transaction are set out in note 19 to the financial statements.

Save as disclosed above and the Directors' service contracts disclosed in this annual report, no contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st December 2003, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Future Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as required, pursuant to rules 5.40 to 5.58 of the Rules Governing the Listing of Securities in the Growth Enterprises Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

#### (1) Long positions in the shares of the Company

Name of Director	Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Mr. Zhu Wei Sha	Corporate (Note 1)	165,000,000	Interest of a controlled corporation	41.25%
Mr. Chen Fu Rong	Corporate (Note 1)	165,000,000	Interest of a controlled corporation	41.25%
Mr. Shi Guang Rong	Personal (Note 2)	6,000,000	Beneficial owner	1.50%
Mr. Wang An Zhong	Personal (Note 2)	1,084,189	Beneficial owner	0.27%

Notes:

1. Mr. Zhu Wei Sha and Mr. Chen Fu Rong hold these shares through Super Dragon, a company in which Mr. Zhu Wei Sha and Mr. Chen Fu Rong hold 63.6% and 36.4% of the entire issued share capital respectively.
2. Dragon Treasure is a nominee company and acts as the trustee for holding these shares in the Company on behalf of the past and present employees of the Group, including Mr. Shi Guang Rong and Mr. Wang An Zhong.



## Directors' Report

### (2) Long positions in the underlying shares of the Company

Pursuant to the share option scheme, a Director in the capacity as beneficial owners was granted unlisted and physically settled share options to subscribe for shares of the Company, details of which as at 31st December 2003 were as follows:

Name of Director	Date of grant	Exercise price per share HK\$	Exercisable period	Number of share options			
				At 1st January 2003	Exercised during the year	Granted during the year	At 31st December 2003
Mr. Wang An Zhong	28th November 2000	0.95	28th November 2001 to 27th November 2005	1,000,000	–	–	1,000,000

Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Personal	1,000,000	Beneficial owner	0.25%

### (3) Aggregate long positions in the shares and underlying shares of the Company

Name of Director	Aggregate number in ordinary shares	Aggregate number in underlying shares	Total	Percentage to the issued share capital of the Company
Mr. Zhu Wei Sha	165,000,000	–	165,000,000	41.25%
Mr. Chen Fu Rong	165,000,000	–	165,000,000	41.25%
Mr. Shi Guang Rong	6,000,000	–	6,000,000	1.50%
Mr. Wang An Zhong	1,084,189	1,000,000 (Note)	2,084,189	0.52%

*Note:*

These are the shares underlying the unlisted physical settled share options granted to Mr. Wang An Zhong under the share option scheme of the Company. Details of such options are disclosed under "Long positions in the underlying share of the Company" above.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 31st December 2003, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to rules 5.40 to 5.58 to the GEM Listing Rules.

## Directors' Report

### INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Director or chief executive of the Company, as at 31st December 2003, the following were the substantial shareholders (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

#### Long positions in the shares of the Company

Name of shareholder	Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Super Dragon (Note 1)	Corporate	165,000,000	Beneficial owner	41.25%
Drangon Treasure (Note 2)	Corporate	134,508,000	Trustee	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% respectively.
2. Dragon Treasure is a nominee company and acts as the trustee for holding these shares in 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 the shares and underlying shares of the Company are disclosed in the section "Interests and short positions of Directors and chief executive in shares, underlying shares and debentures" above.

Save as disclosed above, as at 31st December 2003, the Company has not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

### MANAGEMENT CONTRACTS

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

## MAJOR CUSTOMERS AND SUPPLIERS

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	39.3%
– five largest suppliers combined	64.4%
Sales	
– the largest customer	19.0%
– five largest customers combined	39.6%

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 to 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.

## Directors' Report

### AUDITORS

Messrs. PricewaterhouseCoopers, who acted as auditors of the Company since the listing of the Company, 30th January 2000, had resigned on 9th July 2002 and Messrs. Deloitte Touche Tohmatsu were appointed as auditors of the Company on 16th August 2002 to fill the casual vacancy.

A resolution will be submitted to the 2004 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*

Hong Kong, 23rd March 2004

## 德勤·關黃陳方會計師行

Certified Public Accountants  
26/F, Wing On Centre  
111 Connaught Road Central  
Hong Kong

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 29 to 63 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The 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 financial statements and to report our opinion to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **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 the Group as at 31st December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 23rd March 2004

	Notes	2003 HK\$'000	2002 HK\$'000
Turnover	4	<b>565,726</b>	400,296
Cost of sales		<b>(511,444)</b>	(377,075)
Gross profit		<b>54,282</b>	23,221
Other operating income	5	<b>20,497</b>	28,589
Selling expenses		<b>(39,908)</b>	(23,089)
General and administrative expenses		<b>(31,810)</b>	(41,323)
Other operating expenses		<b>(595)</b>	(6,824)
Profit/(loss) from operations	6	<b>2,466</b>	(19,426)
Finance costs	9	<b>(611)</b>	(4,667)
Share of results of associates		<b>(295)</b>	–
Gain on disposal of a subsidiary		<b>761</b>	–
Profit/(loss) before taxation		<b>2,321</b>	(24,093)
Taxation	10	<b>(699)</b>	(507)
Profit/(loss) before minority interests		<b>1,622</b>	(24,600)
Minority interests		<b>(1,399)</b>	(997)
Net profit/(loss) for the year		<b>223</b>	(25,597)
Earning/(loss) per share			
– Basic	12	<b>0.06 cent</b>	(6.40) cents

