



Yuxing InfoTech Holdings Limited

裕興電腦科技控股有限公司*

(incorporated in Bermuda with limited liability)

2003

First Quarterly Report

* 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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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.



HIGHLIGHTS FOR THE THREE-MONTH PERIOD

- For the three months ended 31st March, 2003, turnover of the Group increased by 1.2%, as compared to the corresponding period last year to approximately HK\$92.5 million.
- Net profit attributable to shareholders for the three months ended 31st March, 2003 amounted to approximately HK\$0.2 million.
- Earnings per share for the three months ended 31st March, 2003 is HK\$0.1 cent.
- The Board of the Company does not recommend the payment of an interim dividend for the three months ended 31st March, 2003.

**THREE-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 three months ended 31st March 2003, together with the comparative unaudited figures for the corresponding period in 2002, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

		Three months ended 31st March	
		2003 HK\$'000	2002 HK\$'000
	<i>Notes</i>		
Turnover	2	92,536	91,394
Cost of sales		(85,939)	(82,648)
Gross profit		6,597	8,746
Other operating income		7,856	9,122
Selling expenses		(7,169)	(3,953)
General and administrative expenses		(6,602)	(10,166)
Other operating expenses		(109)	(33)
Profit from operations		573	3,716
Finance costs		(81)	(1,147)
Profit before taxation		492	2,569
Taxation	3	(114)	(211)
Profit before minority interests		378	2,358
Minority interests		(192)	(472)
Net profit attributable to shareholders		186	1,886
Earnings per share – Basic	4	0.1 cent	0.5 cent



Notes:

1 Basis of preparation of the accounts and accounting policies

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. They have been prepared under the historical cost convention as modified for the valuation of investments in securities.

These quarterly accounts should be read in conjunction with 2002 annual accounts. The accounting policies and methods of computation used in the preparation of these quarterly accounts are consistent with those used in the annual accounts for the year ended 31st December 2002.

2 Turnover

Turnover, which is stated net of value added tax where applicable, represents when goods are delivered and titles have passed.

The Group is principally engaged in the research and development, design, manufacturing, marketing, distribution and sales of information appliances and complementary products and integrated circuits.

3 Taxation

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profits for the three months ended 31st March 2003.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Pursuant to the relevant laws and regulations in the People's Republic of China (other than Hong Kong) (the "PRC"), the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next consecutive three years. No provision for the PRC income tax has been made in the accounts as certain of the PRC subsidiaries were exempted from the PRC income tax and certain of the PRC subsidiaries have no assessable profit for the three months ended 31st March 2003.

The amount of taxation for the period represents:

	Three months ended 31st March	
	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax	<u>114</u>	<u>211</u>



4 Earnings per share

The calculation of basic earnings per share for the three months ended 31st March 2003 is based on the unaudited consolidated net profit attributable to shareholders of approximately HK\$186,000 (three months ended 31st March 2002: consolidated net profit attributable to shareholders of approximately HK\$1,886,000) and on 400,000,000 (three months ended 31st March 2002: 400,000,000) ordinary shares in issue.

Diluted earnings per share were not presented as there were no dilutive potential ordinary shares in existence during the three months ended 31st March 2003 (three months ended 31st March 2002: Nil).

RESERVES

There were no transfers to or from reserves of the Group during the three months ended 31st March 2003 and 2002.

INTERIM DIVIDENDS

The Board of the Company does not recommend the payment of an interim dividend for the three months ended 31st March 2003 (three months ended 31st March 2002: Nil).

BUSINESS REVIEW

In the first quarter of 2003, the Group forged ahead in a proactive and innovative way and achieved tangible results in an increasingly competitive electronics market.

