



Yuxing InfoTech Holdings Limited

裕興電腦科技控股有限公司*

(Incorporated in Bermuda with limited liability)



Third Quarter 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.

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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.

Despite of the slowdown in the growth and fierce price competition in the electronics industry, the Group's business has achieved considerable development. The Group's leading project entitled "Integrated Solution for Computer Networking Classroom" is progressing steadily. Information appliances with utility functions are successively launched. Hardware development technologies of the Group are refining on an ongoing basis. Also, software development platforms are becoming more and more prevalent. Through the integration of technologies, the operation efficiency of the Group is enhanced, while its sales network further consolidates and expands.

Currently, the Group is focusing on research and development of information appliances which are used as Internet access terminals. The Group is also actively looking for opportunities to cooperate with other advanced technology enterprises, to seek new investment opportunities, and to adopt innovative new business models. With such strategies, in addition to the Group's strength in esprit de corps, technology, branding, educational resources and sales network, the Group is confident to achieve business success in the near future.

NINE-MONTH 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 nine months and three months ended 30th September 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:

	<i>Note</i>	Nine months ended		Three months ended	
		30th September		30th September	
		2000	1999	2000	1999
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(2)	377,429	358,023	91,352	134,898
Cost of sales	(3)	(263,172)	(219,088)	(71,700)	(86,932)
Gross profit		114,257	138,935	19,652	47,966
Other revenue		15,870	451	5,664	181
Selling expenses		(32,977)	(45,471)	(10,498)	(21,766)
Administrative expenses		(16,925)	(7,349)	(7,447)	(3,003)
Other operating expenses		(1,323)	(98)	(993)	(61)
Operating profit		78,902	86,468	6,378	23,317
Non-operating income -					
Incentive bonuses	(4)	1,462	36,811	—	14,898
Profit before taxation		80,364	123,279	6,378	38,215
Taxation	(5)	—	(40,117)	—	(12,180)
Profit attributable to shareholders		80,364	83,162	6,378	26,035
Transfer to statutory reserves		—	4,457	—	—
Dividends	(6)	40,000	469	—	—
Earnings per share -					
Basic	(7)	20.66 cents	27.72 cents	1.59 cents	8.68 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 nine months and three months ended 30th September 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**

	Nine months ended		Three months ended	
	30th September		30th September	
	2000	1999	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Sale of goods				
Multimedia set-top boxes -				
Computer VCDs, Multimedia				
VCD players	301,051	330,346	69,374	126,510
Dancing mats and software				
applications	50,538	1,844	8,679	1,016
Integrated circuit	17,426	—	9,856	—
Educational computers	5,314	14,711	2,594	4,899
Others	3,100	11,122	849	2,473
	<u>377,429</u>	<u>358,023</u>	<u>91,352</u>	<u>134,898</u>

(3) Cost of sales

	Nine months ended		Three months ended	
	30th September		30th September	
	2000	1999	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	254,907	219,088	63,435	86,932
Write-down of inventories	4,260	—	4,260	—
Provision for obsolete inventories	4,005	—	4,005	—
	<u>263,172</u>	<u>219,088</u>	<u>71,700</u>	<u>86,932</u>

(4) 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 nine months and three months ended 30th September 2000 and 1999. Golden Yuxing is categorised as "high-technology" company established in the Jinhaijiao Technology Zone of Pinggu County. The incentive bonuses were granted by the Government of Pinggu County for the purpose of supporting the expansion of Golden Yuxing's operations. 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.

(5) Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits in Hong Kong for the nine months and three months ended 30th September 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 nine months and three months ended 30th September 2000 (nine months and three months ended 30th September 1999: at income tax rate of 33%).

(6) Dividends

The Directors do not recommend the payment of an interim dividend for the three months ended 30th September 2000 (three months ended 30th September 1999: HK\$Nil). During the nine months ended 30th September 2000, an interim dividend of HK\$0.10 per share, totalling HK\$40,000,000, was paid (during the nine months ended 30th September 1999, dividends amounted to approximately HK\$469,000 were paid by Golden Yuxing to its then shareholders prior to the Reorganisation).

(7) Earnings per share

The calculation of the basic earnings per share for the nine months and three months ended 30th September 2000 is based on the unaudited consolidated profit attributable to shareholders of approximately HK\$80,364,000 and HK\$6,378,000 respectively (nine months and three months ended 30th September 1999: HK\$83,162,000 and HK\$26,035,000 respectively) and the weighted average number of 389,051,095 shares and 400,000,000 shares respectively (nine months and three months ended 30th September 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.

