



***Yuxing InfoTech Holdings Limited***  
**裕興電腦科技控股有限公司\***  
*(incorporated in Bermuda with limited liability)*



*Interim 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.**

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## OVERALL REVIEW

Turnover of the Group for the second quarter of 2002 decreased slightly, by 7.5% to HK\$64.1 million, while gross profit increased significantly, by 18.3% to HK\$4.5 million, as compared to the same period last year. In the meantime, the Group trimmed down its loss to approximately HK\$1.3 million from HK\$31.0 million in the first half of 2002 when compared to the same period last year, representing a substantial decrease of 95.8%.

With regards to its operations, the Group had made achievements in the development of new products. New products of the Group's major product lines including information appliances, digital audio-visual ("AV") products and e-learning products were launched. These include broadband set-top box products with video on demand functions for use in hotels and karaoke lounges in the PRC, new models of mini home theatre system products and e-learning software for secondary and primary schools in the PRC. Design and planning of a new generation of e-learning products was also completed.

With respect to management of sales and marketing, the Group proactively flattened its sales channels and tightened its control over its major sales points. As such, the Group achieved significant results in improving its management of sales and marketing and effectively reduced the cost of its sales channels. In the meantime, the Group systemised and standardised its products quality. Quality management system of ISO9000 was implemented by the Group internally to elevate its standards of quality management. In the second half of this year, the Group will continue to strengthen its management in all aspects. After completing the adjustment of sales channels basically during the first half of the year, the Group will actively promote the sales of its products so as to further increase its market share. It will also strive to make breakthrough in financial management and product management.

## INTERIM RESULTS (UNAUDITED)

The board of directors (the “Board”) of Yuxing InfoTech Holdings Limited (the “Company”) announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the “Group”) for the six months and three months ended 30th June 2002 together with the comparative unaudited figures for the corresponding periods in 2001, which statements have been prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

### Condensed Consolidated Income Statement (Unaudited)

For the six months and three months ended 30th June 2002

|  | Note | Six months ended<br>30th June |                  | Three months ended<br>30th June |                  |
|--|------|-------------------------------|------------------|---------------------------------|------------------|
|  |      | 2002<br>HK\$'000              | 2001<br>HK\$'000 | 2002<br>HK\$'000                | 2001<br>HK\$'000 |
| Turnover                               | 2    | <b>155,507</b>                | 159,558          | <b>64,113</b>                   | 69,274           |
| Cost of sales                          |      | <b>(142,218)</b>              | (146,323)        | <b>(59,570)</b>                 | (65,433)         |
| Gross profit                           |      | <b>13,289</b>                 | 13,235           | <b>4,543</b>                    | 3,841            |
| Other revenue                          | 2    | <b>6,464</b>                  | 8,000            | <b>3,832</b>                    | 3,632            |
| Other operating income                 |      | <b>9,437</b>                  | 248              | <b>3,079</b>                    | 142              |
| Selling expenses                       |      | <b>(8,681)</b>                | (36,573)         | <b>(4,728)</b>                  | (14,189)         |
| General and<br>administrative expenses |      | <b>(17,415)</b>               | (12,565)         | <b>(7,249)</b>                  | (6,696)          |
| Other operating expenses               |      | <b>(2,178)</b>                | (1,432)          | <b>(1,683)</b>                  | (384)            |
| Operating profit/(loss)                | 3    | <b>916</b>                    | (29,087)         | <b>(2,206)</b>                  | (13,654)         |
| Finance costs                          |      | <b>(1,705)</b>                | (1,050)          | <b>(558)</b>                    | (808)            |
| Non-operating income                   | 4    | <b>594</b>                    | -                | <b>-</b>                        | -                |
| Loss before taxation                   |      | <b>(195)</b>                  | (30,137)         | <b>(2,764)</b>                  | (14,462)         |
| Taxation                               | 5    | <b>(356)</b>                  | (248)            | <b>(145)</b>                    | (100)            |
| Loss after taxation                    |      | <b>(551)</b>                  | (30,385)         | <b>(2,909)</b>                  | (14,562)         |
| Minority interests                     |      | <b>(769)</b>                  | (627)            | <b>(297)</b>                    | (258)            |
| Loss attributable to<br>shareholders   |      | <b>(1,320)</b>                | (31,012)         | <b>(3,206)</b>                  | (14,820)         |
| Loss per share – Basic                 | 6    | <b>(0.3) cent</b>             | (7.8) cents      | <b>(0.8) cent</b>               | (3.7) cents      |

**Condensed Consolidated Balance Sheet**

As at 30th June 2002

|   |             | <b>(Unaudited)</b> | (Audited)       |
|---|-------------|--------------------|-----------------|
|   |             | <b>30th June</b>   | 31st December   |
|   |             | <b>2002</b>        | 2001            |
|   | <i>Note</i> | <b>HK\$'000</b>    | <i>HK\$'000</i> |
| Intangible assets                           |             | <b>566</b>         | 648             |
| Property, plant and equipment               | 7           | <b>13,867</b>      | 12,939          |
| Investment securities                       |             | <b>3,962</b>       | 3,962           |
| Current assets                              |             |                    |                 |
| Inventories                                 |             | <b>61,910</b>      | 64,486          |
| Trade and other receivables                 | 8           | <b>171,580</b>     | 86,073          |
| Short-term investments                      | 9           | <b>116,029</b>     | 260,430         |
| Pledged bank deposits and<br>other deposits | 10          | <b>119,248</b>     | 236,056         |
| Bank balances and cash                      |             | <b>113,908</b>     | 122,820         |
|   |             | <b>582,675</b>     | 769,865         |
| Current liabilities                         |             |                    |                 |
| Trade and other payables                    | 11          | <b>79,335</b>      | 66,657          |
| Taxation payable                            |             | <b>705</b>         | 349             |
| Bank loan, secured                          |             | <b>18,857</b>      | 18,857          |
| Other loan, secured                         |             | <b>-</b>           | 198,001         |
|   |             | <b>98,897</b>      | 283,864         |
| Net current assets                          |             | <b>483,778</b>     | 486,001         |
| Total assets less current liabilities       |             | <b>502,173</b>     | 503,550         |
| Financed by:                                |             |                    |                 |
| Share capital                               |             | <b>40,000</b>      | 40,000          |
| Reserves                                    |             | <b>456,481</b>     | 457,843         |
| Shareholders' funds                         |             | <b>496,481</b>     | 497,843         |
| Minority interests                          |             | <b>5,692</b>       | 5,707           |
|   |             | <b>502,173</b>     | 503,550         |