# 30 Consolidated Balance Sheet

As at 31st December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	51,063	13,899
Intangible assets	14	2,822	384
Investments in securities	16	4,739	6,194
Interests in associates	17	3,009	–
		<b>61,633</b>	20,477
<b>Current assets</b>			
Inventories	18	119,902	79,225
Other asset	19	56,604	–
Trade and other receivables	20	129,571	170,417
Loans and interest receivables	21	37,812	25,464
Investments in securities	16	13,931	77,812
Pledged bank deposits	29	22,777	37,112
Bank balances and cash		300,498	200,852
		<b>681,095</b>	590,882
<b>Current liabilities</b>			
Trade and other payables	22	167,871	103,287
Taxation payable		132	309
Bank and other loans	23	93,146	29,223
		<b>261,149</b>	132,819
<b>Net current assets</b>		<b>419,946</b>	458,063
<b>Total assets less current liabilities</b>		<b>481,579</b>	478,540
<b>Capital and reserves:</b>			
Share capital	24	40,000	40,000
Reserves		432,488	432,220
<b>Shareholders' funds</b>		<b>472,488</b>	472,220
<b>Minority interests</b>		<b>9,091</b>	6,320
		<b>481,579</b>	478,540

The financial statements on pages 29 to 63 were approved and authorised for issue by the Board of Directors on 23rd March 2004 and are signed on its behalf by:

**Zhu Wei Sha**  
Chairman and President

**Shi Guang Rong**  
Vice President



As at 31st December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>Non-current asset</b>			
Interests in subsidiaries	15	366,254	412,554
<b>Current assets</b>			
Trade and other receivables	20	397	266
Loan and interest receivables	21	31,129	–
Pledged bank deposits	29	–	20,000
Bank balances and cash		146,639	99,238
		<b>178,165</b>	119,504
<b>Current liabilities</b>			
Trade and other payables	22	1,092	762
Amounts due to subsidiaries		10,555	1,673
		<b>11,647</b>	2,435
<b>Net current assets</b>		<b>166,518</b>	117,069
<b>Total assets less current liabilities</b>		<b>532,772</b>	529,623
<b>Capital and reserves:</b>			
Share capital	24	40,000	40,000
Reserves	26	492,772	489,623
<b>Shareholders' funds</b>		<b>532,772</b>	529,623

Approved by the Board on 23rd March 2004 and signed on behalf of the Board by:

**Zhu Wei Sha**  
Chairman and President

**Shi Guang Rong**  
Vice President

# 32 Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

	Share capital HK\$'000 (Note 24)	Share premium HK\$'000	Statutory reserves HK\$'000 (Note)	Translation reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2002	40,000	381,713	11,767	1,060	63,303	497,843
Exchange adjustments arising on translation of financial statements of subsidiaries outside Hong Kong and loss 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
Exchange adjustments arising on translation of financial statements of subsidiaries outside Hong Kong and gain not recognised in the consolidated income statement	-	-	-	46	-	46
Realised on disposal of a subsidiary	-	-	-	(1)	-	(1)
Net profit for the year	-	-	-	-	223	223
<b>At 31st December 2003</b>	<b>40,000</b>	<b>381,713</b>	<b>11,767</b>	<b>1,079</b>	<b>37,929</b>	<b>472,488</b>

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 shareholders' funds.

For the year ended 31st December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
<b>OPERATING ACTIVITIES</b>			
Profit/(loss) from operations		2,466	(19,426)
Adjustments for:			
Interest income		(9,118)	(17,818)
Depreciation of property, plant and equipment		2,785	1,760
Amortisation of intangible assets		1,643	505
Loss on disposal of property, plant and equipment		3	–
Gain on disposal of investments in securities		(55)	(6,683)
Net unrealised holding (gain)/loss on investments in securities		(1,339)	509
Impairment loss on investments in securities		2,547	1,668
(Reversal of)/allowances for inventories		(3,910)	3,490
Allowances for bad and doubtful debts		3,405	9,847
Operating cash flows before movements in working capital		(1,573)	(26,148)
Increase in inventories		(37,224)	(18,229)
Increase in trade and other receivables		(9,067)	(72,409)
Increase in trade and other payables		66,694	35,198
Cash generated from/(used in) operations		18,830	(81,588)
Income taxes paid		(876)	(547)
<b>NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES</b>		<b>17,954</b>	<b>(82,135)</b>
<b>INVESTING ACTIVITIES</b>			
Proceeds from disposal of investments in securities		217,255	275,784
Refund from/(deposits with) securities houses		47,046	(18,140)
Decrease in pledged bank deposits		14,335	198,944
Interest received		8,324	14,874
Proceeds from disposal of a subsidiary (net of cash and cash equivalents disposed of)	27	20	–
Proceeds from disposal of property, plant and equipment		6	–
Purchase of investments in securities		(153,072)	(90,892)
Advance to a related party		(56,604)	–
Purchase of property, plant and equipment		(39,930)	(2,482)
Increase in loans and interest receivables		(11,554)	(25,000)
Purchase of intangible assets		(4,081)	(241)
Investment in an associate		(3,304)	–
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	28	(1,357)	30
<b>NET CASH GENERATED FROM INVESTING ACTIVITIES</b>		<b>17,084</b>	<b>352,877</b>

# 34 Consolidated Cash Flow Statement

For the year ended 31st December 2003

	2003 HK\$'000	2002 HK\$'000
FINANCING ACTIVITIES		
New bank and others loans raised	111,993	29,223
Contribution from minority shareholders of subsidiaries	1,617	400
Repayment of bank and other loans	(48,058)	(216,858)
Interest paid	(740)	(4,667)
Dividend paid to minority shareholders of subsidiaries	(245)	(784)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	64,567	(192,686)
NET INCREASE IN CASH AND CASH EQUIVALENTS	99,605	78,056
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	200,852	122,820
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	41	(24)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, representing bank balances and cash	300,498	200,852

## 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 35.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the Statement of Standard Accounting Practice ("SSAP") 12 (Revised) "Income taxes" under the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of SSAPs and Interpretations approved by the HKSA. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

## 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.

### **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.

Management and service fee income is recognised on an appropriate basis over the relevant period in which the services are rendered.

