

**Yuxing InfoTech Holdings Limited**

**裕興電腦科技控股有限公司\***

(incorporated in Bermuda with limited liability)



**3rd 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”)**

**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.**

## HIGHLIGHTS FOR THE NINE-MONTH PERIOD

Facing gradual contraction of VCD market arising from increasing popularity of DVD and fierce competition during the period under review, the Group experienced a decrease in turnover when compared with the corresponding period of last year. Strategic pricing of its products for increasing the competitiveness and the provision for obsolete inventories for improving the quality of inventory as a whole led to a drop in gross profit. Thus, a net loss was recorded for the period under review.

The recent completion of the development of two set-top box products, online stockbroker and broadband video player, by the Group in the third quarter of this year, not only marked the launch of network terminal solution for set-top box of the Group but also showed the further enhancement of the Group's technological ability. The Group has also accomplished the research and development of web-DVD players and game DVD players. Furthermore, the consolidation of sales network has begun to achieve results. Brand awareness and quality of services were also raised and internal management was further improved.

Looking ahead, besides further boosting technology accomplishments and launching new products, the Group will foster its brand management and promotion. While continuously expanding and adjusting the sales network, the Group will also carry on to improve its system management.

The Group believes that it is currently in the consolidation period. The goals of the consolidation are to enhance its core competitiveness and optimise its resource allocation, thereby adding value to the Group and creating a better future for its shareholders.

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

		Nine months ended		Three months ended	
		30th September		30th September	
		2001	2000	2001	2000
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	(1)	<b>207,997</b>	377,429	<b>48,439</b>	91,352
Cost of sales	(2)	<b>(199,756)</b>	(263,172)	<b>(53,433)</b>	(71,700)
Gross profit/(loss)		<b>8,241</b>	114,257	<b>(4,994)</b>	19,652
Other revenue		<b>11,219</b>	15,870	<b>3,219</b>	5,664
Other operating income		<b>329</b>	-	<b>81</b>	-
Selling expenses		<b>(41,631)</b>	(32,977)	<b>(5,058)</b>	(10,498)
General and administrative expenses		<b>(18,298)</b>	(16,925)	<b>(5,733)</b>	(7,447)
Other operating expenses		<b>(3,805)</b>	(1,323)	<b>(2,373)</b>	(993)
Operating (loss)/profit		<b>(43,945)</b>	78,902	<b>(14,858)</b>	6,378
Finance costs		<b>(2,426)</b>	-	<b>(1,376)</b>	-
Non-operating income	(3)	-	1,462	-	-
(Loss)/Profit before taxation		<b>(46,371)</b>	80,364	<b>(16,234)</b>	6,378
Taxation	(4)	<b>(386)</b>	-	<b>(138)</b>	-
(Loss)/Profit after taxation		<b>(46,757)</b>	80,364	<b>(16,372)</b>	6,378
Minority interests		<b>(981)</b>	-	<b>(354)</b>	-
(Loss)/Profit attributable to shareholders		<b>(47,738)</b>	80,364	<b>(16,726)</b>	6,378
Dividends		-	40,000	-	-
(Loss)/Earnings per share					
– Basic	(5)	<b>(11.9) cents</b>	20.7 cents	<b>(4.2) cents</b>	1.6 cents

Notes:

**(1) Turnover**

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

	Nine months ended 30th September		Three months ended 30th September	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Principal activities:				
Multimedia set-top boxes (a)	150,018	301,051	29,683	69,374
Trading of integrated circuits	37,055	17,426	13,729	9,856
E-educational products (b)	8,370	5,314	1,242	2,594
Dancing mats and other application software	1,308	50,538	104	8,679
Others	11,246	3,100	3,681	849
	<b>207,997</b>	<b>377,429</b>	<b>48,439</b>	<b>91,352</b>

(a) Multimedia set-top boxes include all types of VCD players and DVD players.