**Condensed Consolidated Statement of Changes in Equity (Unaudited)**

For the six months ended 30th June 2002

|  | <b>Share<br/>Capital</b> | <b>Share<br/>premium</b> | <b>Statutory<br/>reserves</b> | <b>Exchange<br/>difference</b> | <b>Retained<br/>earnings</b> | <b>Total</b>    |
|--|--------------------------|--------------------------|-------------------------------|--------------------------------|------------------------------|-----------------|
|  | <i>HK\$'000</i>          | <i>HK\$'000</i>          | <i>HK\$'000</i>               | <i>HK\$'000</i>                | <i>HK\$'000</i>              | <i>HK\$'000</i> |
| At 1st January 2001                              | 40,000                   | 381,713                  | 11,767                        | 1,036                          | 139,536                      | 574,052         |
| Translation of the PRC<br>subsidiary's account   | -                        | -                        | -                             | (159)                          | -                            | (159)           |
| Loss for the period                              | -                        | -                        | -                             | -                              | (16,192)                     | (16,192)        |
| At 31st March 2001                               | 40,000                   | 381,713                  | 11,767                        | 877                            | 123,344                      | 557,701         |
| Translation of the PRC<br>subsidiary's account   | -                        | -                        | -                             | 40                             | -                            | 40              |
| Loss for the period                              | -                        | -                        | -                             | -                              | (14,820)                     | (14,820)        |
| At 30th June 2001                                | 40,000                   | 381,713                  | 11,767                        | 917                            | 108,524                      | 542,921         |
| Translation of the PRC<br>subsidiary's account   | -                        | -                        | -                             | 143                            | -                            | 143             |
| Loss for the period                              | -                        | -                        | -                             | -                              | (45,221)                     | (45,221)        |
| At 31st December 2001                            | 40,000                   | 381,713                  | 11,767                        | 1,060                          | 63,303                       | 497,843         |
| At 1st January 2002                              | 40,000                   | 381,713                  | 11,767                        | 1,060                          | 63,303                       | 497,843         |
| Translation of the PRC<br>subsidiaries' accounts | -                        | -                        | -                             | (27)                           | -                            | (27)            |
| Profit for the period                            | -                        | -                        | -                             | -                              | 1,886                        | 1,886           |
| At 31st March 2002                               | 40,000                   | 381,713                  | 11,767                        | 1,033                          | 65,189                       | 499,702         |
| Translation of the PRC<br>subsidiaries' accounts | -                        | -                        | -                             | (15)                           | -                            | (15)            |
| Loss for the period                              | -                        | -                        | -                             | -                              | (3,206)                      | (3,206)         |
| <b>At 30th June 2002</b>                         | <b>40,000</b>            | <b>381,713</b>           | <b>11,767</b>                 | <b>1,018</b>                   | <b>61,983</b>                | <b>496,481</b>  |

**Condensed Consolidated Cash Flow Statement (Unaudited)**

For the six months ended 30th June 2002

|   | <b>Six months ended</b> |           |
|---|-------------------------|-----------|
|   | <b>30th June</b>        |           |
|   | <b>2002</b>             | 2001      |
|   | <b>HK\$'000</b>         | HK\$'000  |
| Net cash outflow from operating activities          | <b>(72,755)</b>         | (1,855)   |
| Net cash inflow/(outflow) from investing activities | <b>149,498</b>          | (247,471) |
| Net cash inflow/(outflow) before financing          | <b>76,743</b>           | (249,326) |
| Net cash (outflow)/inflow from financing            | <b>(85,613)</b>         | 10,946    |
| Decrease in cash and cash equivalents               | <b>(8,870)</b>          | (238,380) |
| Cash and cash equivalents at 1st January            | <b>122,820</b>          | 368,804   |
| Effect of foreign exchange rate changes             | <b>(42)</b>             | (119)     |
| Cash and cash equivalents at 30th June              | <b>113,908</b>          | 130,305   |
| Analysis of balances of cash and cash equivalents:  |                         |           |
| Bank balances and cash                              | <b>113,908</b>          | 130,305   |

## Notes to the Accounts:

### 1 Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2001, except as described below.

In the current period, the Group has adopted, for the first time, a number of revised Statements of Standard Accounting Practice ("SSAP(s)") issued by HKSA as follows:

|                   |                                      |
|-------------------|--------------------------------------|
| SSAP 1 (Revised)  | Presentation of financial statements |
| SSAP 15 (Revised) | Cash flow statements                 |

Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. In addition, the revised SSAPs have introduced revised disclosure requirements which have been adopted in these condensed consolidated financial statements. Comparative amounts and disclosure for the prior period have been restated in order to achieve a consistent presentation. However, none of the amendments outlined above has affected the results for the current or prior periods.

