



Yuxing InfoTech Holdings Limited

裕興電腦科技控股有限公司*

(Incorporated in Bermuda with limited liability)

Interim Report 2000

*for identification purpose only

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

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

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

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

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Yuxing InfoTech Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Yuxing InfoTech Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:— (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS FOR THE SIX-MONTH PERIOD

- Turnover achieved approximately HK\$286.1 million for the six months ended 30th June 2000, representing a 28.2% period-to-period growth
- Operating profit increased to approximately HK\$72.5 million with an increase of 14.8%
- Profit attributable to shareholders increased by 29.5% to approximately HK\$74.0 million
- Earnings per share rose to approximately HK\$0.193
- Interim dividend of HK\$0.10 per share was declared

INTERIM RESULTS (UNAUDITED)

The Directors of Yuxing InfoTech Holdings Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months and three months ended 30th June 2000, together with the comparative unaudited figures for the corresponding periods in 1999, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

	Note	Six months ended 30th June		Three months ended 30th June	
		2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Turnover	(2)	286,077	223,125	125,469	85,708
Cost of inventories sold		(191,472)	(132,156)	(85,788)	(47,285)
Gross profit		94,605	90,969	39,681	38,423
Other revenue		10,206	270	6,432	93
Selling expenses		(22,479)	(23,705)	(10,093)	(9,230)
Administrative expenses		(9,478)	(4,346)	(5,568)	(2,495)
Other operating expenses		(330)	(37)	(140)	(31)
Operating profit		72,524	63,151	30,312	26,760
Non-operating income - Incentive bonuses	(3)	1,462	21,913	—	9,980
Profit before taxation		73,986	85,064	30,312	36,740
Taxation	(4)	—	(27,937)	—	(11,607)
Profit attributable to shareholders		73,986	57,127	30,312	25,133
Transfer to statutory reserves		—	4,457	—	—
Dividends		40,000	469	40,000	469
Earnings per share - Basic	(5)	19.29 cents	19.04 cents	7.58 cents	8.38 cents

Notes:

(1) Group reorganisation and basis of presentation

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

The Reorganisation has been reflected in the accounts by regarding the Group, which comprises the Company and its subsidiaries, as a continuing entity. Accordingly, the Group accounts for the six months and three months ended 30th June 2000 and 1999 have been prepared using the merger basis of accounting as if the group structure had been in existence since 1st January 1999, and comprise the results of the companies now comprising the Group since 1st January 1999 or the date of incorporation whichever is later. In the opinion of the Directors, the accounts prepared on the above basis present fairly the results and the state of affairs of the Group as a whole.

(2) Turnover

	Six months ended		Three months ended	
	30th June		30th June	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sale of goods				
Multimedia set-top boxes -				
Computer VCDs, Multimedia VCD players	231,677	203,836	73,567	81,966
Dancing mats and software applications	41,859	828	41,440	472
Integrated circuit Educational computers	7,570	—	7,570	—
Others	2,720	9,812	1,754	2,422
	2,251	8,649	1,138	848
	<u>286,077</u>	<u>223,125</u>	<u>125,469</u>	<u>85,708</u>

(3) **Non-operating income**

The non-operating income represents incentive bonuses granted by the Government of Pinggu County, Beijing, the People's Republic of China (the "PRC") to the Company's subsidiary in the PRC, Beijing Golden Yuxing Electronics and Technology Co., Ltd. ("Golden Yuxing") for the six months and three months ended 30th June 2000 and 1999. Golden Yuxing is categorised as "high-technology" company established in the Jinhaijiao Technology Zone of Pinggu County. The incentive bonuses were granted by Pinggu County Government for the purpose of supporting the expansion of Golden Yuxing's operations. Golden Yuxing is a Sino-foreign co-operative joint venture enterprise in which the Group, according to the relevant joint venture agreement, is entitled to the entire profit, and therefore 100% attributable interest, of Golden Yuxing.

(4) **Taxation**

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the six months and three months ended 30th June 2000 and 1999. Following the Reorganisation, Golden Yuxing has become a Sino-foreign co-operative joint venture enterprise and is entitled to preferential tax treatments available to foreign investment enterprises in accordance with the relevant tax regulations in the PRC. The preferential treatments include full exemption from PRC income tax for the two years starting from its first profit making year following by a 50% reduction of PRC income tax for the next consecutive three years. The preferential treatments commenced from year 2000 and therefore Golden Yuxing was fully exempt from PRC income tax for the six months and three months ended 30th June 2000 (six months and three months ended 30th June 1999: at a rate of 33%).

(5) **Earnings per share**

The calculation of the basic earnings per share for the six months and three months ended 30th June 2000 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$73,986,000 and HK\$30,312,000 respectively (six months and three months ended 30th June 1999: HK\$57,127,000 and HK\$25,133,000 respectively) and the weighted average number of 383,516,484 shares and 400,000,000 shares respectively (six months and three months ended 30th June 1999: 300,000,000 shares) in issue. In determining the weighted average number of shares in issue, a total of 300,000,000 shares issued on the establishment of the Company and on the Reorganisation of the Group is deemed to have been in issue since 1st January 1999.

