

**Yuxing InfoTech Holdings Limited**

**裕興電腦科技控股有限公司\***

(incorporated in Bermuda with limited liability)



**Interim Report 2001**

\* 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.**

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## HIGHLIGHTS FOR THE SIX-MONTH PERIOD

During the first half year under review, the Group had lowered the selling price of its products due to keen competition and the effort to reduce the inventory level, and therefore, the Group experienced a decline in turnover compared with the corresponding period in last year and a net loss was recorded. However, net loss in the second quarter during the year dropped by approximately 8.5% compared with the first quarter, reaching approximately HK\$14,820,000, showing that the Group's business performance would keep on improving.

The launch of web-super VCDs indicated that the Group had mastered and applied the 32-bit hardware platforms successfully, and the technology related to the middleware was getting more mature. The Group considered that the replacement market for the household VCD products in mainland China, the high demand for non-computer web-based terminals at competitive price, and the trend for online education served a strong proof that the web-super VCD market is promising. In addition, the Group had accomplished the research and development process of the broadband set-top box comprehensively, and the intelligence education software system basically.

Golden Yuxing which is under the Group's flagship, together with other enterprises in mainland China, became the shareholders of Founder Technology which is listed on the Shanghai Stock Exchange. The co-operation resulted in overwhelming publicity from media and public in mainland China that enhanced the Group's reputation.

## INTERIM RESULTS (UNAUDITED)

The Directors of Yuxing InfoTech Holdings Limited (the “Company”) announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months and three months ended 30th June 2001, together with the comparative unaudited figures for the corresponding periods in 2000, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

		Six months ended		Three months ended	
		30th June		30th June	
		2001	2000	2001	2000
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	(1)	<b>159,558</b>	286,077	<b>69,274</b>	125,469
Cost of sales		<b>(146,323)</b>	(191,472)	<b>(65,433)</b>	(85,788)
Gross profit		<b>13,235</b>	94,605	<b>3,841</b>	39,681
Other revenue		<b>8,000</b>	10,206	<b>3,632</b>	6,432
Other operating income		<b>248</b>	–	<b>142</b>	–
Selling expenses		<b>(36,573)</b>	(22,479)	<b>(14,189)</b>	(10,093)
General and administrative expenses		<b>(12,565)</b>	(9,478)	<b>(6,696)</b>	(5,568)
Other operating expenses		<b>(1,432)</b>	(330)	<b>(384)</b>	(140)
Operating (loss)/profit		<b>(29,087)</b>	72,524	<b>(13,654)</b>	30,312
Finance costs		<b>(1,050)</b>	–	<b>(808)</b>	–
Non-operating income	(2)	–	1,462	–	–
(Loss)/Profit before taxation		<b>(30,137)</b>	73,986	<b>(14,462)</b>	30,312
Taxation	(3)	<b>(248)</b>	–	<b>(100)</b>	–
(Loss)/Profit after taxation		<b>(30,385)</b>	73,986	<b>(14,562)</b>	30,312
Minority interests		<b>(627)</b>	–	<b>(258)</b>	–
(Loss)/Profit attributable to shareholders		<b>(31,012)</b>	73,986	<b>(14,820)</b>	30,312
Dividends		–	40,000	–	40,000
(Loss)/Earnings per share	(4)				
– Basic		<b>(7.8) cents</b>	19.3 cents	<b>(3.7) cents</b>	7.6 cents

Notes:

**(1) Turnover**

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

	Six months ended 30th June		Three months ended 30th June	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Principal activities:				
Multimedia set-top boxes (a)	<b>120,335</b>	231,677	<b>49,775</b>	73,567
Dancing mats and other application software	<b>1,204</b>	41,859	<b>144</b>	41,440
E-educational products (b)	<b>7,128</b>	2,720	<b>4,474</b>	1,754
Trading of integrated circuits	<b>23,326</b>	7,570	<b>8,675</b>	7,570
Others	<b>7,565</b>	2,251	<b>6,206</b>	1,138
	<b>159,558</b>	286,077	<b>69,274</b>	125,469

(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 six months ended 30th June 2000. Golden Yuxing is categorised as a "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 six months and three months ended 30th June 2001.