### 2 Turnover, other revenue and segment information

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:

|                       | Six months ended<br>30th June |                  | Three months ended<br>30th June |                  |
|-----------------------|-------------------------------|------------------|---------------------------------|------------------|
|                       | 2002<br>HK\$'000              | 2001<br>HK\$'000 | 2002<br>HK\$'000                | 2001<br>HK\$'000 |
| Turnover              |                               |                  |                                 |                  |
| Sales of goods        | <b>155,507</b>                | 159,558          | <b>64,113</b>                   | 69,274           |
| Other revenue         |                               |                  |                                 |                  |
| Interest income       | <b>6,464</b>                  | 8,000            | <b>3,832</b>                    | 3,632            |
| <b>Total revenues</b> | <b>161,971</b>                | 167,558          | <b>67,945</b>                   | 72,906           |



## 2 Turnover, other revenue and segment information (continued)

An analysis of the Group's turnover and segment results by business and geographical segment is as follows:

|                                      | Six months ended 30th June 2002               |                                    |                                 |                          |                   |
|--------------------------------------|---|------------------------------------|---------------------------------|--------------------------|-------------------|
|                                      | Information<br>home<br>appliances<br>HK\$'000 | Integrated<br>circuits<br>HK\$'000 | Other<br>operations<br>HK\$'000 | Eliminations<br>HK\$'000 | Group<br>HK\$'000 |
| <b>By business segments:</b>         |   |                                    |                                 |                          |                   |
| <b>TURNOVER</b>                      |   |                                    |                                 |                          |                   |
| External sales                       | 45,146  | 82,327                             | 28,034                          | -                        | 155,507           |
| Internal sales                       | 96,629  | 13,422                             | 1,084                           | (111,135)                | -                 |
|                                      | <b>141,775</b>                                | <b>95,749</b>                      | <b>29,118</b>                   | <b>(111,135)</b>         | <b>155,507</b>    |
| <b>RESULTS</b>                       |   |                                    |                                 |                          |                   |
| Segment results                      | (11,633)                                      | 806                                | (364)                           | -                        | (11,191)          |
| Unallocated income                   |   |                                    |                                 |                          | 15,893            |
| Unallocated costs                    |   |                                    |                                 |                          | (3,786)           |
| Operating profit                     |   |                                    |                                 |                          | 916               |
| Finance costs                        |   |                                    |                                 |                          | (1,705)           |
| Non-operating income                 |   |                                    |                                 |                          | 594               |
| Loss before taxation                 |   |                                    |                                 |                          | (195)             |
| Taxation                             |   |                                    |                                 |                          | (356)             |
| Loss after taxation                  |   |                                    |                                 |                          | (551)             |
| Minority interests                   |   |                                    |                                 |                          | (769)             |
| Loss attributable to<br>shareholders |   |                                    |                                 |                          | (1,320)           |

**2 Turnover, other revenue and segment information (continued)**

|                                      | Six months ended 30th June 2001               |                                    |                                 |                          |                   |
|--------------------------------------|---|------------------------------------|---------------------------------|--------------------------|-------------------|
|                                      | Information<br>home<br>appliances<br>HK\$'000 | Integrated<br>circuits<br>HK\$'000 | Other<br>operations<br>HK\$'000 | Eliminations<br>HK\$'000 | Group<br>HK\$'000 |
| <b>By business segments:</b>         |   |                                    |                                 |                          |                   |
| <b>TURNOVER</b>                      |   |                                    |                                 |                          |                   |
| External sales                       | 132,291                                       | 23,326                             | 3,941                           | -                        | 159,558           |
| Internal sales                       | -   | 22,740                             | -                               | (22,740)                 | -                 |
|                                      | 132,291                                       | 46,066                             | 3,941                           | (22,740)                 | 159,558           |
| <b>RESULTS</b>                       |   |                                    |                                 |                          |                   |
| Segment results                      | (32,778)                                      | (1,044)                            | (463)                           | -                        | (34,285)          |
| Unallocated income                   |   |                                    |                                 |                          | 8,083             |
| Unallocated costs                    |   |                                    |                                 |                          | (2,885)           |
| Operating loss                       |   |                                    |                                 |                          | (29,087)          |
| Finance costs                        |   |                                    |                                 |                          | (1,050)           |
| Loss before taxation                 |   |                                    |                                 |                          | (30,137)          |
| Taxation                             |   |                                    |                                 |                          | (248)             |
| Loss after taxation                  |   |                                    |                                 |                          | (30,385)          |
| Minority interests                   |   |                                    |                                 |                          | (627)             |
| Loss attributable to<br>shareholders |   |                                    |                                 |                          | (31,012)          |

| <b>Sales revenue</b>              |          |
|-----------------------------------|----------|
| <b>Six months ended 30th June</b> |          |
| <b>2002</b>                       | 2001     |
| <b>HK\$'000</b>                   | HK\$'000 |

**By geographical segments:**

|   |                |         |
|---|----------------|---------|
| The People's Republic of China,<br>other than Hong Kong (the "PRC") | <b>149,128</b> | 143,733 |
| Hong Kong   | <b>5,487</b>   | 14,990  |
| Other Asian countries   | <b>892</b>     | 835     |
|   | <b>155,507</b> | 159,558 |

