

Yuxing InfoTech Holdings Limited

裕興電腦科技控股有限公司*

(incorporated in Bermuda with limited liability)



First Quarterly Report 2001



* for identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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HIGHLIGHTS

Despite the considerable decline in its sales revenue in the corresponding period of the previous year and the net loss recorded as a result of its on-going corporate reorganisation, the net loss of the Group in the first quarter of the year reduced significantly while sales revenue showed remarkable growth comparing to the fourth quarter of the previous year. Moreover, the Group had made outstanding achievements in technology enhancement. While the third generation software development platform has been successfully launched, the Group has mastered the core technology of middle ware and completed the research and development on web-super VCD and broadband set-top box products. With Mr. Feng Pei Ran and Dr. Yang Mu joining the Group in 2001, the Group's management team has considerably strengthened.

The Group is reforming its management strategies in many aspects: adjusting its corporate structure on a customer-oriented basis; establishing an innovative enterprise system; implementing human resources development policies which are employee-oriented; strengthening the supply chain analysis and management; and improving management and control of its sales network. Meanwhile, the Group will launch web-based VCD product series and broadband set-top boxes as soon as practicable. It will continue to strengthen and explore its information appliances technology expertise, and keep abreast of the latest development of the communications market and technologies. The Board believes that the industries of information appliance, information technology and communications in the PRC are converging and their merging point will be the root for the growth of the new economy. The intensive technology enhancement together with the scientific and comprehensive progress in management will form a solid base for the Group to make accelerating growth in the future.

THREE-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 three months ended 31st March 2001, together with the comparative unaudited figures for the corresponding period in 2000, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

| | <i>Note</i> | Three months ended 31st March | |
|--|-------------|--|------------------|
| | | 2001 HK\$'000 | 2000 HK\$'000 |
| Turnover | 1 | 90,284 | 160,608 |
| Cost of sales | | (80,890) | (105,684) |
| Gross profit | | 9,394 | 54,924 |
| Other revenue | | 4,368 | 3,774 |
| Other operating income | | 106 | – |
| Selling expenses | | (22,384) | (12,386) |
| General and administrative expenses | | (5,869) | (3,910) |
| Other operating expenses | | (1,048) | (190) |
| Operating (loss)/profit | | (15,433) | 42,212 |
| Finance costs | | (242) | – |
| Non-operating income | 2 | – | 1,462 |
| (Loss)/Profit before taxation | | (15,675) | 43,674 |
| Taxation | 3 | (148) | – |
| (Loss)/Profit after taxation | | (15,823) | 43,674 |
| Minority interests | | (369) | – |
| (Loss)/Profit attributable to shareholders | | (16,192) | 43,674 |
| Dividends | | – | – |
| (Loss)/Earnings per share – Basic | 4 | (4.0) cents | 11.9 cents |

Notes:

1 Turnover

An analysis of the Group's turnover for the period by principal activities is as follows:

| | Three months ended 31st March | |
|---|--|------------------|
| | 2001 HK\$'000 | 2000 HK\$'000 |
| Principal activities: | | |
| Multimedia set-top boxes (a) | 70,560 | 158,110 |
| Dancing mats and other application software | 1,060 | 445 |
| E-educational products (b) | 2,654 | 966 |
| Trading of integrated circuits | 14,651 | - |
| Others | 1,359 | 1,087 |
| | 90,284 | 160,608 |

(a) Multimedia set-top boxes include computer VCDs, multimedia VCD players, regular DVDs and computer DVDs.

(b) E-educational products include educational computers and other computers for e-education.

2 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 three months ended 31st March 2000. 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.

3 Taxation

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for the three months ended 31st March 2001.

Following the Group Reorganisation on 20th November 1999, 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 three months ended 31st March 2001 and 2000.

The amount of taxation for the period represents:

| | Three months ended 31st March | |
|-----------------------|---|---|
| | 2001 | 2000 |
| | HK\$'000 | HK\$'000 |
| Hong Kong profits tax | 148 | – |
| PRC income tax | – | – |
| | <hr/> | <hr/> |
| | 148 | – |
| | <hr style="border-top: 3px double black;"/> | <hr style="border-top: 3px double black;"/> |

4 (Loss)/Earnings per share

The calculation of basic (loss)/earnings per share for the three months ended 31st March 2001 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$16,192,000 (three months ended 31st March 2000: consolidated profit attributable to shareholders of approximately HK\$43,674,000) and the weighted average number of 400,000,000 shares (three months ended 31st March 2000: 367,032,967 shares) in issue.

There were no dilutive potential ordinary shares in existence during the periods.

RESERVES

There were no transfers to or from reserves of the Group during the three months ended 31st March 2001 and 2000.

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the three months ended 31st March 2001 (three months ended 31st March 2000: HK\$Nil).

BUSINESS REVIEW

Facing a flagging and increasingly competitive VCD market in the PRC, the Group cut price in order to dispose its inventory. As such, the Group's sales revenue for the first quarter of 2001 reduced considerably from the corresponding period of the previous year and a net loss was recorded. Nevertheless, when compared to the fourth quarter of the previous year, the net loss has reduced by 58.9% while sales revenue grew by 67.5%.

During this quarter, the Group made two remarkable achievements in technology enhancement. The first one is the successful completion of the third generation software development platform which has already been delivered to three software developers for their use. Besides the Group had proceeded to develop the next generation of software development platform which is expected to speed up the Group's software development process as well as enriching its software resources, thereby further facilitating its promotion of software development platforms. The second achievement is the exploration and mastering the core technology of middle ware which will reinforce the Group's capability in hardware development.

The Group continued to launch products to meet the changing demand of the market. Besides multimedia product series like multimedia super VCDs and multimedia DVDs, the Group has adjusted its product mix on computer super VCDs and launched low-priced computer VCD products with various functions in order to increase competitiveness. These new products have been well received by the market.