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

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

Construction in progress are stated at cost, less any identified impairment loss, which comprises land costs and the related construction and borrowing costs, as appropriate.

The cost of construction in progress will not be amortised until they are put into use and are transferred to a specific category of property, plant and equipment when the construction is completed.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress 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.

#### Intangible assets

Patents and trademarks and film and musical recording rights are measured initially at cost less any identified impairment loss and amortised on a straight-line basis over their estimated useful lives.

#### 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.

#### Interests in subsidiaries

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

#### Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment loss.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Inventories**

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

#### **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.

#### **Research and development costs**

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

An internally-generated 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.

#### **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 and pension schemes in jurisdictions other than Hong Kong are charged as an expense as they fall due.

#### **Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Taxation** *(Continued)*

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

### 4. SEGMENT INFORMATION

#### **Business segments**

For management purposes, the Group is currently organised into two major operating divisions – information home appliances and electronic components. 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 – manufacture, sales and distribution of audio-visual products, information appliances products and complimentary products to consumer market;
- Electronic components – sales and distribution of electronic components.

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



#### 4. SEGMENT INFORMATION *(Continued)*

##### Business segments *(Continued)*

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 2003*

	Information home appliances HK\$'000	Electronic components HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>					
External sales	248,319	292,395	25,012	–	565,726
Inter-segment sales*	220,380	108,550	1,712	(330,642)	–
Total	468,699	400,945	26,724	(330,642)	565,726
<b>RESULTS</b>					
Segment results	2,212	(4,438)	(3,495)	–	(5,721)
Unallocated income					19,610
Unallocated expenses					(11,423)
Profit from operations					2,466
Finance costs					(611)
Share of results of associates					(295)
Gain on disposal of a subsidiary					761
Profit before taxation					2,321
Taxation					(699)
Profit before minority interests					1,622
Minority interests					(1,399)
Net profit for the year					223

\* 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 2003

	Information home appliances HK\$'000	Electronic components HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>				
Segment assets	300,063	80,513	5,604	386,180
Interests in associates				3,009
Unallocated assets				353,539
Total assets				742,728
<b>LIABILITIES</b>				
Segment liabilities	87,549	63,107	12,324	162,980
Unallocated liabilities				98,169
Total liabilities				261,149
<b>OTHER INFORMATION</b>				
Capital additions	43,307	171	662	44,140
Depreciation and amortisation	2,944	432	1,052	4,428
Impairment loss on investments in securities	–	–	2,547	2,547
Allowances for bad and doubtful debts	3,405	–	–	3,405

#### 4. SEGMENT INFORMATION *(Continued)*

##### Business segments *(Continued)*

For the year ended 31st December 2002

	Information home appliances HK\$'000	Electronic components HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>					
External sales	155,044	236,102	9,150	–	400,296
Inter-segment sales*	35,670	30,881	–	(66,551)	–
<b>Total</b>	<b>190,714</b>	<b>266,983</b>	<b>9,150</b>	<b>(66,551)</b>	<b>400,296</b>
<b>RESULTS</b>					
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)
<b>Net loss for the year</b>					<b>(25,597)</b>

\* 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	Electronic components HK\$'000	Other operations HK\$'000	Consolidated HK\$'000
<b>ASSETS</b>				
Segment assets	121,931	76,005	5,696	203,632
Unallocated assets				407,727
Total assets				611,359
<b>LIABILITIES</b>				
Segment liabilities	61,332	27,638	1,898	90,868
Unallocated liabilities				41,951
Total liabilities				132,819
<b>OTHER INFORMATION</b>				
Capital additions	2,497	107	359	2,963
Depreciation and amortisation	1,770	457	38	2,265
Impairment loss on investments in securities	–	–	1,668	1,668
Allowances for bad and doubtful debts	9,847	–	–	9,847
Allowances for inventories	3,490	–	–	3,490
Net unrealised holding loss on investments in securities	–	–	509	509

##### Geographical segments

The Group's information home appliances division is located in the PRC and its products are also distributed in the PRC and Hong Kong. The electronic components division is mainly located in Hong Kong and its goods are distributed in the PRC, Hong Kong and other countries.