### 3 Operating profit/(loss)

Operating profit/(loss) is stated after crediting and charging the following:

|   | Six months ended<br>30th June<br>2002 |                  | Three months ended<br>30th June<br>2001 |                  |
|---|---------------------------------------|------------------|---|------------------|
|   | 2002<br>HK\$'000                      | 2001<br>HK\$'000 | 2002<br>HK\$'000                        | 2001<br>HK\$'000 |
| <b>Crediting:</b>                                     |                                       |                  |   |                  |
| Realised gains on disposal of short-term investments  | 7,595                                 | 83               | 3,235                                   | –                |
| Unrealised gains on short-term investments            | 1,837                                 | –                | –                                       | –                |
| <b>Charging:</b>                                      |                                       |                  |   |                  |
| Amortisation of intangible assets                     | 232                                   | 525              | 38                                      | 262              |
| Depreciation of owned property, plant and equipment   | 838                                   | 773              | 436                                     | 409              |
| Realised losses on disposal of short-term investments | –                                     | 104              | –                                       | 103              |
| Unrealised losses on short-term investments           | 2,306                                 | 1,075            | 1,923                                   | –                |
| Provision for doubtful debts                          | 4,552                                 | –                | 1,563                                   | –                |

### 4 Non-operating income

The non-operating income represents incentive bonuses granted by the government of Pinggu County, Beijing, the PRC to the Company's wholly owned subsidiary in the PRC, Beijing Golden Yuxing Electronics and Technology Co., Ltd. ("Golden Yuxing"), for the six months and three months ended 30th June 2002. 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.

### 5 Taxation

Hong Kong profits tax has been provided at the rate of 16% (six months and three months ended 30th June 2001: 16%) on the estimated assessable profit for the six months and three months ended 30th June 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 PRC income tax for the two years starting from its first profit-making year followed by a 50% reduction of PRC income tax for three consecutive years thereafter. The preferential treatments commenced from 2000. Therefore, Golden Yuxing was entitled to a 50% reduction of PRC income tax for the six months and three months ended 30th June 2002 (six months and three months ended 30th June 2001: fully exempted from 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 six months and three months ended 30th June 2002.

**6 Loss per share**

The calculation of basic loss per share for the six months and three months ended 30th June 2002 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$1,320,000 and HK\$3,206,000 respectively (six months and three months ended 30th June 2001: consolidated loss attributable to shareholders of approximately HK\$31,012,000 and HK\$14,820,000 respectively) and the weighted average number of 400,000,000 ordinary shares (six months and three months ended 30th June 2001: 400,000,000 ordinary shares) in issue.

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

**7 Property, plant and equipment**

During the period, the Group expended approximately HK\$1,766,000 on the acquisition of property, plant and equipment for the expansion of the Group's operation.

**8 Trade and other receivables**

The Group generally grants a normal credit period of 60 days to its trade customers. At 30th June 2002, included in trade and other receivables were trade receivables of approximately HK\$22,441,000 less provision for doubtful debts (31st December 2001: approximately HK\$30,478,000). The ageing analysis of the trade receivables was as follows:

|              | <b>30th June 2002</b><br><i>HK\$'000</i> | 31st December 2001<br><i>HK\$'000</i> |
|--------------|--|---------------------------------------|
| 0-30 days    | <b>4,821</b>                             | 18,323                                |
| 31-60 days   | <b>2,280</b>                             | 1,514                                 |
| 61-90 days   | <b>2,083</b>                             | 2,799                                 |
| Over 90 days | <b>13,257</b>                            | 7,842                                 |
|              | <b>22,441</b>                            | 30,478                                |

**9 Short-term investments**

|                                    | <b>30th June 2002</b><br><i>HK\$'000</i> | 31st December 2001<br><i>HK\$'000</i> |
|------------------------------------|--|---------------------------------------|
| Debt securities, at market value:  |  |                                       |
| Listed in the PRC                  | <b>106,587</b>                           | 252,878                               |
| Unit trust funds, at market value: |  |                                       |
| Unlisted                           | <b>9,442</b>                             | 7,552                                 |
|                                    | <b>116,029</b>                           | 260,430                               |

**10 Pledged bank deposits and other deposits**

|   | <b>30th June 2002</b><br><i>HK\$'000</i> | 31st December 2001<br><i>HK\$'000</i> |
|---|--|---------------------------------------|
| Security for bank loans and banking facilities of the Group | <b>26,248</b>                            | 36,056                                |
| Security for bank facilities ( <i>Note a</i> )              | –  | 200,000                               |
| Other deposits ( <i>Note b</i> )                            | <b>93,000</b>                            | –                                     |
|   | <b>119,248</b>                           | 236,056                               |

*Notes:*

- (a) In 2001, the Group entered into certain financial arrangements to provide banking facilities in the PRC for its wholly owned subsidiary, Golden Yuxing. The Group pledged a portion of its bank deposit which amounted to HK\$200,000,000 with a PRC bank and, in return, Golden Yuxing received a loan of RMB210,000,000 (approximately HK\$198,001,000). As at 30th June 2002, the loan was fully repaid and the entire amount of bank deposit that had been pledged was released.
- (b) During the period, the Group made deposits for various purchases and these deposits were fully refunded to the Group subsequent to 30th June 2002.

**11 Trade and other payables**

Included in trade and other payables were trade payables of approximately HK\$29,786,000 (31st December 2001: approximately HK\$41,211,000). At 30th June 2002, the ageing analysis of the trade payables was as follows:

|              | <b>30th June 2002</b><br><i>HK\$'000</i> | 31st December 2001<br><i>HK\$'000</i> |
|--------------|--|---------------------------------------|
| 0–30 days    | <b>21,213</b>                            | 19,377                                |
| 31–60 days   | <b>2,469</b>                             | 17,648                                |
| 61–90 days   | <b>1,076</b>                             | 73                                    |
| Over 90 days | <b>5,028</b>                             | 4,113                                 |
|              | <b>29,786</b>                            | 41,211                                |

**12 Contingent liabilities**

At 30th June 2002, the Group has provided guarantees for a bank loan of approximately HK\$4,242,000 (31st December 2001: approximately HK\$4,714,000) granted by a bank in the PRC to a distributor of the Group.

The management of the Group anticipate that no material liabilities will arise from the above guarantees which arose in the ordinary course of business.

