



Yuxing InfoTech Holdings Limited

裕興電腦科技控股有限公司*

(incorporated in Bermuda with limited liability)



Third 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.

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OVERALL REVIEW

For the nine months ended 30th September 2002, the Group recorded a loss of approximately HK\$12.1 million, which significantly decreased by 74.6% as compared with a loss of approximately HK\$47.7 million for the same period last year. The gross profit for the nine months ended 30th September 2002 increased by 111.0% to approximately HK\$17.3 million as compared to the same period last year. The overall results of the Group had significantly improved.

By constantly keeping abreast of the development of internationally renowned manufacturers, the Group achieved substantial breakthrough in its OEM business in the third quarter of this year. For the audio-visual products, the Group is one of the leading manufacturers in the PRC to adopt the standard moulding and ultra slim core technology and successfully launched various new ultra slim products which include DVD players, super VCD players and VCD players. With enhanced functions and stylish and sleek appearances, these products received encouraging responses from consumers and OEM clients since their first launch in the PRC market, laying a solid foundation for a sales success in the peak season in the fourth quarter of this year.

The Group has completed the research and development of a new generation of e-learning products, which are currently undergoing prototype-testing stage. The products are expected to be launched in the PRC market by the end of this year. Catering to the demand of the PRC education market, these new products not only equipped with the "synchronisation feature", but also combined with comprehensive and systematic educational aids software. The market prospect of the new generation e-learning products is expected to be positive. Moreover, the growing maturity and comprehensiveness of information appliance products had led to an upward trend in its sales.

On the other hand, in light of the on-going implementation of standardised and systemised management measures in various departments and branches, the Group has achieved significant improvement in its management. Furthermore, with the enhancement in sales channels management and the advantages in flattening sales channel structure, the Group has substantially increased its competitiveness in the PRC market, thus bringing a promising future in its sales. Looking ahead, the Group is confident to achieve satisfactory results based on its long-term and steady development.

NINE-MONTH RESULTS (UNAUDITED)

The board of directors (the "Board") of Yuxing InfoTech Holdings Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the nine months and three months ended 30th September 2002 together with the comparative unaudited figures for the corresponding periods in 2001, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

		Nine months ended 30th September		Three months ended 30th September	
	Notes	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	244,950	207,997	89,443	48,439
Cost of sales		(227,664)	(199,756)	(85,446)	(53,433)
Gross profit/(loss)		17,286	8,241	3,997	(4,994)
Other revenue	2	8,505	11,219	2,041	3,219
Other operating income		9,607	329	170	81
Selling expenses		(13,763)	(41,631)	(5,082)	(5,058)
General and administrative expenses		(26,459)	(18,298)	(9,044)	(5,733)
Other operating expenses		(2,605)	(3,805)	(427)	(2,373)
Operating loss		(7,429)	(43,945)	(8,345)	(14,858)
Finance costs		(3,029)	(2,426)	(1,324)	(1,376)
Non-operating income	3	594	-	-	-
Loss before taxation		(9,864)	(46,371)	(9,669)	(16,234)
Taxation	4	(729)	(386)	(373)	(138)
Loss after taxation		(10,593)	(46,757)	(10,042)	(16,372)
Minority interests		(1,554)	(981)	(785)	(354)
Loss attributable to shareholders		(12,147)	(47,738)	(10,827)	(16,726)
Loss per share – Basic	5	(3.0) cents	(11.9) cents	(2.7) cents	(4.2) 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 by the Group during the period are as follows:

	Nine months ended 30th September		Three months ended 30th September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover				
Sales of goods	244,950	207,997	89,443	48,439
Other revenue				
Interest income	8,505	11,219	2,041	3,219
Total revenues	253,455	219,216	91,484	51,658

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 wholly owned subsidiary in the PRC, Beijing Golden Yuxing Electronics and Technology Co., Ltd. (“Golden Yuxing”) for the nine months ended 30th September 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.

4 Taxation

Hong Kong profits tax has been provided at the rate of 16% (nine months and three months ended 30th September 2001: 16%) on the estimated assessable profit for the nine months and three months ended 30th September 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 following 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 nine months and three months ended 30th September 2002 (nine months and three months ended 30th September 2001: fully exempt 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 nine months and three months ended 30th September 2002.