Turnover of the Group increased by 1.2% to approximately HK\$ 92.5 million for the three months ended 31st March 2003, while gross profit decreased by 24.6% to approximately HK\$6.6 million as compared to the corresponding period last year. In order to build up its market image, promote its products and brand building and to give more support to distributors in respect of market sales and product services, the Group incurred higher selling and promotion costs. Thus, selling expenses increased by 81.4% to approximately HK\$7.2 million as compared to the same period last year. Nevertheless, the Group recorded a net profit of approximately HK\$0.2 million for the first quarter of 2003 as compared to a net loss of approximately HK\$13.5 million for the fourth quarter of the previous year. This indicates that the Group's performance will likely continue to improve.



Digital AV products and the launch of the super DVD players with super capability.

Technologically unique and as a result of many years of technical development and continuous investment by the Group, this new model of DVD player is a patented technology having a number of intellectual property rights. The new product has a super large capacity enabling it to play 450-1600 minutes video pictures. It also has various advanced functions including a unique function panel operation model that makes its operation even simpler. To date, all pre-launch preparations have been completed and the product is scheduled to be launched into the PRC market in the second quarter of the year. Encouraging orders have been received from distributors and customers showing an optimistic prospect of sales. It is intended that the new product become another core business of the Group.

The Group has made efforts to improve its operations in respect of its digital AV products in the first quarter of the year. First, cost cutting measures have been successful in various areas including product planning, marketing and inventory receivable. Second, the Group has enhanced its adaptability to the highly competitive environment of AV products and improved its operating efficiency and market response time. The Group has implemented different modes of operation for different geographical districts and markets. According to the actual sales of the Group, DVD products have recorded the greatest growth during the first quarter and have established a foothold in the PRC markets laying a solid foundation for the future development of the Group's DVD business.

The development of E-learning products has boosted the rationalization of product structure and strengthened the development of new products.

At present, the consumption for language learning machines has steadily grown in the PRC market. An industry survey has shown that the demand for language learning machines in the PRC market will increase by approximately 20% for the year 2003. The trend for learning English in the PRC has made the prospects of language learning machines even more promising. In this regard, the Group formulated various measures to boost the sales of language learning machines. Meanwhile, new "Mobile Classroom" products are currently being researched and developed. Launch of the new products was originally scheduled to take place in the first quarter of the year, but has been postponed to the second or third quarter of the year in order to fit the product planning of upstream enterprises. Nevertheless, the Group has conducted in-depth and detailed pre-launch market research, product planning and created ancillary software and completed most of the R & D work. Preparations for the formal launch of the product has been completed.



Integration of information appliance products into formal operations. After several years of research and development and market exploration, the Group has generally identified the direction for the development of its information appliance products. The Group intends to pay close attention to the requirements of the operators of such products including focusing on KTV (Karaoke lounges), hotels and schools as major customers. According to the overall planning of the Group, the information appliance product business has commenced formal operations at the beginning of this year after the trial run in 2002. Commercial applications proved that the information appliance products have gained recognition and favorable remarks have been received in the industry regarding their technological contents. In brief, the competitive strength of the products have been boosted and sales volume are gradually improving.

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Stable development of PRC OEM businesses and import and export businesses. As regards the PRC OEM business, bulk purchases of products demonstrated a trend of steady growth despite the first quarter of the year being the low season of the industry and given the further consolidation and stabilization of customers and cooperative partners. Meanwhile, the Group is boosting the development of export business of products by exploring the markets of Japan, India and South East Asia, and in particular by increasing the trade volume to India and Taiwan. In short, the achievements will result in favorable conditions for product optimization and industry upflow and create opportunities for the improvement of operating results and future development.

Implemented resource integration and achieving the goal of industry upflow. As a result of the improvement in the production capability of the Group in the previous year and the success in the cooperation with world famous upstream factories, the new generation low cost laser-head cores of disc players have been launched into and have sold well in the PRC market. The primary mission of the Group for the time being is to further consolidate and maintain the sales volume and quality of the new product.