## INTERIM DIVIDENDS

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30th June 2002 (six months ended 30th June 2001: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Turnover and Gross Profit

Since the beginning of year 2002, the Group has been actively engaged in management reform, product innovation and product mix optimisation. As a result, against the backdrop of decreasing consumption in the information appliance market of the PRC, turnover of the Group for the second quarter of 2002 only decreased slightly, by 7.5% to HK\$64.1 million, while gross profit increased significantly, by 18.3% to HK\$4.5 million, as compared to the same period last year. This was attributed to the emerging effects of the Group's management improvements and cost control measures.

#### Operating Results

##### *Other Revenue*

Other revenue, representing interest income, dropped to approximately HK\$6.5 million for the six months ended 30th June 2002 (six months ended 30th June 2001: approximately HK\$8.0 million) as a result of interest rate cuts.

##### *Other Operating Income*

Other operating income increased to approximately HK\$9.4 million for the six months ended 30th June 2002 (six months ended 30th June 2001: approximately HK\$0.2 million) which was mainly due to an appreciation in the market price of PRC government bonds as at 30th June 2002. In order to take advantage of the rising bond price and enjoy a higher bond interest rate as compared to the relatively lower interest rate of the bank deposits, the Group invested in PRC government bonds which investments have a market value of approximately HK\$106.6 million as at 30th June 2002.

### *Operating Expenses*

The Group managed to improve its operations during the period under review. A decrease in the advertising and promotion expenses and a well-received launch of the latest products both drove down the overall selling expenses to approximately HK\$8.7 million (six months ended 30th June 2001: approximately HK\$36.6 million).

As the market competition intensified, the financial position of some of the Group's distributors deteriorated. This unfavourable situation led to an increase in provision for doubtful debts which was included in general and administrative expenses, to approximately HK\$4.6 million (six months ended 30th June 2001: Nil).

### *Finance Costs*

Finance costs increased to approximately HK\$1.7 million (six months ended 30th June 2001: approximately HK\$1.1 million), which was mainly due to the drawdown of a loan in the amount of RMB210.0 million (approximately HK\$198.0 million) with interest payable at 1.5% per annum. The loan was fully repaid during the six months ended 30th June 2002.

### **Loss Attributable to Shareholders**

Loss attributable to shareholders of approximately HK\$1.3 million was recorded for the period under review, which represented a significant improvement over a net loss of approximately HK\$31.0 million for the same period last year. The financial position of the Group has gradually been improving.

### **Liquidity, Charge on Group Assets and Financial Resources**

As at 30th June 2002, the Group has net current assets of approximately HK\$483.8 million. The Group had cash and bank deposits totalling approximately HK\$140.2 million, of which HK\$26.2 million were pledged with two different banks for banking facilities. Short-term borrowings reached approximately HK\$18.9 million which represented a short-term loan of RMB20.0 million granted by a PRC bank to Golden Yuxing at an interest rate of approximately 5.3% per annum. Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

Save for the short-term loan disclosed herein, the Group had no long-term financing as most of the Group's financial resources were funded by its shareholders' funds.

### **Contingent Liabilities and Gearing Ratio**

Contingent liability on guarantees for bank loan of a distributor was approximately HK\$4.2 million (approximately RMB4.5 million). As at 30th June 2002, the Group's gearing ratio, representing total interest-bearing liabilities divided by shareholders' funds, was 3.8%.

### **Capital Structure**

The shares of the Company were listed on GEM on 31st January 2000. There has been no change in the capital structure of the Company since that date.

### **Significant Investments/Material Acquisitions and Disposals**

For the six months ended 30th June 2002, the Group had acquired 100% equity interest in Sheng Bang Qiang Dian Electronics (Shen Zhen) Co., Ltd. ("Shenzhen Senbo") at a consideration of approximately HK\$7.0 million. Other than that, the Group had no significant investments and no material acquisitions or disposals.

### **Segment Information**

Due to the intensive competition of the information home appliances market in the PRC, the external sales of the information home appliances for the period under review decreased significantly by 65.9% to HK\$45.1 million as compared to the same period last year and an operating loss of HK\$11.6 million was incurred.

The external sales of integrated circuits was mainly contributed by Hi-Level Technology Limited, a 51% owned subsidiary of the Group, which had been fully operational since March 2001. Hence the external sales of integrated circuits for the period under review skyrocketed by 252.9% to HK\$82.3 million as compared to the same period last year with an operating profit of HK\$0.8 million incurred.

Geographical markets were mainly located in the PRC with no material changes noted for the interim period and previous corresponding period.



### **Exposure to Fluctuations in Exchange Rates**

Most of the trading transactions and assets of the Group were denominated in Renminbi and the remaining portions were denominated in US dollars and Hong Kong dollars. As the Group believes that Renminbi will remain relatively stable in the foreseeable future, it will increase the proportion of Renminbi-denominated financial assets to minimise the downside of exchange risk. No hedging or other alternative measures have been implemented by the Group. As at 30th June 2002, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

### **Human Resources**

As at 30th June 2002, the Group has over 550 full time employees, of which 14 are based in Hong Kong and the rest are in the PRC. For the six months ended 30th June 2002, staff costs amounted to approximately HK\$9.3 million (six months ended 30th June 2001: approximately HK\$7.7 million). All employees of the Company's subsidiary companies are selected and promoted based on their suitability to the position offered. The salary and benefit levels of the Group's employees are in line with that of the market. Employees are rewarded on a performance-related basis within the general framework of the Group's remuneration system which is reviewed annually. In addition to basic salaries, staff benefits include medical scheme, various insurance schemes and share options.