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

	Turnover	
	2003 HK\$'000	2002 HK\$'000
The PRC	327,197	374,288
Hong Kong	218,165	23,106
Other countries	20,364	2,902
	565,726	400,296

#### 4. SEGMENT INFORMATION *(Continued)*

##### Geographical segments *(Continued)*

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	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
The PRC	471,884	479,615	43,970	2,881
Hong Kong	266,522	125,085	170	82
Other countries	4,322	6,659	–	–
	<b>742,728</b>	611,359	<b>44,140</b>	2,963

#### 5. OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Interest income	8,383	16,313
Interest income from investments in securities	735	1,505
Gain on disposal of investments in securities	55	6,683
Net unrealised holding gains on investments in securities	1,339	–
Sundry income	9,985	4,088
	<b>20,497</b>	28,589

## 6. PROFIT/(LOSS) FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit/(loss) from operations has been arrived at after charging:		
Auditors' remuneration	842	868
Depreciation of property, plant and equipment	2,785	1,760
Amortisation of intangible assets (included in general and administrative expenses)	1,643	505
Directors' emoluments ( <i>note 7</i> )	1,057	753
Other staff costs	14,637	19,372
Retirement benefits scheme contributions (excluding the Directors)	460	799
<b>Total staff costs</b>	<b>16,154</b>	<b>20,924</b>
Research and development costs	5,700	812
Loss on disposal of property, plant and equipment	3	–
Impairment loss on investments in securities	2,547	1,668
Net unrealised holding losses on investments in securities	–	509

## 7. DIRECTORS' EMOLUMENTS

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

	2003 HK\$'000	2002 HK\$'000
Fees:		
– Independent non-executive Directors	86	94
Other emoluments:		
– Executive Directors		
Basic salaries, other allowances and benefits in kind	970	656
Retirement benefits schemes contributions	1	3
	<b>1,057</b>	<b>753</b>

For the year ended 31st December 2003, four executive Directors received remuneration of approximately HK\$407,000, HK\$300,000, HK\$133,000 and HK\$131,000 respectively and two independent non-executive Directors received remuneration of approximately HK\$43,000 each.

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.

During the year, no emoluments were 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, one Director (2002: none of the 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 four (2002: five) highest paid individuals, who are employees of the Group, are as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	<b>2,095</b>	2,550
Retirement benefits schemes contributions	<b>12</b>	35
	<b>2,107</b>	2,585

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

## 9. FINANCE COSTS

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Interest on loans wholly repayable within five years:		
– Bank loans	<b>707</b>	3,507
– Other loan	<b>33</b>	1,160
Total borrowing costs	<b>740</b>	4,667
Less: amounts capitalised	<b>(129)</b>	–
	<b>611</b>	4,667

## 10. TAXATION

The charge represents Hong Kong Profits Tax calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. The profits tax rate has been increased with effected from the 2003 year of assessment.

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 whilst a PRC subsidiary is exempted from PRC income tax for three years starting from the year it commenced business, followed by a 50% reduction on a tax rate of 15% for the next consecutive three years on the assessable income. 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.

The charge for the year can be reconciled to the profit/(loss) before taxation per the income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Profit/(loss) before taxation	2,321	(24,093)
Tax at the domestic income tax rate of 17.5% (2002: 16%)	406	(3,855)
Tax effect of share of results of associates	–	–
Tax effect of expenses that are not deductible in determining taxable profit	544	170
Tax effect of income that are not taxable in determining taxable profit	(462)	(611)
Overprovision in respect of prior year	(13)	(36)
Tax effect of utilisation of tax loss not previously recognised	(1,516)	(529)
Tax effect of additional tax losses not recognised	9,217	7,116
Effect of tax exemptions granted to PRC subsidiaries	(6,467)	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	(1,010)	(1,748)
Tax expense for the year	699	507

At 31st December 2003, the Group has unused tax losses of approximately HK\$71,029,000 (2002: HK\$44,312,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams.

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

## 11. DIVIDEND

The Directors have resolved to recommend the payment of a final dividend of HK2.5 cents per share for the year ended 31st December 2003. The proposed dividend for 2003 is payable to those shareholders whose names appear on the register of members of the Company on 23rd June 2004.

This proposed dividend is subject to approval by the shareholders of the Company at the forthcoming annual general meeting to be held on 18th May 2004.



## 12. EARNING/(LOSS) PER SHARE

The calculation of the basic earning/(loss) per share is based on the net profit for the year of approximately HK\$223,000 (2002: net loss of approximately HK\$25,597,000) and on 400,000,000 (2002: 400,000,000) ordinary shares in issue during the year.

No diluted earning per share has been presented for the year ended 31st December 2003 because the exercise price of the Company's share options was higher than the average market price for shares for 2003.

No diluted loss per share has been presented for the year ended 31st December 2002 as the assumed exercise of the Company's share options would result in a decrease in loss per share.

## 13. PROPERTY, PLANT AND EQUIPMENT

### Group

	Construction in progress	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	HK\$'000
COST:							
At 1st January 2003	–	9,129	701	3,998	2,041	2,588	18,457
Exchange adjustments	–	(3)	–	(2)	(1)	(1)	(7)
Additions	26,489	–	238	691	11,967	674	40,059
Disposals	–	–	–	(16)	–	–	(16)
Disposal of a subsidiary	–	–	–	(95)	–	–	(95)
<b>At 31st December 2003</b>	<b>26,489</b>	<b>9,126</b>	<b>939</b>	<b>4,576</b>	<b>14,007</b>	<b>3,261</b>	<b>58,398</b>
ACCUMULATED DEPRECIATION:							
At 1st January 2003	–	650	538	2,335	271	764	4,558
Charge for the year	–	481	242	741	1,014	307	2,785
Eliminated on disposals	–	–	–	(7)	–	–	(7)
Eliminated on disposal of a subsidiary	–	–	–	(1)	–	–	(1)
<b>At 31st December 2003</b>	<b>–</b>	<b>1,131</b>	<b>780</b>	<b>3,068</b>	<b>1,285</b>	<b>1,071</b>	<b>7,335</b>
NET BOOK VALUES:							
<b>At 31st December 2003</b>	<b>26,489</b>	<b>7,995</b>	<b>159</b>	<b>1,508</b>	<b>12,722</b>	<b>2,190</b>	<b>51,063</b>
At 31st December 2002	–	8,479	163	1,663	1,770	1,824	13,899

Included in construction in progress is interest capitalised of approximately HK\$129,000 (2002: nil).