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

**(2) Cost of sales**

	Nine months ended 30th September		Three months ended 30th September	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cost of inventories sold	193,472	254,907	47,149	63,435
Provision for obsolete inventories	6,284	4,005	6,284	4,005
Write-down of inventories	-	4,260	-	4,260
	<b>199,756</b>	<b>263,172</b>	<b>53,433</b>	<b>71,700</b>

**(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 nine months ended 30th September 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.

**(4) Taxation**

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit for the nine months and three months ended 30th September 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 nine months and three months ended 30th September 2001 and 2000.

The amount of taxation for the period represents:

	<b>Nine months ended 30th September</b>		<b>Three months ended 30th September</b>	
	<b>2001</b>	2000	<b>2001</b>	2000
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Hong Kong profits tax	<b>386</b>	–	<b>138</b>	–

**(5) (Loss)/Earnings per share**

The calculation of basic (loss)/earnings per share for the nine months and three months ended 30th September 2001 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$47,738,000 and HK\$16,726,000 respectively (nine months and three months ended 30th September 2000: consolidated profit attributable to shareholders of approximately HK\$80,364,000 and HK\$6,378,000 respectively) and the weighted average number of 400,000,000 shares (nine months and three months ended 30th September 2000: 389,051,095 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 nine months ended 30th September 2001 and 2000.

## INTERIM DIVIDENDS

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

## BUSINESS OVERVIEW

Affected by the contracting demand in VCD market arising from increasing popularity of DVD in mainland China, fierce competition and the Group’s policy in lowering the selling price of its products in order to reduce the inventory level, the Group continued to record a net loss of approximately HK\$47,738,000 for the period under review. Turnover of the Group also decreased by 44.9% when compared with the corresponding period of last year. In view of the declining gross profit margin and the provision for obsolete inventories of approximately HK\$6,284,000 made in the third quarter of this year, gross profit decreased from HK\$114,257,000 for the nine months ended 30th September 2000 to HK\$8,241,000 for the nine months ended 30th September 2001.

**The Group had launched the network terminal solution of set-top box.** The launch of this solution was marked by two set-top box products developed by the Group, online stockbroker and broadband video player. This not only evidenced the Group's ability in the technology of 32-bit hardware platform together with its successful enhancement in the technology application of web-super VCD players, but also showed the further enhancement of the Group's technology integration ability. More importantly, this solution was highly open. It enabled other network operators or application services providers to base on this solution to further develop their own series of Internet application functions on the Group's set-top box products. In the third quarter of this year, the Group also made breakthroughs in the technologies of bitstreaming, progressive scanning, AC-3 and DTS decoding, time shifting and dynamic downloading of data.

**A number of new products which were in line with the market trend had been successfully developed by the Group.** Upon the launch of web-super VCD players, the Group had accomplished the research and development of web-DVD players and game DVD players. Furthermore, broadband video player with broadband enabled functions of video on demand, online games and e-mail, online stockbroker with online trading function and affordable thin client computer with general PC functions were all successfully developed. The Group is ready and plans to commence production of these products.

**The Group strengthened the management, protection and promotion of its brand.** To further build up its corporate image, the Group had initiated a corporate identity campaign to mount posters with consistent style and design in nearly 2,000 point of sales. This campaign would continue throughout the sales network. Meanwhile, television commercials of the Group were also broadcasted in over 100 television channels each day, which further increased the popularity of the brand of the Group.

**To strengthen the control of its sales network and the implementation of its sales strategy as well as to collect accurate market information and feedback, the Group reduced sales layers in order to increase its profit margins.** To achieve these aims, the Group flattened its sales channels by directly supplying products to secondary distributors and hence further cemented its relationship with distributors, thereby effectively boosting sales growth.