For other PRC subsidiaries of the Group, no provision for PRC income tax had been made as those PRC subsidiaries had no assessable income for the nine months and three months ended 30th September 2002.

The amount of taxation for the period represents:

	Nine months ended 30th September		Three months ended 30th September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax	729	386	373	138

5 Loss per share

The calculation of basic loss per share for the nine months and three months ended 30th September 2002 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$12,147,000 and HK\$10,827,000 respectively (nine months and three months ended 30th September 2001: consolidated loss attributable to shareholders of approximately HK\$47,738,000 and HK\$16,726,000 respectively) and the weighted average number of 400,000,000 ordinary shares (nine months and three months ended 30th September 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 periods.

RESERVES

There were no transfers to or from reserves of the Group during the nine months ended 30th September 2002 and 2001.

INTERIM DIVIDENDS

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

BUSINESS REVIEW

Turnover of the Group for the nine months ended 30th September 2002 increased by 17.8% to approximately HK\$245.0 million, while gross profit increased significantly by 111.0% to approximately HK\$17.3 million as compared to the same period last year. In the meantime, the Group trimmed down its loss to approximately HK\$12.1 million from HK\$47.7 million for the nine months ended 30th September 2002 when compared to the same period last year, representing a significant improvement in the financial position of the Group.

The launch of various audio-visual products. The Group has launched a series of audio-visual products, including DVD players, super VCD players as well as VCD players. All these new products are equipped with the ultra slim core technology, thus enhancing the functions of the products with more fashionable and sleek appearances. The Group is one of the leading manufacturers in the PRC to adopt this internationally advanced technology. During the research and development process, the products adopted standardised design and components, enabling the Group to innovate a wide variety of products models to satisfy different market demand. The Group expected that the sales of these new products would be optimistic in the peak season in the fourth quarter of this year.

Significant progress in e-learning products upgrade. Apart from actively promoting the sale of the existing e-learning products (computer VCD players), the Group has completed the research and development of a new generation e-learning products and their prototypes. The new products that feature better portability and mobility are equipped with additional functions, including the “synchronisation feature”. In the meantime, the programming for the educational aids software was substantially completed by 70%. Market trial for the new generation e-learning products in the PRC is expected to be commenced by the end of this year.

Strong momentum of growth in broadband set-top box products with a steady increase in its sales market. As at the end of the third quarter of 2002, the Group’s broadband set-top box products have been installed in about 100 hotels and karaoke lounges in the PRC. These products have received good market response. Sales have been on upward trend, denoting a strong momentum of growth in the future. In view of the growing maturity of broadband set-top box products market, the Group is developing and preparing to launch a new model of broadband set-top box products for karaoke, targeting at the mass public segment. The new product is expected to be launched into the market by the end of this year. On the other hand, development of the Group’s web-DVD players is about to be completed and moving into the final stage of prototype testing. Laboratory testing is underway with cooperation of telecom operators of the PRC and Hong Kong.

Sound achievements in its OEM business. In the third quarter of 2002, the Group achieved a significant breakthrough in the production of DVD and VCD cores under the cooperation with internationally renowned manufacturers. Hence, promoting the application of ultra slim technology to audio-visual products and increasing the qualities of the products, customers’ well reception was gradually reflected by the growing sales.

Brand enhancement. In the third quarter of 2002, the Group made substantial efforts on promotion and advertising to the PRC market, and completed the brand enhancement of Yuxing. The implementation of its sales strategies, coupled with more aggressive image building exercises in the end-user market, promoted and enhanced the brand recognition and the goodwill of Yuxing among consumers. Various marketing activities, such as advertising and promotional programmes, were also implemented to fulfill the Group’s objectives of image standardisation, brand enhancement and sales growth.