At 31st December 2003 and 2002, buildings and construction in progress of the Group are held under medium term land use rights in the PRC.

## 14. INTANGIBLE ASSETS

## Group

	Patents and trademarks HK\$'000	Film and musical recording rights HK\$'000	Others HK\$'000	Total HK\$'000
COST:				
At 1st January 2003	5,639	–	86	5,725
Exchange adjustments	(2)	–	–	(2)
Additions	–	4,081	–	4,081
<b>At 31st December 2003</b>	<b>5,637</b>	<b>4,081</b>	<b>86</b>	<b>9,804</b>
ACCUMULATED AMORTISATION:				
At 1st January 2003	5,307	–	34	5,341
Exchange adjustments	(2)	–	–	(2)
Charge for the year	96	1,530	17	1,643
<b>At 31st December 2003</b>	<b>5,401</b>	<b>1,530</b>	<b>51</b>	<b>6,982</b>
NET BOOK VALUES:				
<b>At 31st December 2003</b>	<b>236</b>	<b>2,551</b>	<b>35</b>	<b>2,822</b>
At 31st December 2002	332	–	52	384

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

Film and musical recording rights of the Group represents the cost paid for obtaining the right to use the content of films and musical in the information home appliances.

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

## 15. INTERESTS IN SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	176,000	176,000
Loans to subsidiaries	210,033	227,503
Amounts due from subsidiaries	37,621	66,451
	<b>423,654</b>	469,954
Less: Impairment loss recognised	(57,400)	(57,400)
	<b>366,254</b>	412,554

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

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, an 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 was recognised.

Details of principal subsidiaries as at 31st December 2003 are set out in note 35.

## 16. INVESTMENTS IN SECURITIES

## Group

	Investment securities		Other investments		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Equity securities:						
– Unlisted	4,317	6,194	–	1,297	4,317	7,491
– Listed in Hong Kong	–	–	13,931	–	13,931	–
– Listed in overseas	422	–	–	–	422	–
Debt securities:						
– Listed in PRC	–	–	–	76,515	–	76,515
Total	<b>4,739</b>	6,194	<b>13,931</b>	77,812	<b>18,670</b>	84,006
Classified under:						
Current	–	–	13,931	77,812	13,931	77,812
Non-current	4,739	6,194	–	–	4,739	6,194
	<b>4,739</b>	6,194	<b>13,931</b>	77,812	<b>18,670</b>	84,006
Market value of listed securities	422	–	13,931	76,515	14,353	76,515

At the balance sheet date, the equity securities included in other investments are stated at their market price (2002: at their quoted price).

## 17. INTERESTS IN ASSOCIATES

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	3,009	–

Details of the Group's associates at 31st December 2003 are as follows:

Name of associate	Form of business structure	Place of incorporation	Proportion of equity interests held by the Group		Principal activities
			directly	indirectly	
NetAv Electronic Technology Ltd.	Incorporated	Cayman Islands	21%	–	Investment holding
Beijing NetAv Technology Co., Ltd.	Incorporated	The PRC	–	21%	Inactive

## 18. INVENTORIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Merchandise	35,192	8,680
Raw materials	34,976	31,627
Work-in-progress	14,703	7,042
Finished goods	35,031	31,876
	<b>119,902</b>	<b>79,225</b>

Included above are raw materials of approximately HK\$3,736,000 (2002: HK\$6,621,000) and finished goods of approximately HK\$18,449,000 (2002: HK\$7,177,000) which are carried at net realisable values. In addition, merchandise of approximately HK\$947,000 which was carried at net realisable value at 31st December, 2002.

## 19. OTHER ASSET

During the year, the Group entered into an agreement with a company ("Borrower") in which a Director has less than 10% beneficial interest, whereby an advance of RMB60,000,000 (approximately HK\$56,604,000) was made to the Borrower. The advance bears interest rate at 12% per annum and is repayable within 12 months from the date of advance. The advance is specifically used for investing in a company ("Investee Company") established in the PRC. The Group is given the right to dispose those interest in the Investee Company attributable to the Borrower and entitle to one-third of the profit arising from disposal of such interest.

## 20. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade receivables (Note a)	94,069	55,382	–	–
Bills receivables	2,614	499	–	–
Prepayments and deposits	22,291	20,356	397	266
Other receivables (Note b)	10,597	94,180	–	–
	<b>129,571</b>	<b>170,417</b>	<b>397</b>	<b>266</b>

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	
	2003 HK\$'000	2002 HK\$'000
0–30 days	72,380	33,764
31–60 days	15,550	16,154
61–90 days	3,312	1,123
Over 90 days	4,329	14,004
	<b>95,571</b>	<b>65,045</b>
Less: Allowances for bad and doubtful debts	<b>(1,502)</b>	<b>(9,663)</b>
	<b>94,069</b>	<b>55,382</b>

- (b) As at 31st December 2002, included in other receivables was deposit for purchase of merchandise for resale of approximately HK\$47,134,000 and deposits placed with securities houses in the PRC of approximately HK\$47,046,000. The above deposits had been fully refunded to the Group during the year.