BUSINESS REVIEW

Developing e-education and steadily promoting the “Integrated Solution for Computer Networking Classroom”. The Group signed letters of intent valuing over RMB600 million with several provincial educational organisations in the PRC. Based on such letters of intent, the Group is going to enter into contracts of approximately RMB20 million in value this year. Parallel to its marketing efforts, the Group further refined the “Integrated Solution”, and implemented the networking of low-end computer classrooms. Such strategy not only accorded with the development trend of e-education, but also better fulfilled the demand of the vast rural market in the PRC. Furthermore, the Group devoted to optimising its educational resources by inviting experienced teachers to participate in the development of educational software, in order to expedite the adoption of the “Integrated Solution”.

Introducing information appliances with utility functions along with market demand. The Group launched regular DVD products and computer DVD products in July and September this year. The Group was also the first company in the PRC to introduce the Ziva-5 Development Platform licensed from C-Cube Microsystems Inc. Using such platform, the Group successfully developed a series of set-top box products with Internet access.

Achieving operation efficiency through Internet. In August this year, the Group optimised its internal LAN information system as the internal information interchange platform, allowing a smooth flow and sharing of information, and thereby enhancing the operation efficiency of the Group. Meanwhile, the e-commerce network launched by the Group in the same period has become the information interchange platform amongst the Group and its various sales agents as well, enabling online ordering of the Group's products.

Enhancing communication and cooperation, consolidation and development of sales network. The Group has implemented a number of strategies to further enhance the communication and cooperation with its sales agents. At present, the Group's information appliance products are available at over 7,000 sales points in the PRC, showing that the Group remains recognised and trusted by its sales agents despite of the slowdown in the growth and fierce price competition in the electronics industry. The increasing number of sales points will definitely reinforce the competitiveness of the Group's business in the future. In line with the promotion of the "Integrated Solution for Computer Networking Classroom", the Group aggressively builds up its sales network for the business on school computerisation. Considerable achievement has been made on this front.

Increasing market awareness of the brand of " , ǐ #". The Group has boosted promotion efforts for its brand name. Television seminars and feature programmes have been delivered in over 20 provinces to strengthen the image of " , ǐ #" as a brand for educational products. Moreover, the cooperation with the China Central Television in broadcasting the physical education programme "Yuxing Aerobic" has increased public awareness of the brand.

In order to strengthen its competitiveness and to increase its market share, the Group has lowered the prices on certain products, leading to the write-down of certain amounts of inventories to net realisable value. Furthermore, provision for obsolescence was made for certain range of products which were no longer demanded in the market. Moreover, as the development of the information appliance market has slowed down recently, prices of the existing set-top box products were declining. Under such unfavorable environment, profit of the Group decreased accordingly.

FUTURE PROSPECTS

Based on its existing foundation, the Group will persist to improve and promote the “Integrated Solution for Computer Networking Classroom”. The Group will also aggressively seek cooperation opportunities with renowned schools in the PRC, and consolidate its educational resources, with an objective to become one of the leading providers of hardware products and information resources in the e-education field in the PRC. Facing fierce competition in the PRC’s e-education market, the Group will capitalise its various strength in technology, branding and educational resources to progressively increase its market share.

Although the Internet user population in the PRC has been surging as a result of the rapid development of the Internet, most households still lack the purchasing power to own PCs as an Internet access device. Therefore, the Directors consider that low-price Internet access devices will have a promising market prospect. Currently, the Group is undertaking the research and development of set-top boxes with Internet access and web-based super VCDs with browsing function. The Group is also negotiating with the operators of over 20 leading websites in the PRC to encourage widespread usage of the Group’s Internet access products in visiting such websites by simplifying the access to their website contents. The Directors believe that these products will be popular in the market and will consolidate the Group’s leading position in the field of information appliance.

In line with the development of information-oriented society, the Group will make use of Internet technologies to reduce its operation costs and to maximise its operation efficiency. The Group will continue to improve its internal information system, to realise the transformation of its information exchange platform into an intelligent office platform, to further strengthen the development of its e-commerce network, and finally to achieve smooth flow of web-based information, logistics and payment.

In order to widen its scope of development, the Group is aggressively seeking new investment opportunities and exploring innovative business models. The Group will step up its efforts on development and research, as well as the integration of advanced technologies in the industry, so as to significantly upgrade the Group's technological competitiveness. Meanwhile, the Group will aim to reinforce its software development effort, to continue to advance the development of multimedia software development platform, and to strive for growth in the Group's software business. The Directors believe that the various efforts made by the Group today will build a solid foundation for its development in the future and continue to drive up its value. In compliance with the GEM Listing Rules, the Company will announce the progress of its investments as required.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th September 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, as required pursuant to section 29 of the SDI Ordinance, have been entered in the register referred to therein, or pursuant to rules 5.40 and 5.59 of the GEM Listing Rules), have been notified to the Company and the GEM of the Stock Exchange are as follows:

(a) Ordinary shares of HK\$0.10 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 September 2000, no options had been granted to the Directors under the scheme.

At no time during the nine months ended 30th September 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 September 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 nine months ended 30th September 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, 13th November 2000