Following the Group's reorganisation on 20th November 1999, Golden Yuxing became 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 the PRC income tax for the two years starting from its first profit making year following by a 50% reduction of the PRC income tax for the next consecutive three years. The preferential treatments commenced from year 2000 and therefore Golden Yuxing was fully exempt from the PRC income tax for the six months and three months ended 30th June 2001 and 2000.

The amount of taxation for the period represents:

	Six months ended 30th June		Three months ended 30th June	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong profits tax	248	–	100	–
PRC income tax	–	–	–	–
	<b>248</b>	<b>–</b>	<b>100</b>	<b>–</b>

#### (4) (Loss)/Earnings per share

The calculation of basic (loss)/earnings per share for the six months and three months ended 30th June 2001 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$31,012,000 and HK\$14,820,000 respectively (six months and three months ended 30th June 2000: consolidated profit attributable to shareholders of approximately HK\$73,986,000 and HK\$30,312,000 respectively) and the weighted average number of 400,000,000 shares (six months and three months ended 30th June 2000: 383,516,484 shares and 400,000,000 shares respectively) in issue.

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

## FINANCIAL ARRANGEMENT

On 9th May 2001, the Group entered into a one-year financial arrangement pursuant to which (a) the Company charged a cash deposit of HK\$200 million in favour of a bank established in the PRC (the "Bank") as security for banking facilities, of up to the principal amount of RMB210 million, granted by the Bank to Grand Pacific Investment Corporation Limited ("Grand Pacific"); and (b) Grand Pacific through an agency loan agreement appointed Xin Jiang Jin Xin Trust Investment Joint Stock Company Limited as agent and granted a loan of RMB210 million to Golden Yuxing.

## RESERVES

There were no transfers to or from reserves of the Group during the six months ended 30th June 2001 and 2000.

## INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2001 (six months ended 30th June 2000: HK\$0.10 per share).

## BUSINESS REVIEW

During the period under review, competition in the VCD market of mainland China was increasingly fierce, coupled with lowered selling price to reduce the inventory level, turnover was dropped by approximately 44.2% compared with the corresponding period in last year, while the gross profit decreased by about 86.0%. In order to maintain an influential position for its brand name in the market to improve its competitive power, to sell old model inventory on hand and to expand and re-organise its sales network, the Group incurred higher selling and promotion costs. Thus, the selling expenses increased approximately 62.7% compared with the corresponding period in last year. Nevertheless, net loss in the second quarter during the year was about HK\$14,820,000, dropped by approximately 8.5% compared with the first quarter. It indicated that the Group's performance would keep on improving.

Furthermore, the Group achieved fruitful results in technology development. The launch of web-super VCDs not only showed that the Group had mastered and applied the 32-bit hardware platforms successfully, but also indicated that technology related to the middleware was getting mature. During the research and development process of this product, the Group recognised different Internet application technology thoroughly, and mastered various key Internet application technology. Technology used in this product effectively reflected the functionality of the system resources which also lowered the production cost drastically, thereby enabling the Group to integrate these technology to produce different series of web-based products in the future.

The Group made a great progress in the development of its software. In respect of multimedia software, the Group continued to accumulate software resources to build a sound foundation for developing different software to meet market demand. For the information appliance multimedia software development platform (“IAMSDP”), the Group successfully developed the third generation IAMSDP and granted the utilisation rights to three software developers. Technology related to the third generation IAMSDP would be conducive to enrich the software resources for the Group’s information appliances. In respect of intelligence education system, the Group had basically completed the system development. The Group gathered and analysed over 70,000 secondary school exercises for the system, and the system preliminarily could perform functions like intelligent test and intelligent correction. It would facilitate the promotion of the e-education business that the Group has long been developing when the system has matured and launched in the market with a successful promotion campaign.