## 21. LOANS AND INTEREST RECEIVABLES

The loans have been advanced to third parties, which are secured by properties and shares in a company respectively held by the third parties, bear interest rates at 8.5% and 12% per annum respectively and will be repayable within one year from the balance sheet date.

## 22. TRADE AND OTHER PAYABLES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trade payables (Note)	127,378	83,814	–	–
Other payables	31,438	10,607	517	288
Accruals	9,055	8,866	575	474
	<b>167,871</b>	<b>103,287</b>	<b>1,092</b>	<b>762</b>

**22. TRADE AND OTHER PAYABLES** (Continued)

Note:

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

	Group	
	2003 HK\$'000	2002 HK\$'000
0–30 days	110,935	73,087
31–60 days	13,553	7,077
61–90 days	1,849	1,124
Over 90 days	1,041	2,526
	127,378	83,814

**23. BANK AND OTHER LOANS**

	Group	
	2003 HK\$'000	2002 HK\$'000
Bank and other loans comprise:		
Bank loans	89,376	29,223
Other loan	3,770	–
	93,146	29,223
Analysed as:		
Secured	93,146	26,600
Unsecured	–	2,623
	93,146	29,223

**24. SHARE CAPITAL**

	Number of ordinary share of HK\$0.10 each 2003 & 2002	Nominal value 2003 & 2002 HK\$'000
Authorised:		
At beginning and end of the year	2,000,000,000	200,000
Issued and fully paid:		
At beginning and end of the year	400,000,000	40,000

## 25. SHARE OPTION SCHEME

### Previous Scheme

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

The principal purposes of the Previous 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, 23rd March 2004, the total number of shares available for issue under the Previous Scheme is 40,000,000, which represents 10% of the issued share capital of the Company. The maximum entitlement of any one employee cannot exceed 25% of the maximum aggregate number of shares issued and which may fall to be issued under the Previous Scheme. At 31st December 2003, the total number of shares in respect of which share options had been granted and remained outstanding under the Previous Scheme was 17,200,000 representing 4.3% 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 employee to the Company within 21 days from the date of offer of the share options. The exercise price of the share options is determined by the Directors, and will not be less than the higher of the closing price of the Company's shares on the date of grant, the average closing price of the Company's shares of the five business days immediately preceding the date of grant and the nominal value of the shares of the Company.

The Previous Scheme, originally expiring on 31st January 2010, was early terminated on 18th May 2003. No further share options will be offered under the Previous Scheme upon its termination but its terms remain in full force and effect in respect of the outstanding share options previously granted.

## 25. SHARE OPTION SCHEME (Continued)

Details of the movement of share options granted under the Previous Scheme during the two years ended 31st December 2003 to subscribe for the shares in the Company are as follows:

### For the year ended 31st December 2003

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options				At 31st December 2003
				At 1st January 2003	Exercised during the year	Granted during the year	Cancelled/lapsed during the year	
Director								
– Mr. Wang An Zhong	28th November 2000	28th November 2001 – 27th November 2005	0.95	1,000,000	–	–	–	1,000,000
Continuous Contract Employees	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	6,385,000	–	–	(965,000)	5,420,000
	3rd December 2000	3rd December 2001 – 2nd December 2005	0.95	610,000	–	–	(60,000)	550,000
	4th December 2000	4th December 2001 – 3rd December 2005	0.95	310,000	–	–	(170,000)	140,000
	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	–	–	(1,390,000)	3,110,000
	11th April 2001	11th April 2002 – 10th April 2006	0.75	3,800,000	–	–	(1,820,000)	1,980,000
	15th June 2001	15th June 2002 – 14th June 2006	1.45	600,000	–	–	(600,000)	–
Total				22,245,000	–	–	(5,045,000)	17,200,000



## 25. SHARE OPTION SCHEME (Continued)

For the year ended 31st December 2002

	Date of grant	Exercisable period	Exercise price HK\$	Number of share options				At 31st December 2002
				At 1st January 2002	Exercised during the year	Granted during the year	Cancelled/ lapsed during the year	
Director								
- Mr. Wang An Zhong	28th November 2000	28th November 2001 – 27th November 2005	0.95	1,000,000	-	-	-	1,000,000
Continuous Contract	27th June 2000	27th June 2001 – 26th June 2005	4.80	5,000,000	-	-	-	5,000,000
Employees	28th November 2000	28th November 2001 – 27th November 2005	0.95	6,635,000	-	-	(250,000)	6,385,000
	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
Total				22,495,000	-	-	(250,000)	22,245,000

## 25. SHARE OPTION SCHEME (Continued)

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):

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

### Existing Scheme

The Company's new share option scheme (the "Existing Scheme"), which was adopted pursuant to the ordinary resolutions passed by the shareholders of the Company on 18th May 2003 for the purpose of providing incentives to certain eligible participants and unless otherwise cancelled or amended, will expire on 17th May 2013. Under the Existing Scheme, the Directors may grant share options to eligible employees, including Executive Directors, or any persons or entities who have contributed or will contribute to the growth and development of the Group, to subscribe for shares in the Company.

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants (the "Eligible Participants"), to take up share options to subscribe for the shares of the Company:

- (i) any employee or officer (whether full time or part time, and including any Executive Director) of any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity");
- (ii) any non-executive directors (including Independent Non-executive directors) of any member of the Group or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of any member of the Group or any Invested Entity;

## 25. SHARE OPTION SCHEME *(Continued)*

### Existing Scheme *(Continued)*

- (v) any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; and
- (vi) any holder of any securities or securities convertible into any securities issued by any member of the Group or any Invested Entity,

and, for the purposes of the Existing Scheme, the share options may be granted to any company wholly owned by one or more such Eligible Participants.