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

INTERIM DIVIDENDS

The Directors recommend the payment of an interim dividend of HK\$0.10 per share for the six months ended 30th June 2000. The dividend will be payable on Friday, 15th September 2000 to shareholders whose names appear on the Register of Members of the Company at the close of business on Thursday, 31st August 2000. During the six months ended 30th June 1999, dividends amounted to approximately HK\$469,000 were paid by Golden Yuxing to its then shareholders prior to the Reorganisation.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed on Wednesday, 30th August 2000 and Thursday, 31st August 2000, during which period no transfer of shares will be effected. To rank for the aforesaid interim dividend, all completed transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrars, Central Registration Hong Kong Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:00 p.m. on Tuesday, 29th August 2000.

BUSINESS REVIEW

With the advent of year 2000, the electronics industry of the PRC developed at a modest pace after experiencing a period of rapid growth. Even under such market conditions, the Group was ranked second in the "Top 100 Leading Electronics Enterprises in the PRC" by reference to its net profit margin as published by the Ministry of Information Industry of the PRC in March. According to the first quarter statistics for year 2000, net profit of the Group doubled the aggregate profit of all other enterprises manufacturing video disc players among the 100 leading enterprises.

In view of the current state of the market, the Group has adopted a series of proactive strategies, adapting to market trends in response to consumer demand.

Based on the success of its multimedia set-top boxes, the Group launched dancing mats as a new line of products. The Directors believe that the Group's dancing mats are superior to similar products in the PRC market, comprising those which are designed specifically for the Group's video disc players and PCs, and those which are compatible to video disc players and PCs of other brands. The Group's

products received widespread popularity, topping the market with a leading market share of over 30%. Such success has effectively consolidated the brand name of “裕興”. To complement product promotion, the Group has planned a series of promotional campaigns. Moreover, in line with its aggressive marketing strategy, the Group has promoted sales of certain lower price models of multimedia set-top boxes to accommodate market trends and maintain the Group’s share in the set-top box market of the PRC.

In addition, the Group has co-operated with the Ministry of Education in the PRC with further breakthrough in promoting the adoption of computerised classrooms. In June, the Group, together with the Ministry of Education, conferred with education department heads and officials responsible for IT education in primary and secondary schools from 18 provinces (districts) to plan for the deployment of the Group’s “Integrated Solution for Computer Networking Classroom”. Such move reflects the Group’s intention in tapping e-education with “Integrated Solution for Computer Education”.

The co-operation with C-Cube Microsystems Inc. (“C-Cube”) to develop a range of DVD and computer DVD product series is running smoothly. The Group has already launched basic DVD products in late July.

FUTURE PROSPECTS

In view of the rich entertainment and physical exercise elements of dancing mats, as well as the general optimistic outlook for “physical exercise-entertainment” industry in the PRC, the Directors consider that there is significant room for expansion of such products in the market. The Group will jointly host the “Best Dancing Mat Performer” competition in the PRC with China Central Television this year. It is expected that such competition will further promote the growth of the dancing mat market.

Targeting for the long-term business development of the Group, the promotion of e-education has seen significant achievement in the first half of the year. The Ministry of Education has devised plans to introduce IT education in primary and secondary schools throughout the country. It was proposed that in year 2001 IT subject should become mandatory for all PRC high school classes and their junior counterparts in the urban districts. In year 2005, the PRC national

university entrance examination will include IT subject in the syllabus. With the anticipation of this huge education market and the imbalance in economic development between eastern and western China, the Group has suggested the “Integrated Solution”.

The concept behind the solution is to provide a “One Stop Shop for Products of All Classes”, where various computerised classroom packages range from RMB10,000 to RMB100,000 are offered to schools under different financial conditions. The other concept is “All in One Software-Hardware”. Not only will the Group offer computer hardware, the Group also offers a comprehensive range of proprietary content-rich software. Finally, the “Sales and Customer Services All in One” concept caters for every customer’s need, ranging from installation and testing to maintenance, user training and software support, through the Group’s extensive sales and service network throughout the PRC.

Since launching, this solution has been very well received by the teaching profession across the country. With over 700,000 primary and secondary schools in the PRC, the “Integrated Solution” will undoubtedly bring substantial profit contributions to the Group.

Currently, the Group’s school computerisation solution plan has seen significant breakthrough in three provinces in the PRC, with letters of intent amounted to over RMB300 million signed. In additions, the Group is also under negotiation with three to four provinces (districts), concerning future collaboration. It is expected that the Group’s profit in the e-education market will be further enhanced in the second half of the year.

The Directors are actively pursuing opportunities to acquire technological ventures in the PRC which are able to compliment the future business development of the Group. The Company will make an appropriate announcement of the progress of such acquisitions as and when necessary in order to comply with the requirements of the GEM Listing Rules.