Achievements in sales management and streamlined sales channels. In order to enhance its sales across different regional markets of the PRC, the Group established the fifth branch in Jinan in the third quarter of 2002, in addition to the branches established in Nanjing, Changsha, Chongqing and Shenyang in the previous quarters. Moreover, the Group also set up sales management offices in Zhengzhou, Taiyuan, Wuhan, Chengdu, Hanzhou and Fuzhou. As such, the sales channels are directly managed and controlled by the Group and its sales network is now spanning across the major regional markets of the PRC. These branches contributed to the Group's success in terms of regional market expansion, direction of regional sales activities and enhancement of product competitiveness. In the meantime, the Group completed the adjustment in the sales channels structure and the change of the sale channels models, thereby implementing the direct supply of stocks to the market. As a result, the Group successfully flattened its sales channels and lowered its selling cost. In addition, the Group continued to explore new sales models and established close relationships with some of the leading retailers in the PRC on a nation-wide scale. By setting up direct stocks supply models in nearly 100 shopping malls in various cities of the PRC, the Group's competitiveness in these markets has further improved.

Application for the ISO9000 certification in progress. In the third quarter of 2002, the Group commissioned the relevant experts from China Electronics Quality System Certification Centre to carry out a pre-audit on the Group, including pre-audit on all the departments and subsidiaries of the Group. This laid a solid foundation for the formal application procedure for the ISO9000 certificate. According to the schedule, all formal audits and certification process are expected to be completed by the end of this year.

FUTURE PROSPECTS

Stepping up the implementation of various management measures to lower operating costs and improve overall operating efficiency. In the next quarter, the Group will accelerate its implementation of certain strategies and policies to improve and enhance its corporate image. The Group will also adopt different marketing activities, including the image building activities of sales channels and promotional activities, in order to boost its sales figures during the peak season by the year end. The business information management system and the product information management system were established by the Group respectively in the third quarter of this year. The systems not only enable the Group to obtain basic product management information, but also lay a solid foundation to further enhance its market forecast abilities, shorten inventory period and improve cost efficiency, thereby, fulfilling the objectives of minimising product risk and maximising profits for the Group.

Audio-visual products. The Group will continue to strengthen its technological research and development capability. Based on its advanced DVD technology platform coupled with constantly keeping abreast of the latest technological developments in the industry, the Group has teamed up with internationally renowned upstream manufacturers, thus extending the application of the ultra slim technology to its audio-visual products. A wide variety of new products have already been launched while more new products will be developed to meet different consumers' needs in the near future. As a result, it enables the Group to maintain its competitive edge in technological development. Moving into the last quarter of the year, which is a peak season of the audio-visual products market, the Group is optimistic about the performance of this line of business.

E-learning products. The Group will continue to allocate more resources in research and development of these products. A new generation of e-learning products, including English language and examination-oriented products, is planned to be launched by the end of this year along with a variety of upgraded educational aids software in order to meet the demand of the PRC market.

Information appliance products. By reinforcing the cooperation with leading telecom operators in the PRC, the Group will continue to explore and expand its operations in the area of the broadband community in the PRC. The Group will introduce additional broadband applications based on its existing products. The Group will also continue to upgrade its products performance so as to reduce its costs further and to extend the range of its broadband products. The Group will particularly focus on application at hotels and karaoke lounges, to promote the business further and cement a solid base for the Group's business development in the coming year.

In conclusion, the Group will adopt various measures to develop the above three major lines of business. The Group will strive to shorten the product development cycle, enhance product compatibility and user-friendliness, and develop a broad range of products models to enrich its product lines, so as to satisfy the diversity of demand of the PRC market and to maximise the Group's economic returns.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY

As at 30th September 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 HK\$0.10 each of the Company held			
	Personal interests	Family interests	Corporate interests	Other interests
Mr. Zhu Wei Sha	–	–	165,000,000 (Note 1)	–
Mr. Chen Fu Rong	–	–	165,000,000 (Note 1)	–
Mr. Shi Guang Rong	6,000,000 (Note 2)	–	–	–
Mr. Wang An Zhong	1,084,189 (Note 2)	–	–	1,000,000 (Note 3)

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 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 nine months ended 30th September 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 nine months ended 30th September 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 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 September 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 held	Percentage of holding
Super Dragon (<i>Note 1</i>)	165,000,000	41.25%
Dragon Treasure (<i>Note 2</i>)	134,528,000	33.63%

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 Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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. Three meetings were held during the nine months ended 30th September 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 nine months ended 30th September 2002. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the nine months ended 30th September 2002.

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

Beijing, the PRC, 13th November 2002