## Share Options

Details of the share options outstanding as at 30th June 2002 which have been granted under the share option scheme approved by the shareholders of the Company on 18th January 2000 (the "Share Option Scheme") are as follows:

|  | Share<br>options<br>held at<br>1st January<br>2002 | Share<br>options<br>granted<br>during<br>the period | Share<br>options<br>exercised<br>during<br>the period | Share<br>options<br>cancelled/<br>lapsed<br>during<br>the period | Share<br>options<br>held<br>at 30th<br>June<br>2002 | Share<br>exercise<br>price<br>HK\$ | Grant Date<br>(Acceptance<br>Date) |
|--|--|---|---|--|---|------------------------------------|------------------------------------|
| <b>Director</b>                          |  |   |   |  |   |                                    |                                    |
| - Mr. Wang An Zhong                      | 1,000,000  | -   | -   | -  | 1,000,000   | 0.95                               | 28th November 2000                 |
| <b>Continuous contract<br/>employees</b> | 5,000,000  | -   | -   | -  | 5,000,000   | 4.80                               | 27th June 2000                     |
|  | 6,635,000  | -   | -   | 250,000  | 6,385,000   | 0.95                               | 28th November 2000                 |
|  | 610,000  | -   | -   | -  | 610,000   | 0.95                               | 3rd December 2000                  |
|  | 310,000  | -   | -   | -  | 310,000   | 0.95                               | 4th December 2000                  |
|  | 40,000   | -   | -   | -  | 40,000  | 0.95                               | 5th December 2000                  |
|  | 4,500,000  | -   | -   | -  | 4,500,000   | 0.83                               | 9th February 2001                  |
|  | 3,800,000  | -   | -   | -  | 3,800,000   | 0.75                               | 11th April 2001                    |
|  | 600,000  | -   | -   | -  | 600,000   | 1.45                               | 15th June 2001                     |
|  |  |   |   |  | 22,245,000  |                                    |                                    |
| Total outstanding share options          |  |   |   |  | 22,245,000  |                                    |                                    |

No share options were granted or exercised under the Share Option Scheme during the period under review.

## BUSINESS REVIEW

**Enhancement in Production Capability.** At the beginning of 2002, the Group acquired 100% equity interest in Shenzhen Senbo for approximately HK\$7.0 million. Presently, the Group has already consolidated the management of Shenzhen Senbo and has basically completed all relevant legal procedures and documentation in relation to the acquisition. The acquisition was a step further in realising the development strategy and technology advancement plan of the Group. Further, the acquisition not only enables the Group to lower its production and operating costs, but also positions the Group for expansion into the overseas market and the OEM market in the PRC.

**Progress in the promotion of broadband set-top box products.** During the first half of 2002, the Group made satisfactory progress in the development and promotion of its broadband set-top box products on the basis of its DVD technological platform. These products had been installed and are now being used in 50 hotels and karaoke lounges in the PRC. In the meantime, the Group further cemented its cooperation with telecom operators and system facilities suppliers in the PRC by establishing a second pilot broadband community in Zhenjiang City of Jiangsu Province, the PRC in the second quarter of 2002 following the completion of the first pilot in Zhengzhou City of Henan Province, the PRC in the first quarter of 2002. In addition, the Group formulated a new business model by establishing long-term alliances with leading telecom operators in the PRC. Such alliances form a solid foundation on which the Group may promote its broadband set-top box products and extend its customer base.

**Successful launch of multi-function stylish mini home theatre systems and slim flip-open disc players.** These new products comprised an array of different technological innovations. Given the extensive range of advanced features and stylish look, these products were highly welcomed by consumers in the PRC market.

**Completion of design and planning of a new generation of e-learning products.** The Group plans to launch a new series of e-learning products and relevant software for studying foreign languages in the second half of 2002. At present, hardware development of such products is in its final stages while 40% of its software programming has been completed. In addition, in order to boost the sales of its existing computer VCD player products, the Group worked closely with education content providers and well-known education software developers in the PRC. Joint efforts were also made in the strengthening of the synchronisation feature of its computer VCD player products and the development of learning-aids software as complementary tools to secondary and primary school textbooks. These new products have already been launched and have received encouraging market response.

**Continuous improvement in sales management and streamlined sales channels.** In order to reinforce its foothold across different regional markets of the PRC, the Group had established four branches in Nanjing, Changsha, Chongqing and Shenyang, the PRC. As such, the scope of management of the Group over sales channels, sales, marketing and services has been extended to the markets in the eastern, mid-southern, south-western, north-eastern, northern and north-western regions of the PRC. These branches have been operating smoothly and began to

contribute to the Group in terms of regional market expansion, direction of sales activities and improvement in product competitiveness. In the meantime, the Group has expanded from 30 general agents to more than 100 regional agents, spanning over different regions in the PRC. Combined with a direct supply of inventories, the Group had successfully flattened its sales channels in over two-thirds of the provinces in the PRC. In addition, the Group continued to explore new sales models and established close working relationships with some of the leading retailers in the PRC on a nation-wide scale. By setting up direct stock supply models in more than 50 shopping malls in cities of the PRC, the Group's competitiveness in these markets has improved.

**Establishment of a new service system towards building a more systematic, standardised and cost-effective service network.** To date, the Group has established more than 200 after-sales service centres throughout the PRC. This standardised service system allows the Group to substantially improve its service quality, response time, parts inventory control and customer relationship, and lower its service costs.

**Application for the ISO9000 certification.** The Group has successfully completed the first-round internal audit during the first half of 2002 and the application procedures for the ISO certification by the China Electronics Quality System Certification Centre is in progress. It is expected that the entire certification process will be completed by the second half of 2002. This will further standardise and improve the management process of the Group.