**Database collected from after-sales service had basically been established by the Group.** While striving for the goal of effectively reducing the cost of after-sales service, the Group collected and managed after-sales service information including product quality and customer data. These data provided an important reference for the Group to enhance products and to keep abreast with customer needs. The Group is in the process of continuously improving its after-sales service system and raising its after-sales service quality. It is going to actively expand its after-sales service network.

**A series of management improvement measures had been implemented.** Corporate structure was further reorganised and a detailed job duties manual was also compiled to define more clearly the functions of different departments and positions. In order to improve its operation system and working efficiency and effectiveness of its employees, as well as to achieve reasonable and fair remuneration allocation, the Group further improved the appraisal system and adjusted the remuneration structure. These measures were expected to clearly define duties of its employees and to give incentive to its employees for making endeavours at work.

## **FUTURE PROSPECTS**

**Led by product planning, the Group will continue to strive for technological advancement.** It will further enhance the application technologies of set-top box products and DVD products while restructuring the current technical resources. It will also launch web-based terminals with Internet application functions or DVD products with unique functions. Meanwhile, the Group will also continue its research and development in various Internet application technologies.

**The Group will focus on promoting DVD products, set-top box products and thin client computers.** In view of the growth of DVD industry in mainland China and surging demand in DVD products, the Group will capitalise on its extensive experience accumulated in the VCD industry to grasp opportunities arising in the DVD industry. It will plan to launch web-DVD players, game DVD players and dual decoding DVD products early next year. Moreover, the rapid development of broadband has boosted demand for Internet access. This leads to demand in web-based terminal devices which are practical, user-friendly and of bargain prices. The Group's broadband video player and online stockbroker possess these competitive features. With its well-established relationship with several application services providers, the Group expects these products will be well-received by the market. Furthermore, since all the software and hardware of thin client computers are produced locally by manufacturers in mainland China, these manufacturers can provide the technology standards and source code to its clients enabling them to revise and set up security protection program accordingly. In other words, the thin client computer has its competitive advantages in information security. The Group believes that, due to competitive price, the products will be widely recognised by government departments and corporate customers including finance and education sectors.

**The Group will make every effort in brand management and promotion.** It has just retained an internationally-acknowledged branding promotion company to launch its brand management and promotion campaign. Such campaign will help to raise the brand awareness and goodwill of the Group so as to bolster its sales volume.

**Continuous expansion and adjustment of sales network will be moved forward.** The Group will continue to flatten its sales channels and establish sales management offices in some important territories. In addition, to effectively promote its set-top box products and thin client computers to target industries and target corporate customers, the Group will set up new sales channels and enhance its direct sales capability.

**The Group will continue to carry on its system management improvement process.** It has started the development of management information system which encompasses management of product costing, spare part maintenance and bill of manufacture. This system will increase the Group's capital utilisation efficiency, reduce inventory cost and further improve the accuracy to the satisfaction of the requirements of its customers. Its successful operation will lay foundation for the Group to implement supply chain management. In the coming quarter, the Group will carry out more stringent quality control measure to ensure that products of higher quality will be offered.

The Group believes that it is currently in the consolidation period. Consolidation measures include research and development of new technologies, new product planning, inventory control, establishment of sales network and internal management improvement. All of these aim to enhance the competitiveness of the Group and optimise resource allocation, thereby creating a better future for its shareholders.

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

As at 30th September 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 <i>(Note 1)</i>	–
Mr. Chen Fu Rong	–	–	165,000,000 <i>(Note 1)</i>	–
Mr. Shi Guang Rong	6,000,000 <i>(Note 2)</i>	–	–	–
Mr. Wang An Zhong	1,084,189 <i>(Note 2)</i>	–	–	1,000,000 <i>(Note 3)</i>

*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 nine months ended 30th September 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 nine months ended 30th September 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 Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited) 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, an ex-director of ICEA who has resigned from his post during the third quarter of this year, 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 September 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. Three meetings were held during the nine months ended 30th September 2001.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the nine months ended 30th September 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, 13th November 2001