COMPARISON OF BUSINESS OBJECTIVES AND ACTUAL PROGRESS

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

Business objectives as set out in the Prospectus: **Actual business progress to date:**

(1) Promoting Information Appliance Multimedia Software Development Platform ("IAMSDP") as a standard for software application development in the information appliance industry in the PRC:

For the period ended 30th June 2000

- | | |
|---|---|
| (a) Licensing the current version of IAMSDP to individuals with limited programming knowledge | The first generation IAMSDP has become a business platform that marks the transformation from simple PC software to information appliance software. From January to June 2000, approximately 40 types of software products have been launched, bringing the total number of commercialised information appliance software from 130 to over 170. |
|---|---|

- (b) Completing the development of the second generation IAMS DP and licensing to professional software developers in the PRC
- Development of the second generation IAMS DP has been completed and the platform has been licensed to four domestic multimedia software developers. Magic Island Adventure, an encyclopedic educational software game for children developed with such platform, has been launched in the market.
- Moreover, some Hong Kong companies engaging in the development of intelligent residential estates are in discussion with the Group regarding the employment of the platform in the video-on-demand systems of such estates in the PRC.
- (c) Supplying Mask ROM embedded with software engine to the manufacturers of Venus Computers in the PRC
- Mask ROM has been successfully developed and launched in October 1999. With this software engine, IAMS DP can run on Venus Computers and may be commercialised any time.

For the year ending 31st December 2000

- Promoting IAMS DP to domestic software developers for further conceiving multimedia software applications
- Currently, the Group has signed a letter of intent with Educational Technology Office of the Ministry of Education, where the office will provide user training to teachers in the PRC, so as to promote IAMS DP and to encourage multimedia software development.

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

For the period ended 30th June 2000

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

Co-development of 3099 processor with Sunplus Technology Co., Ltd. has been completed and commercial production may commence any time. At present, the Group is seeking market opportunities to launch the new models of computer VCD and computer super VCD.

For the year ending 31st December 2000

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

The production is in smooth progress. Approximately 320,000 sets of players have been manufactured to date.

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

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

For the year ending 31st December 2001

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

The project is progressing smoothly. Development of DVD has been completed and will be launched by the end of July 2000. Utilising the ziva4 integrated chip, DVDs are thus manufactured at a lower cost with more stable performance.

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

For the period ending 31st December 2002

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

As at 30th June 2000, the Group has launched 43 types of software products, with several new software under development.

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

For the period ended 30th June 2000

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

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

For the year ending 31st December 2000

Reaching final agreement with the Ministry of Education to promote the adoption of the Group's "Integrated Solution", which comprises educational computers and multimedia networking classroom, as the predominant solution to promote IT education in primary and secondary schools in the PRC

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

Based on its software and hardware products, the Group has put forward the "Integrated Solution", offering different districts a wide variety of computerised classroom products as well as providing a comprehensive solution from software and hardware to sales and services. The Group has co-operated with 18 provincial and local education committees for establishing classroom templates for the Group's "Integrated Solution for Computer Networking Classroom".

The Group raised net proceeds of approximately HK\$390 million upon listing of the Company's shares on GEM of the Stock Exchange. For the six months ended 30th June 2000, the Group applied approximately HK\$48 million to achieve the business objectives as stated above and in the manner as set out in the Prospectus. Currently, the Directors consider there is no material modification over the use of proceeds as disclosed in the Prospectus. The remaining net proceeds of HK\$342 million will be applied according as the usage disclosed in the Prospectus.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th June 2000, the beneficial interests of the Directors in the shares, warrants and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) which have been notified to the Company and the GEM of the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have taken under section 31 of, or Part I of the Schedule to, the SDI Ordinance), or which are required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, or pursuant to rules 5.40 and 5.59 of the GEM Listing Rules), to be notified to the Company and the GEM of the Stock Exchange are as follows:

(a) Ordinary shares of HK\$0.1 each of the Company

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

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

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

Save as disclosed above, none of the Directors or their associates had any interests in the share capital of the Company or its associated corporations (as defined in the SDI Ordinance).

(b) Share options

Under the share option scheme approved by the shareholders of the Company on 18th January 2000, the Directors may, at their absolute discretion, within a period of ten years from 31st January 2000, invite full time employees of the Group, including Executive Directors of the Company, to take up options to subscribe for shares of the Company subject to the terms and conditions stipulated therein. During the period from 31st January 2000 to 30th June 2000, no options had been granted to the Directors under the scheme.

At no time during the six months ended 30th June 2000 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouse or children under 18 years of age to acquire the benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

COMPETING INTERESTS

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

SPONSOR'S INTERESTS

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

- (1) neither ICEA nor its associates have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe such securities);
- (2) no director or employee of ICEA who is involved in providing advice to the Company has any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe such securities);

- (3) neither ICEA nor its associates expect to have accrued any material benefit as a result of the successful outcome of any transaction, including by way of example, the repayment of material outstanding indebtedness and payment of any underwriting commissions or success fees; and
- (4) no director or employee of ICEA has a directorship in the Company, or any other company in the Group.

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

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2000, the register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that the Company had been notified of substantial shareholders' interests, being 10% or more of the Company's issued share capital, as follows:

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

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

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

YEAR 2000 COMPLIANCE

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

AUDIT COMMITTEE

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30th June 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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

Hong Kong, 14th August 2000