## 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 the PRC had developed and transformed into something 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 accordingly adjusted, amended and postponed certain sizeable research and development, marketing and promotional plans, as it 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 the period from 31st January 2000 (date of listing) to 30th June 2002 is as follows:

|  | <b>Amount stated<br/>in the new plans<br/>of the Board per<br/>Annual Report 2000</b> | <b>Proceeds already<br/>applied during the<br/>date of listing to<br/>30th June 2002</b> | <i>Notes</i> |
|--|---|--|--------------|
|  | <i>HK\$<br/>(in million)</i>  | <i>HK\$<br/>(in million)</i>   |              |
| <b>Scheduled projects:</b>   |   |  |              |
| 1. Research and development of information appliance multimedia software development platform ("IAMS DP") in 2000 and 2001   | 3   | 3.25   |              |
| 2. Research and development and promotion of a series of DVD products in 2000 and 2001   | 15  | 6.76   | 1            |
| 3. Promotion of a series of VCD products in 2000 and 2001  | 65  | 50.77  | 2            |
| 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  | 4.99   | 3            |
| 5. Research and development and general promotion of educational computers in 2000 and 2001  | 1   | 1.35   |              |
| 6. Research of advanced digital video technology in 2000 and 2001  | 2   | 2.84   |              |

|   | <b>Amount stated<br/>in the new plans<br/>of the Board per<br/>Annual Report 2000</b> | <b>Proceeds already<br/>applied during the<br/>date of listing to<br/>30th June 2002</b> | <i>Notes</i> |
|---|---|--|--------------|
|   | <i>HK\$<br/>(in million)</i>  | <i>HK\$<br/>(in million)</i>   |              |
| <b>Scheduled projects:</b>  |   |  |              |
| 7. Purchase of testing and research and development related equipments from 2000 to 2002                                      | 4   | 1.20   |              |
| 8. Development of application software and the purchase of copyrights from 2000 to 2002                                       | 3   | 2.29   |              |
| 9. Expansion of the Group's distribution and sales network in 2000 and 2001   | 50  | 32.27  | 4            |
| 10. Establishment of the new office by the Group in Hong Kong in 2000 and 2001  | 5   | 4.25   |              |
| 11. Meeting additional working capital requirements for the sales and marketing of a series of DVD products from 2000 to 2002 | 18  | 7.15   |              |
| 12. General working capital for maintaining the day-to-day operations of the Group from 2000 to 2002                          | 188   | 5.32   |              |
| 13. Establishment of distribution business for electronic components in 2001 and 2002   | 20  | 5.10   |              |
| 14. Acquisition of production plant and purchase of production equipment in 2002  | –   | 8.21   | 5            |
| Total   | 392   | 135.75   |              |

*Notes:*

1. Since the DVD market of the PRC was in its preliminary stage, the Group did not commit as much resources as expected. The project has not been progressing as quickly as originally expected but has been extended. The DVD products is expected to anticipate growth in 2002.
2. The Group reduced its commitment in the promotion of VCD products due to the improvement of sales channels and brand awareness as a support for sales and the gradual shrinkage of the VCD market in the PRC.
3. The Group intends to conduct research and development as well as promotion of novel e-learning products with enhanced functions in accordance with the development of the PRC market; therefore, the time for utilisation of the funds for such project was extended and the commitment for promotion of the existing products was likewise reduced.
4. Since 2001, the Group strengthened the management and supervision of its sales channels and the training of the personnel therein. At the same time, the Group expedited the streamlining of sales channels so as to reduce the sales layers. This greatly improved the operation efficiency of the sales network and enhanced efficient application of the funds injected for the sales network. As a result, the funds applied by the Group for the establishment of sales network was less than originally anticipated.
5. In order to have a more comprehensive chain of enterprise value and increase the control of the Group over the purchase and manufacturing cycles so as to improve the efficiency of its supply chain, the Board decided to apply proceeds of approximately HK\$10 million at the end of 2001 to acquire Shenzhen Senbo, a production plant in Shenzhen, and purchase production equipment.

To the extent that the net proceeds are not immediately used, the Group will deposit the net proceeds into banks or other financial institutions or engage in short-term investments with higher returns for its shareholders.

## BUSINESS PROGRESS AGAINST BUSINESS OBJECTIVES

Set out below is a comparison between the Group's actual business progress for the six months ended 30th June 2002 and its business objectives as set out in and extended from the Prospectus.

**Business objectives as set out in and extended from the Prospectus for the year ending 31st December 2002:**

**Actual business progress for the six months ended 30th June 2002:**

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

Upgrading the technical capability of IAMS DP and developing other multimedia software development tasks to meet the demand of different types of information appliances

The Group made various breakthroughs in the development of IAMS DP application technology. Among these was a new compact disc standard, which integrated the interactivity of the VCD 2.0 standard, the high compression rate of voice data in MP3 technology and high compression rate of graphical data in JPG technology. These technologies allow the Group to store tens of hours of education content in one disc, surpassing the current storage limit of a VCD. The Group also developed a proprietary software development tool, which is user-friendly and highly efficient. In addition, the development of a series of game and education software, which are based on the DVD technological platform of the Group, had been completed. These products will be launched in the second half of 2002.

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

Continuing its ongoing research and development to launch new models of computer DVD player products with enhanced application technology

In the first half of this year, the Group launched two new models of DVD players. The first was a multi-function DVD player integrating Internet access, game and e-learning functions while the second was a "flip-open" DVD player. Both products drew extensive market attention. In response to the demand of the information appliance market of the PRC, a number of new broadband set-top boxes were launched. In addition, the Group established new pilot broadband communities in Zhengzhou City of Henan Province, the PRC and Zhenjiang City of Jiangsu Province, the PRC through joint efforts with telecom operators and system facilities suppliers in the PRC.