The Group had made steady progress in information technology and electronic component distribution businesses. Following the set up of its information technology product department, the Group's "Integrated Solution for Computer Networking Classroom" was further enhanced. The launch of "Spring Buds Networking Multimedia Solutions" and "Spring Rain Schooling Project" provided support for primary and secondary schools which required networking classroom products. These projects significantly raised the corporate image of the Group, which was acclaimed by the PRC media as "bridging the digital gap of the western region". The Group's newly established 51% held subsidiary, Hi-Level Technology Limited, in Hong Kong helped exploring the electronic component distribution business. At present, Hi-Level Technology Limited has been appointed as the agents of Sunplus Technology Company Limited and Utron Technology Inc. and its operations are in smooth progress.

The Group implemented management reforms in pursuit of efficiency and further development. The Group recruited new members to its management team which include over 20 members led by Mr. Feng Pei Ran, and Dr. Yang Mu who has outstanding academic background and extensive management experience. Subsequently, the Group had also built up a customer-oriented corporate structure with its internal communications refined. At the same time, the Group organized a wide range of management training programmes so as to update the management concept in a comprehensive and thorough manner.

The Group adjusted its sales strategies and strengthened the control and management of its sales network. While credits are provided to distributors, the Group tightened the control of receivables and introduced the sales estimation system for distributors in order to enhance the ability in planning and control of production, research and development and finance. Standards for assessment of distributors were also formulated to act as an incentive to distributors.

FUTURE PROSPECTS

Focusing on the information appliance business, the Group will actively explore the arena of information technology. Meanwhile, it will closely monitor the development of the communications technology and market. Apart from technology enhancement, the Group will keep launching new products that satisfy ever-changing market demand. The Group's web-super VCDs and broadband set-top box products are ready for launch and the research and development of web-based DVDs has been primarily completed.

In the short-term, the Group will reform its management in a number of aspects. The Group will adjust the corporate structure on a customer-oriented basis, enhance customer relationship management, optimize the service system, control the service operation costs and raise users' satisfaction and loyalty. For the supply chain, the Group will strengthen its management, conduct analysis and integration and increase its flexibility. Besides reducing inventory to increase capital return and reduce the logistics cycle, effectiveness of the fulfillment system will also be improved. In order to further enhance the Group's creativity and realize innovation in the three areas of concepts, products and technologies, it will establish an innovative enterprise system, leading the market while adapting to its changes and increasing technological competitiveness. The Group will implement comprehensive human resources development policies that are employee-oriented. The Group will also refine the performance assessment system and strengthen professional and technical training to improve the standard of staff and their satisfaction towards the Company. At the same time, the Group will introduce the ISO9000 Quality Management System to build up an intelligent workflow system as soon as practicable to standardise and regularise internal work, clarify job duties, smoothen the workflow and increase efficiency. For sales network management, the Group will make efforts in management standardisation, product unification, e-commercialisation and implementation of various incentive and assessment schemes for distributors to increase the influence and control of the Group over its distribution network. In addition, the Group will actively explore and integrate the southern PRC market and apply a horizontal management mode to facilitate information transmission within the sales network.

The Group believes that it is the optimum time to carry out various strategies adjustment. Despite the unsatisfactory profit in the short-term, the intensive technology enhancement and comprehensive management reforms will lay a strong foundation for future growth. The Group believes that the economic growth in the PRC will lie on the converging point of the industries of information appliance, information technology and communications. The Group's existing resources and the efforts it made are all aimed at spearheading the evolution of the future market competition. As such, we are confident that our objectives will be achieved, the corporate value and shareholders' returns will be maximised.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st March 2001, the interests of the Directors and chief executive in the shares and options of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

| Name | Number of ordinary shares of HK\$0.10 each of the Company held | | | |
|--------------------|---|---------------------|-------------------------|-----------------------|
| | Personal interests | Family interests | Corporate interests | Other interests |
| Mr. Zhu Wei Sha | – | – | 165,000,000 (Note 1) | – |
| Mr. Chen Fu Rong | – | – | 165,000,000 (Note 1) | – |
| Mr. Shi Guang Rong | 6,000,000 (Note 2) | – | – | – |
| Mr. Wang An Zhong | 1,084,189 (Note 2) | – | – | 1,000,000 (Note 3) |

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 the entire 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.

Note 3: It represents the share options granted under the share option scheme approved by the shareholders of the Company on 18th January 2000. The options are exercisable in stages to subscribe for up to 1,000,000 shares of the Company at HK\$0.95 per share during the period from 28th November 2000 to 27th November 2005.

Save as disclosed above, at no time during the three months ended 31st March 2001, the Directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SDI Ordinance).

Save as disclosed above, at no time during the three months ended 31st March 2001 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

COMPETING INTERESTS

None of the Directors or 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 period from 31st January 2000 to 31st December 2002.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st March 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

| Name of shareholders | Number of ordinary shares |
|-----------------------------------|---------------------------|
| Super Dragon (<i>Note 1</i>) | 165,000,000 |
| Dragon Treasure (<i>Note 2</i>) | 135,000,000 |

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 and options of the Company are disclosed in the section "Directors' and chief executive's interests in securities" above.

AUDIT COMMITTEE

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Society of Accountants.

The Audit Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group audit. It also reviews the effectiveness both of the external and internal audit and of internal controls and risk evaluation. The Committee comprises two Independent Non-executive Directors of the Company, namely Mr. Wu Jia Jun and Mr. Chen Man Fai, Steven. Mr. Chen Man Fai, Steven, was appointed as the chairman of this Committee. One meeting was held during the three months ended 31st March 2001.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the three months ended 31st March 2001, 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 May 2001