The total number of shares in respect of which share options may be granted under the Existing Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Existing Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of outstanding options granted and yet to be exercised under the Existing Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. As at the date of the directors' report, 23rd March 2004, the total number of shares available for issue under the Existing Scheme is 40,000,000, which represents 10% of the issued share capital of the Company. The number of shares in respect of which options may be granted to any eligible participant in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of share options to any Director, chief executive or substantial shareholder must be approved by Independent Non-executive Directors. Where any grant of share options to a substantial shareholder or an Independent Non-executive Director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK\$5,000,000 in the 12-month period up to the date of grant, then the grant must be approved in advance by the Company's shareholders.

Share options granted must be taken up within 21 days from the date of grant, upon payment of HK\$1 per share option. A share option may be exercised in accordance with the terms of the Existing Scheme at any time during the effective period of the Existing Scheme to be notified by the Directors which shall not be later than 10 years from the date of grant. There is no general requirement regarding any minimum period of time a grantee must hold a share option granted to him before exercising such share option. However, the Directors may determine from time to time to impose such a requirement of such a minimum period provided that the date at the end of such minimum period of time must be earlier than (a) the date on which such share option lapses; and (b) 10 years from the date of grant of that share option. The exercise price is determined by the Directors, and will not be less than the highest of the closing price of the Company's share on the date of grant, the average closing price of the Company's share for the five business days immediately preceding the date of grant and the nominal value of the shares of the Company.

During the year ended 31st December 2003, no share options have been granted under the Existing Scheme.

## 26. RESERVES

	Company			Total HK\$'000
	Share premium HK\$'000	Contributed surplus HK\$'000	Retained profits/ (deficits) HK\$'000	
At 1st January 2002	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
Net profit for the year	–	–	3,149	3,149
<b>At 31st December 2003</b>	<b>381,713</b>	<b>146,000</b>	<b>(34,941)</b>	<b>492,772</b>

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.

## 27. DISPOSAL OF A SUBSIDIARY

	2003 HK\$'000	2002 HK\$'000
Net liabilities disposed of:		
Property, plant and equipment	94	–
Inventories	457	–
Bank balances and cash	75	–
Trade and other payables	(755)	–
	(129)	–
Exchange reserve released	1	–
	(128)	–
Gain on disposal of a subsidiary	761	–
Total consideration	633	–
Satisfied by:		
Cash consideration received	95	–
Other receivables	538	–
	633	–
Analysis of the net inflow of cash and cash equivalents in connection with the disposal of a subsidiary:		
Cash consideration received	95	–
Bank balances and cash disposed of	(75)	–
Net inflow of cash and cash equivalents	20	–

The subsidiary disposed of during the year did not have any significant impact on the Group's cash flows, turnover and operating results.

## 28. ACQUISITION OF A SUBSIDIARY

During the year ended 31st December 2002, the Group acquired the entire interests in Sheng Bang Qiang Dian Electronics (Shenzhen) Co., Ltd. ("Sheng Bang") for a consideration of approximately HK\$3.4 million. This acquisition had been accounted for using the acquisition method of accounting.

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Net assets acquired:		
Property, plant and equipment	–	240
Other receivables	–	1,162
Bank balances and cash	–	2,031
Other payables	–	(75)
<b>Net assets</b>	<b>–</b>	<b>3,358</b>
Satisfied by:		
Cash consideration paid	–	2,001
Other payables	–	1,357
<b>Total consideration</b>	<b>–</b>	<b>3,358</b>

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

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Cash consideration paid	–	(2,001)
Bank balances and cash acquired	–	2,031
<b>Net inflow of cash and cash equivalents</b>	<b>–</b>	<b>30</b>

The subsidiaries acquired during the year ended 31st December 2002 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 for previous year.

## 29. PLEDGE OF ASSETS

At 31st December 2003, the following assets were pledged to secure banking facilities and other loan granted to the Group:

- (a) Bank deposits of the Group and the Company of approximately HK\$22,777,000 (2002: HK\$37,112,000) and nil (2002: HK\$20,000,000), respectively;
- (b) Investments in securities of the Group with the carrying value of approximately HK\$3,900,000 (2002: HK\$3,900,000); and
- (c) Construction in progress of the Group with the carrying value of approximately HK\$12,947,000 (2002: nil).

### 30. OPERATING LEASE COMMITMENTS

The Group made minimum lease payments of approximately HK\$6,388,000 (2002: HK\$7,820,000) 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	
	2003 HK\$'000	2002 HK\$'000
Within one year	5,302	7,244
In the second to fifth year inclusive	4,114	16,845
Over five years	3,071	2,233
	12,487	26,322

Leases are negotiated for terms of ranging from one to thirty years with fixed rentals.

At 31st December 2003 and 2002, the Company had no commitments under non-cancellable operating leases.

### 31. CAPITAL COMMITMENTS

	Group	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	20,514	–

At 31st December 2003 and 2002, the Company had no capital commitments.

### 32. CONTINGENT LIABILITIES

- (a) 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 arising pursuant to two sale and purchase contracts (the "Contracts") entered into between Golden Yuxing and Shanxi 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.

During the year, the final judgement from Beijing West City District People's Court, Beijing City First Immediate People's Court and Taiyuan City Wan Po Lin District Court were obtained and the outcome of the proceeding did not have any material adverse financial impact to the Group accordingly.