**Business objectives as set out in and extended from the Prospectus for the year ending 31st December 2002:**

**Actual business progress for the six months ended 30th June 2002:**

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

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

For the six months ended 30th June 2002, over 20 software products were launched. Currently, the Group had completed the development of a series of entertainment software and English learning software with high capacity. The multi-platform feature of these products enabled them to be compatible with a wide array of information appliances manufactured by the Group. In the meantime, the Group also further enriched the content of its pre-examination software products for secondary school students.

Since the middleware development platform of the Group had been successfully opened, a considerable quantity of application software, which were compatible with the Group's hardware platform, could be developed and provided by application software developers. This greatly improved the efficiency of software development of the Group and saved its development resources.

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

Reviewing the latest trend in the PRC market for educational computers and offering a comprehensive range of other information appliances to penetrate into the education sector in the PRC

Due to changes in market demand in the PRC, the Group's educational computers gradually faded out from the market. For the purpose of launching new substitute products, the Group conducted research and development in various areas. At present, the planning for the development of a new generation of e-learning products had been completed. In addition, in order to boost the sales of its existing computer VCD player products, the Group worked closely with education content providers and well-known education software developers in the PRC to strengthen the synchronisation feature of its computer VCD player products. Joint efforts were also made to actively develop learning-aids software as complementary tools for secondary and primary school textbooks.

## FUTURE PROSPECTS

**Continuation of its technology advancement and product innovation.** The Group will continue to improve its research and development strength in order to maintain its competitiveness in technology. It will also continue to conduct market research and to actively explore and develop the application technology for digital AV and broadband products as well as a new generation of e-learning products. By further optimising its IAMSDP and launching new products with enhanced compatibility and user-friendliness, the Group plans to shorten the product development period and invite greater support from its software partners. The product line of the Group will be extended with the launch of more new broadband-based information appliances, DVD AV products, as well as e-learning products in the second half of 2002. Meanwhile, the Group will further cement its relationship with upstream manufacturers and keep abreast of their latest technological developments and produce more advanced and competitive products. All these advantages are vital for the Group's products to stay ahead of the competition.

**Development of information appliance products.** With reinforced cooperation with leading telecom operators in the PRC, the Group will continue to explore and expand operations in area of the broadband community in the PRC. The Group will extend the range of broadband products with additional broadband functions and applications based on the foundation of its existing broadband video player products. As the set-top box products become fully fledged, the Group aims to further increase its marketing efforts and become a leading player in the information appliance industry. In addition to the PRC market, the Group will also explore the feasibility of expanding into the markets in Hong Kong, Japan and Korea.

**Development of digital AV products based on its DVD technological platform.** In response to the rapid growth of the DVD market in the PRC, the Group will launch more competitive DVD players and also boost its sales in the first and second-tier markets of the PRC. Meanwhile, sales of VCD and super VCD players are expected to increase due to a shifting of focus into the third-tier and fourth-tier markets of the PRC, in which the Group's sales network has a higher penetration rate. In addition, the Group will launch a series of home theatre products in the market.

**Development of e-learning products.** Sales of computer VCD player products, being the traditional educational equipment of the Group, are gradually decreasing as a result of the rising popularity of personal computers. In view of this, the Group is making extra efforts in the marketing of these products during the transition period in a bid to update and upgrade its e-learning products. The Group will continue to place more resources in the research and development of new products. A series of new products will be developed according to the educational market of the PRC and will be launched by the end of this year along with more new educational software.

**Exploration of overseas market.** It is the Group's intention to expand its export business and further increase its presence in OEM operations in the second half of 2002 in the PRC so as to enhance its overall economies of scale.

**Continuation of efforts to improve its management, operating efficiency and quality while lowering operating costs.** In the second half of 2002, the Group will completely flatten all its sales channels and be dedicated to establish more sales outlets in central cities and other sales network in the PRC. In addition, it will cooperate with its major suppliers to strengthen logistic cost controls. Through accurate market forecast, the Group will also shorten its inventory period so as to control its costs effectively which will maximise profit for the Group. As well, the Group will implement measures to improve its corporate image and to optimise the establishment of its service network, thereby reinforcing its marketing and sales capability. The Group targets to implement these initiatives by the third quarter of this year and boost its sales during the peak season in the last quarter of this year.

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

As at 30th June 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:

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

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 hold 63.6% and 36.4% of the entire issued share capital, respectively.
2. Dragon Treasure Ltd. ("Dragon Treasure") acted as a trustee and held these shares on behalf of Mr. Shi Guang Rong and Mr. Wang An Zhong.
3. This represents the number of shares to be issued upon the exercise of the share options granted under the Share Option Scheme. 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 six months ended 30th June 2002 did the Directors and chief executive (including their respective spouse and children under 18 years of age) have any interest in, or have 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 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 by the Company under section 16(1) of the SDI Ordinance shows that as at 30th June 2002, 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 held</b> | <b>Percentage of holding</b> |
|-----------------------------------|---------------------------------------|------------------------------|
| Super Dragon ( <i>Note 1</i> )    | 165,000,000                           | 41.25%                       |
| Dragon Treasure ( <i>Note 2</i> ) | 134,828,000                           | 33.71%                       |

*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%.
2. Dragon Treasure is a nominee company and acts as a 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 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 TIS Securities (HK) Limited ("TIS"), the sponsor, since its appointment on 16th March 2002:

- (1) neither TIS nor its associates have an 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 an 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. Two meetings were held during the six months ended 30th June 2002.

## BOARD PRACTICES AND PROCEDURES

Throughout the period under review, the Company was in compliance with Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

The Company has not redeemed any of its shares during the six months ended 30th June 2002. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 30th June 2002.

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

Hong Kong, 13th August 2002