The web-super VCDs developed by the Group were launched in the market successfully. This product could perform Internet application functions, such as online chatting, Internet browsing, online education and online games. The Group considered that the replacement market for the household VCD products in mainland China, the high demand for non-computer web-based terminals at competitive price, and the trend for online education served a strong proof that the web-super VCD market is promising.

Besides, the Group had completed the development of broadband set-top box. The product could perform online functions including video broadcasting and shares transaction.

What worth mentioning is that the Group, together with other enterprises in mainland China, held the shares of Shanghai Founder Yanzhong Science & Technology Group Limited (“Founder Technology”) which is listed on the Shanghai Stock Exchange. The co-operation improved the Group’s reputation and influence in mainland China’s capital market and greatly uplifted the Group’s image. The Group also reckoned that a solid foundation has already been laid down for the development of information business in the future.



## FUTURE PROSPECT

The Group will continue to focus on research and development technology and keep on strengthening the competitiveness of its core technology. The Group will also keep on improving its hardware platform, IAMS DP, middleware technology and intelligence education system, understanding and mastering the Internet application technology more extensively and thoroughly. At the same time, the Group will put more resources on recognising, mastering and acquiring technology in relation to the information business and telecommunication business. The Group believes that technology is the foundation of innovation, while innovation guarantees that the Group can maintain and strengthen its competitive edge.

The Group will continuously launch various information appliances which are equipped with Internet application functions. During the latter half of the year, the Group will launch a series of broadband set-top box products. As the Group believes there will be a relatively solid and concentrated customer base in these products, the prospect of these products is considered promising. Meanwhile, the Group will launch web-super VCDs in different models corresponding to the market demand, and will also launch web-DVDs in the market as soon as possible. The Group's diversified web-based products with multi-functions, which are competitively priced, is expected to further strengthen its leading position in the business of information appliances in mainland China.

Since the Group will keep on launching products with Internet application functions, re-structuring its management team and integrating its sales network, and has put great effort in reducing its inventory level during the past 12 months, the Group believes that its business will improve in the foreseeable future.

The Group also considers that the broadband Internet and mobile Internet will be the direction in developing Internet business. The Group's experience on various information appliances, Internet application, and its thorough understanding on information and telecommunication business will help the Group to be the pioneer in the era of broadband Internet and mobile Internet.

## USE OF PROCEEDS

As mentioned in the Group's annual report for the year ended 31st December 2000 ("Annual Report 2000"), the VCD and DVD markets in mainland China had developed and transformed substantially different from the Group's forecast and the market situation at the time of the preparation of the Company's prospectus dated 25th January 2000 (the "Prospectus"). Therefore, the Company decided not to follow the original development and marketing timetable in the Prospectus and the board of Directors (the "Board") proposed to adjust, amend and postpone certain sizeable research and development, marketing and promotional plans, which was considered to be in the best interest for the Company and its shareholders. The details of the new plans of the Board on the use of proceeds were disclosed in Annual Report 2000.

A comparison of the use of proceeds between the new plans of the Board per Annual Report 2000 and the amount of application of the proceeds to achieve the Group's business objectives during 2000 and the six months ended 30th June 2001 is as follows:

	<b>Amount stated in the new plans of the Board per Annual Report 2000 HK\$ (in million)</b>	<b>Proceeds already applied during 2000 and the six months ended 30th June 2001 HK\$ (in million)</b>
<b>Scheduled projects:</b>		
1. Research and development of IAMSDP in 2000 and 2001	3	2.38
2. Research and development and promotion of a new series of regular DVDs, computer DVDs and web-DVDs in 2000 and 2001	15	4.13
3. Promotion of a series of VCDs including multimedia VCD players, computer VCDs and web-super VCDs in 2000 and 2001	65	46.80

<b>Amount stated in the new plans of the Board per Annual Report 2000 HK\$ (in million)</b>	<b>Proceeds already applied during 2000 and the six months ended 30th June 2001 HK\$ (in million)</b>
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**Scheduled projects:**

