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 2002

* for identification purposes 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 THREE-MONTH PERIOD

Due to the significant improvement of the operations of the Group in the first quarter of 2002 after the implementation of a series of adjustments and management improvement measures commenced from last financial year in 2001, the Group recorded a profit of approximately HK$1.9 million for the first quarter of 2002 as compared to a loss of approximately HK$16.2 million in the corresponding period last year.

During the first quarter of 2002, the Group further optimised the technology of its broadband set-top box and jointly established a pilot broadband community network with a leading telecom operator in the PRC. The Directors believe that these have paved its way for successful promotion of set-top box products of the Group in the future. In addition, the Group launched a multi-functional DVD player with games, Internet access and educational functions. The debut of this product has signified the Group's ability in leveraging on the 32-bit hardware platform and its breakthrough in mastering the network and middleware technologies. In the meantime, the Group continued to consolidate the adjustment of its sales channels, brand enhancement and service network construction. The Group's implementation of management improvement measures also achieved satisfactory results.

Looking forward into the future, the Group will strengthen its research and development efforts on the basis of its DVD technological platform. In line with the major direction in the development and production of information appliances, digital AV products and e-learning products, the Group is committed to develop a wider range of more advanced and market-oriented products. Meanwhile, the Group will also introduce various measures to enhance its capabilities in marketing and management, so as to pursue a steady growth in the long run.

THREE-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 three months ended 31st March 2002, together with the comparative unaudited figures for the corresponding period in 2001, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

		Three months ended 31st March	
	Note	**2002 HK$'000**	2001 HK$'000
Turnover	*2*	**91,394**	90,284
Cost of sales		**(82,648)**	(80,890)
Gross profit		**8,746**	9,394
Other revenue	*2*	**2,632**	4,368
Other operating income		**6,358**	106
Selling expenses		**(3,953)**	(22,384)
General and administrative expenses		**(10,166)**	(5,869)
Other operating expenses		**(495)**	(1,048)
Operating profit/(loss)		**3,122**	(15,433)
Finance costs		**(1,147)**	(242)
Non-operating income	*3*	**594**	–
Profit/(Loss) before taxation		**2,569**	(15,675)
Taxation	*4*	**(211)**	(148)
Profit/(Loss) after taxation		**2,358**	(15,823)
Minority interests		**(472)**	(369)
Profit/(Loss) attributable to shareholders		**1,886**	(16,192)
Dividends		**–**	–
Earnings/(Loss) per share – Basic	*5*	**0.5 cents**	(4.0) cents

Notes:

1 Basis of preparation of the accounts

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that certain investments in securities are stated at fair value.

2 Turnover and other revenue

The Group is principally engaged in the research and development, design, marketing, distribution and sales of information appliances and integrated circuits. Revenues recognised during the period are as follows:

	Three months ended 31st March	
	2002	2001
	HK$'000	HK$'000
Turnover		
Sales of goods	**91,394**	90,284
Other revenue		
Interest income	**2,632**	4,368
Total revenues	**94,026**	94,652

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 (other than Hong Kong) (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 2002. 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.

4 Taxation

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the three months ended 31st March 2002.

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 2000. Therefore, Golden Yuxing was entitled to a 50% reduction of the PRC income tax for the three months ended 31st March 2002 (three months ended 31st March 2001: fully exempt from the PRC income tax). However, no provision for PRC income tax had been made in the accounts as Golden Yuxing had no assessable income for the three months ended 31st March 2002.

The amount of taxation for the period represents:

	Three months ended 31st March	
	2002	2001
	HK$'000	*HK$'000*
Hong Kong profits tax	**211**	148
PRC income tax	**–**	–
	211	148

5 Earnings/(Loss) per share

The calculation of basic earnings/(loss) per share for the three months ended 31st March 2002 is based on the unaudited consolidated profit attributable to shareholders of approximately HK$1,886,000 (three months ended 31st March 2001: consolidated loss attributable to shareholders of approximately HK$16,192,000) and the weighted average number of 400,000,000 ordinary shares (three months ended 31st March 2001: 400,000,000 ordinary shares) in issue.

Diluted earnings per share is 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, pursuant to an agency loan agreement, appointed Xin Jiang Jin Xin Trust Investment Joint Stock Company Limited as an agent and granted a loan of RMB210 million to Golden Yuxing as working capital and proceed for business development. The charge of the cash deposit of HK$200 million has been released by the Bank on 8th May 2002 and the loan of RMB210 million would be repaid by Golden Yuxing to Grand Pacific by the end of May 2002.