- (b) The 31st December 2003, the Company had given guarantees to banks in respect of bank facilities granted to the Group of approximately HK\$21,874,000 (2002: HK\$30,600,000).

### 33. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme 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 approximately HK\$461,000 (2002: HK\$802,000) represents contribution payable to these schemes by the Group in respect of the current year.

### 34. RELATED PARTY TRANSACTIONS

During the year, the Group entered into an agreement with the Borrower in which Mr. Zhu Wei Sha has less than 10% beneficial interest, whereby an advance of RMB60,000,000 (approximately HK\$56,604,000) was made to the Borrower. Details of the transactions are set out in note 19.

### 35. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December 2003 are as follows:

Name of subsidiary	Place of incorporation/ kind of legal entity	Principal activities/ place of operation	Particulars of issued share capital/ registered capital	Interest held
<i>Direct subsidiaries:</i>				
First I-Tech Limited	Republic of Mauritius ("Mauritius")/limited liability company	Investment holding/ Hong Kong ("HK")	1 ordinary share of US\$1	100%
Yuxing Electronics Company Limited	British Virgin Islands/ limited liability company	Investment holding/ the PRC and HK	2,000 ordinary shares of US\$1 each	100%
<i>Indirect subsidiaries:</i>				
Beijing Yuxing Software Co., Ltd.	The PRC/Foreign wholly owned enterprise	Research and development and software design/ the PRC	RMB10,610,850	100%
E-Century Investment Limited	Mauritius/limited liability company	Holding of intangible assets/ the PRC	1 ordinary share of US\$1	100%
Foshan Zhixing Technology Co., Ltd.	The PRC/Foreign wholly owned enterprise	Research and development of broadband communication/the PRC	RMB53,512,424	100%
Golden Yuxing	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%*
Hi-Level Technology Limited	Hong Kong/limited liability company	Trading and distribution of integrated circuits/HK	15,000,000 ordinary shares of HK\$1 each	51%



## 35. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ kind of legal entity	Principal activities/ place of operation	Particulars of issued share capital/ registered capital	Interest held
<i>Indirect subsidiaries (Continued):</i>				
Sheng Bang	The PRC/Foreign wholly owned enterprise	Manufacturing, distribution and sales of information home appliances and electronic components/ the PRC	RMB50,000,000	100%
Sheng Bang Qian Dian Electronics (Zhong Shan) Limited	The PRC/Foreign wholly owned enterprise	Manufacturing, distribution and sales of information home appliances and electronic components/ the PRC	RMB18,266,371	100%
Yangson Electronics Limited	Hong Kong/limited liability company	Trading and distribution of integrated circuits/HK	500,000 ordinary shares of HK\$1 each	51%
Yuxing Electrical & Lighting Limited	Hong Kong/limited liability company	Trading of fluorescent tube and light bulb/HK	1,000,000 ordinary shares of HK\$1 each	60%
Yuxing Technology Company Limited	Hong Kong/limited liability company	Trading and distribution of electronic components and investment holding/HK	2 ordinary shares of HK\$1 each	100%

\* 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 Group 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 debt securities 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 Conference Room, Sheng Bang Qiang Dian Electronic (Zhong Shan) Co. Ltd., Yanjiang Road East, Domestic Industrial Park, Torch Hi-Tech Industrial Development Zone, Zhong Shan City, Guang Dong Province, China, on Tuesday, 18th May 2004 at 2:00 p.m. to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and the reports of the directors of the Company ("the Directors") and auditors of the Company for the year ended 31st December 2003;
2. to declare a final dividend for the year ended 31st December 2003;
3. to re-elect retiring Directors and to authorise the Directors to fix the Directors' remuneration;
4. 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

5. **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 any 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

**Notice of  
Annual  
General  
Meeting**

- (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 that 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 a 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).

6. **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;

## Notice of Annual General Meeting

- (b) the aggregate nominal amount of shares of the Company which may be purchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this resolution and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly;
- (c) for the purposes of this resolution, "Relevant Period" means the period from the date of the passing of this resolution until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company, the Companies Act 1981 of Bermuda or any other applicable law of Bermuda to be held; and
  - (iii) the date on which the authority sets out for this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in a general meeting.

7. **THAT:**

the Directors be and they are hereby authorised to exercise the authority referred to in paragraph (a) of ordinary resolution no. 5 above in respect of the share capital of the Company in issue referred to in sub-paragraph (ii) of paragraph (c) of such resolution.

By Order of the Board  
**Yuxing InfoTech Holdings Limited**  
**Zhu Wei Sha**  
*Chairman*

Hong Kong, 23rd March 2004

## Notice of Annual General Meeting

*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. 5 and 7 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. 6 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 2003.

## Glossary of Technical Terms

"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
"information appliance"	consumer electrical appliance incorporating some PC functions such as Internet browsing and video games
"Internet protocol television"	television broadcasting using Internet protocols
"mobile classroom"	a portable educational product that is capable of displaying a large capacity of educational programming with superb quality of audio and video contents
"middleware"	a system provides a unified development platform for different base hardware and enables application software developers to easily develop application software, which are compatible to the Group's hardware platform, on their PC platforms
"multimedia"	a combination of different communications tools such as sound, graphics, animation and video
"PC-mate"	a set-top box that is capable of utilizing the vast multimedia resources on the Internet through receiving files via PC and playing back on a television
"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
"video-on-demand"	the ability to start delivering a movie or other video program to an individual web browser or a television set whenever the user requests it