4. Promotion of e-education, co-operation with the Ministry of Education to specifically promote the use of the Group's educational computers, research and development and promotion of network education services in 2000 and 2001	18	4.07
5. Research and development and general promotion of educational computers in 2000 and 2001	1	0.90
6. Launch of the Venus Project in 2000 and 2001	—	—
7. Research of advanced digital video graphic and broadband Internet access technology in 2000 and 2001	2	1.61
8. Purchase of testing and research and development related equipments from 2000 to 2002	4	1.14
9. Development of software applications and the purchase of copyrights from 2000 to 2002	3	1.56
10. Expansion of the Group's distribution and sales network in 2000 and 2001	50	32.34

	<b>Amount stated in the new plans of the Board per Annual Report 2000 HK\$ (in million)</b>	<b>Proceeds already applied during 2000 and the six months ended 30th June 2001 HK\$ (in million)</b>
<b>Scheduled projects:</b>		
11. Establishment of the new office by the Group in Hong Kong in 2000 and 2001	5	4.49
12. Meeting additional working capital requirement for the sales and marketing of the new series of regular DVDs and computer DVDs from 2000 to 2002	18	6.19
13. General working capital for maintaining the day-to-day operations of the Group from 2000 to 2002	188	1.84
14. Establishment of distribution business for electronic components in 2001 and 2002	20	5.00
	<hr/>	<hr/>
Total	<b>392</b>	<b>112.45</b>

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

***Business objectives  
as stated in and extended  
from the Prospectus  
for the year ending  
31st December 2001:***

***Actual business progress to date:***

### **(1) Promoting IAMS DP as a standard for software application development in the information appliance industry in the PRC**

Developing more sophisticated versions of IAMS DP which can create high quality multimedia softwares applications with enhanced interactive and intelligent functions

Currently, the Group succeeded in the development of the third generation IAMS DP. Multimedia softwares developed by using IAMS DP were applied in the Group's web-based terminal products such as broadband set-top box.

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

Developing and launching a series of regular DVDs and computer DVD products in co-operation with C-Cube Microsystems Inc.

The project was progressing smoothly. Development of regular DVDs and computer DVD products utilising the Ziva4 chip was completed and the products were launched at the end of July 2000. Web-DVD products developed by the Group, which were equipped with regular DVDs and Internet browsing functions, were scheduled for launching in the latter half of the year.

***Business objectives  
as stated in and extended  
from the Prospectus  
for the year ending  
31st December 2001:***

***Actual business progress to date:***

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

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

For the six months ended 30th June 2001, the Group launched more than 20 types of software products. Based on the syllabus for secondary information education curriculum in mainland China, the Group built larger databases for topics and textbooks to enhance the development of various software applications. The Group also accumulated more resources on the development of application software for adult education.

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

Launching new models of education computers with enhanced functions and faster CPU speed by replacing regular LAN with a thin client network to develop e-education business

The Group commenced research and development of thin client computers with more enhanced functions than ordinary educational computers, and proposed to launch the thin client computer network in the latter half of the year.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th June 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 six months ended 30th June 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 six months ended 30th June 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:

- (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) save that Mr. Chen Man Fai, Steven, a director of ICEA, was also an Independent Non-executive Director of the Company during the period from 25th October 1999 to 4th June 2001, 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 30th June 2001, the Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital.

<b>Name of shareholders</b>	<b>Number of ordinary shares</b>
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 of the Company (the "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. Zhong Peng Rong. Mr. Wu Jia Jun, was appointed by the Board as the new chairman of the Committee for the replacement of Mr. Chen Man Fai, Steven who tendered his resignation as an Independent Non-executive director of the Company with effect from 4th June 2001 while Mr. Zhong Peng Rong was appointed by the Board as a member of the Committee, with both appointments taking effect from 4th June 2001. Two meetings were held during the six months ended 30th June 2001.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 30th June 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, 10th August 2001