RESERVES

There were no transfers to or from reserves of the Group during the three months ended 31st March 2002 and 2001.

INTERIM DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the three months ended 31st March 2002 (three months ended 31st March 2001: HK$Nil).

BUSINESS REVIEW

Results of the Group for the first quarter of 2002 have improved significantly over the corresponding period last year as the management improvement measures implemented in 2001 were gradually taking effect and a series of new competitive products were successfully launched which generated new income sources for the Group. Other operating income increased to approximately HK$6.4 million as compared to approximately HK$0.1 million in the corresponding period last year. This was mainly brought by the appreciation in the market price of the PRC government bonds as at 31st March 2002. In addition, decrease in advertising and promotion expenses and well-received launch of the latest products both drove down the overall selling expenses by 82.3% to approximately HK$4.0 million as compared to the corresponding period last year. As a result, the Group's business performance improved with a profit of approximately HK$1.9 million for the first quarter of 2002 as compared to a loss of approximately HK$16.2 million in the corresponding period last year.

Acquisition of production facilities in Shenzhen. At the beginning of this year, the Group acquired 100% interests in Shenzhen Senbo Qiang Dian Electronics Co., Ltd. at a consideration of approximately HK$7.0 million. The acquisition not only enables the Group to further enhance its production capacity and lower its production and operating costs, but also positions the Group for its expansion into overseas markets and the OEM market. The execution of documentation and application procedures in relation to the acquisition are currently in progress.

Through continuous efforts in strengthening the cooperation with telecom operators and system facilities suppliers, the promotion activities of the Group's broadband set-top box products have made a leap forward into a new stage. A new pilot broadband community network was established in Henan, the PRC with a leading telecom operator in the PRC. The network not only provides a new business model for broadband services providers in the PRC, but also serves as an impetus for the post-promotion activities of the Group's products.

The Group launched a multi-functional DVD player with game, Internet access and educational functions. This is a value-added product firstly developed by the Group with the application of its middleware system on the Ziva 5 hardware platform, the latest product manufactured by a core upstream manufacturer, LSI Logic International Service Inc. The successful development of the multi-functional DVD player demonstrates the fact that the Group's well-versed application of the Ziva 5 hardware platform and accumulated experience in delivering other application products in the future. Besides, the launch of such product has also proved that the technology of middleware system of the Group is fundamentally mature and ready for making its hardware platform more open to software developers. In addition, the multi-functional DVD players can provide value-added functions to the end-users.

The feasibility study of a new generation of e-learning products was completed. By the end of March 2002, the Group completed the feasibility study as well as the trial run of its new e-learning products. The Group plans to launch a series of e-learning products for learning and studying foreign language in the second half of 2002 aligning with the current trends of the PRC education market. To coordinate with the sales of its existing e-learning product line, the Group will work closely with educational content providers and preeminent educational software developers in the PRC. It is the intention of the Group to strengthen the "synchronisation feature" of its computer VCD players, while actively engaging in the development of learning-aids software as complementary tools to secondary and primary school textbooks. Development in some of the software products has been completed, and those products are scheduled to be launched in various phases in the second quarter of 2002.

As part of its efforts to offer more competitive prices, the Group continued to streamline its sales channels and reduce its marketing and selling costs. Through a series of measures for flattening sales channels which were implemented by the Group during 2001, the Group has been able to supply its products directly to regional agents and has enforced management in most of its market regions by the end of March 2002. Consequently, the marketing and selling costs were reduced effectively and the Group gained better control over the sales points. In addition, the Group has established three branches in Nanjing, Changsha and Chongqing, the PRC to provide better sales support to the market in these regions. At present, these branches operate smoothly and start to explore the regional markets and direct sales activities in these regions.

Having established its strategy for promoting the Yuxing brand name, the Group successfully reinforced its promotion efforts in the resale market. Through strategic cooperation with an internationally-acknowledged branding promotion company, the Group completed its strategic planning in enhancing the brand name of Yuxing and commenced a new marketing campaign to promote its new image. Besides, the Group also introduced measures to standardise the new brand image throughout its sales network. Uniform storefronts and posters, coupled with greater marketing support and operation control, were introduced in sales points throughout the PRC so as to establish a consistent image, improve brand awareness and promote sales for the Group at lower marketing costs.