Marketing improvement efforts, expanded sales volume and improved results of the Group. The Group held a "marketing work meeting" in this March to summarize the work of the previous year and arranged for the planning of new work. After more than a year of adjustment with respect to the structure of its sales channels, the Group has shifted its focus on provincial distributors to regional distributors. This has increased the number of distributors, improved the overall



capital strength, flattened sales channels, shortened the sales chain and lowered the total cost of the sales channels. The management of sales channels, the existing capital management system and the fixed-term price protection system have improved the inventory management of the Group and the Group's distributors. These measures have significantly increased the working capital of the Group. To date, more than 100 directly-controlled big city sales outlets have been set up in more than ten provinces and cities. After more than a year of effort by the Group, the current sales capability of the Group has improved remarkably and this has become instrumental to the sale of DVD players and will likely be instrumental in driving the sales of potential new products to be launched by the Group.

Formulated new market strategy and implemented the new marketing and promotion work. After an in-depth investigation and research, the Group has identified its new marketing strategy. The Group will formulate its marketing projects and work plans for the year 2003, and plans to improve its brand image and the image of the DVD technology-based "Yuxing Digital" as a professional AV product supplier. As part of this strategy, a standardized visual image is currently being used for the promotion of the Yuxing Digital brand and a brand building campaign using a uniform "Yuxing Digital" brand image was carried out in more than 150 big city outlets and more than 1,000 sales points in small and medium cities. This was in line with the Group's strategy of its realignment of sales channels and the construction of directly-controlled city sales outlets which are intended to steadily establish the brand image of "Yuxing Digital" within the AV product sales channels.

Standardized and institutionalized management system lead to an improvement in management quality. Pursuant to an adjustment to the management organization structure and the enhancement in management work in the previous year, a sound framework of management systems now exists within the structure of the Group. This encompasses a formal system of management organization structure and a work flow and accountability mechanism. Modern information technology has also been used to establish and improve the internal linkage within the Group. An e-mail system and a network of work flow systems that cover all subsidiaries and representative offices have been established, speeding up information communication, maximizing the speed and accuracy of decision-making processes and improving the efficiency of the management of the Group.



BUSINESS PROSPECTS

Building on the continuous improvement in its management and efficiency, the Group will launch certain creative new products this year. This will provide the Group with considerable market opportunities to achieve promising operating results during the next peak season of sales.

Taking full advantage of advanced production capacity to improve the output and sales of products of the Group. In response to the PRC market demands, the Group will further expand the output of laser-head cores of disc players. With the improvement of OEM business, export business and sales in the PRC market, the Group will expand its production of disc players and be able to achieve a breakthrough in production scale and economic efficiency. Beijing Golden Yuxing Electronics and Technology Co., Ltd and Sheng Bang Qiang Dian Electronic (Shenzhen) Co., Ltd., wholly owned subsidiaries of the Group, will form a closer cooperation link and improve their management in respect of raw material supply, product sales and product quality.

Adhering to the development of three product lines, realising a substantial increase in sales revenue and gradually realising profits. The Group will adhere to its three product lines, namely digital AV products, e-learning products and information appliances products. The Group will continue to launch new products, and leverage on the breakthrough of super DVD players and "Mobile Classroom" products to strengthen the distinctive features of these products and technologies so as to keep the Group's leading position in terms of technological sophistication. Enhancement in terms of hardware, software and content will work together to improve the functions of the products of the Group, thereby boosting the competitive strength and profitability of the Group as well as its sales channels. The launch of new super DVD players will be a golden opportunity to drive the sales of ordinary DVD players, VCD players and super VCD players and it is expected that a substantial increase will be seen in sales volume. The launch of "Mobile Classroom" products will sharpen the competitive edge of e-learning products, whilst the Group will continue to expand the sales of language learning machines and home theatre products to extend its market share in the PRC. Attempts will be made to maintain the Group's the leading position in information appliances products in terms of technology and areas of application and to further develop valuable commercial customers.