The Group continued to improve the management and strengthen support of its service system towards building a more systematic, standardised and cost-effective service network. The Group had strengthened the support to the sales and after-sales services of the agents and hence the customer services became more comprehensive and systematic. As a result, a greater level of satisfaction was attained by the agents and end-users. In order to uplift the quality of customer service provided by its agents, the Group strengthened its efforts in performance appraisal and use of incentives in its services network. While maintaining its service standard, the Group also effectively controlled its internal service costs by improving the inventory control of the maintenance spare parts and reducing its stock level.

The Group continued to improve its management team. Through the implementation of various measures, the Group further streamlined its organisation structure, workflow and division of labour, as well as performance appraisal systems. The Group attached greater emphasis on staff training in order to ensure the maximum efficiency and the precision of its operation. The Group was also actively engaged in the construction of its enterprise resources planning ("ERP") system. At the current stage, the mode of the ERP system has been established with key components being developed. The ERP system, once developed, will provide reliable data for decision analysis and help uplift the operation efficiency of the Group. The Group also commenced a full-scale campaign to enhance its production and management standards in preparing the application for ISO9000 certification. This process is expected to be completed in the second half of 2002.

FUTURE PROSPECTS

The Group will further expand its technological advancement through research and development of its products. The Group will further optimise its middleware system by enhancing its compatibility and user-friendliness, so as to shorten the development period of new products and to invite greater support from software partners. Besides, the Group will further cement its relationship with upstream manufacturers and keep a close eye on their latest technological developments in order to stay ahead in producing more advanced and competitive products. Apart from these, the Group will continue to monitor market demand closely to develop market-oriented digital AV and broadband application technologies.

The Group will make great efforts in developing information appliances, digital AV products and e-learning products based on its DVD technological platform. For information appliances, the Group will strengthen the cooperation with its partners and expand the scope of application of its products by exploring other broadband application functions and application solutions on the foundation of its broadband video player. Apart from expanding its presence in the PRC market, the Group will also actively explore the feasibility of expanding the markets in Hong Kong, Japan and Korea. For digital AV products, the Group will launch more competitive DVD player products in response to the rapid growth of the DVD market in the PRC. Meanwhile, sales of VCD and web-super VCD players are expected to increase this year as the focus of the industry has shifted into the less-developed markets, in which the Group's sales network has a higher penetration rate. For e-learning products, the Group will continue to place more resources in its research and development with an aim to produce more e-learning products in line with the latest demands in the PRC market as soon as practicable.

In addition, the Group will continue its management improvement measures to uplift its overall operation efficiency and effectiveness, so as to lower the operating costs. Furthermore, the Group will reinforce its marketing capability by flattening its sales networks in different regions, revamping its brand name and continuously enhancing its service network.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY

As at 31st March 2002, the interests of the Directors and chief executive in the shares and share 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:

	Number of ordinary shares of HK$0.10 each of the Company held			
Name	**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)*

Notes:

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.

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.

3. It represents the share options granted under the share option scheme approved by the shareholders of the Company on 18th January 2000. The share 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 2001 to 27th November 2005.

Save as disclosed above, at no time during the three months ended 31st March 2002, 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 2002 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.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st March 2002, 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 *(Note 1)*	165,000,000
Dragon Treasure *(Note 2)*	135,000,000

Notes:

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% respectively.

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

Saved as disclosed above, no person, other than the Directors of the Company, whose interests are set out in the section "Directors' and chief executive's interests in equity" above, had registered an interest in the share capital of the Company that was required to be recorded pursuant to Section 16(1) of the SDI Ordinance.

COMPETING INTERESTS

None of the Directors, management shareholders or controlling 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 any interest in a business which competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

As updated and notified by TIS Securities (HK) Limited ("TIS"), the sponsor, since its appointment on 16th March 2002:

(1) neither TIS nor its associates have any interest in any class of securities of the Company or any other company in the Group (including share options or rights to subscribe such securities);

(2) no director or employee of TIS 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 share options or rights to subscribe such securities); and

(3) no director or employee of TIS has a directorship in the Company or any other company in the Group.

Pursuant to the agreement dated 16th March 2002 entered into between the Company and TIS, TIS would receive a fee for acting as the Company's retained sponsor for the period from 16th March 2002 to 31st December 2002.

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 HKSA.

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 of both 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 as the chairman of the Committee. One meeting was held during the three months ended 31st March 2002.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the three months ended 31st March 2002. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the three months ended 31st March 2002.

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

Hong Kong, 14th May 2002