As regards product enhancement, the Group will further improve the technology, user-friendliness and extent of application of its products while its products demonstrate more mature development. Educational content will be added to the digital AV products and information appliance products of the Group to meet the actual demands of the PRC education market and to expand its customer base. An example is the Group's 32-digit multimedia educational software for super DVD players which furnish a great deal of educational content. The Group will also double the current capacity of super DVD players by applying its intellectual property rights and more advanced technology to such products.

Enhancing market promotion to improve marketing capability. The Group will continue to strengthen its sales system comprising of regional agents and directly-controlled city sales outlets, and expand the market share and customer coverage in different regions. Due to the need for specialisation of sales channels, additional efforts will be realised to make good use of sales channels in order to improve operating efficiency. The Group will continue to strengthen its financial management in sales and impose reasonable control over its operational risks to ensure improvement both in terms of operating efficiency and asset quality. At present, the Group has established a network entailing more than 120 PRC regional agents and more than 100 directly-controlled city sales outlets. The aim is to establish a policy that caters to an array of comprehensive, stable, caring and active customer relations management. With the systematic implementation of work planning, order handling, sales support, information communication, staff training, logistics distribution, maintenances services and so forth, it is anticipated that customer relations and the related support system will be improved. In the next quarter, the Group will introduce and make use of e-commerce in its sales management in order to lower its sales management cost and improve its operating efficiency. To build up its market image and promote its products, the Group will increase its spending on advertising in 2003 to boost product sales and brand building, which will give more support to distributors in respect of market sales and product services.

In the next quarter, the Group will continue to enhance its management performance, foster the measures for improving sales channels, enhance the direct management over regional market and directly-controlled city sales outlets, consolidate and strengthen the existing agency system and perfect the after-sale service policy and customer support system, with a view to improving the overall marketing capability of the Group. A number of flexible strategies will be adopted by the Group to expand the PRC markets in larger sized cities. Meanwhile the Group will expand its PRC market coverage to small and medium sized cities and eventually tap into markets in village localities, with a view to improving its sales volume.



DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN EQUITY

As at 31st March 2003, 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 which are required, pursuant to rules 5.40 to 5.58 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange 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 held 63.6% and 36.4% of the entire issued share capital respectively.
2. Dragon Treasure Ltd. ("Dragon Treasure") acted as the trustee and held these shares on behalf of Mr. Shi Guang Rong and Mr. Wang An Zhong.
3. It represents the share options granted under the share option scheme approved by the shareholders of the Company on 18th January 2000. The share options are exercisable in stages to subscribe for up to 1,000,000 shares of the Company at HK\$0.95 per share during the period from 28th November 2001 to 27th November 2005.



Save as disclosed above, at no time during the three months ended 31st March 2003, the Directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SDI Ordinance).

Save as disclosed above, at no time during the three months ended 31st March 2003 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 16(1) of the SDI Ordinance shows that as at 31st March 2003, 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>)	134,508,000	33.63%

Notes:

1. Super Dragon is beneficially owned by Mr. Zhu Wei Sha, as to 63.6%, and Mr. Chen Fu Rong, as to 36.4% respectively.
2. Dragon Treasure is a nominee company and acts as the trustee holding shares of the Company on behalf of the past and present employees of the Group, including Mr. Shi Guang Rong and Mr. Wang An Zhong, whose interests in shares and share options of the Company are disclosed in the section "Directors' and chief executive's interests in equity" above.

Saved as disclosed above, the Company has not been notified of any other interests representing 10% or more of issued share capital of the Company as at 31st March 2003.



COMPETING INTERESTS

None of the Directors, management shareholders or controlling shareholders of the Company (as defined in the GEM Listing Rules) has any interest in a business which competes or may compete with the business of the Group during the period under review.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 20th November 1999 with written terms of reference in compliance with rules 5.23 to 5.25 of the GEM Listing Rules.

The Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external audit and of internal controls and risk evaluation. The Committee comprises two Independent Non-executive Directors of the Company, namely Mr. Wu Jia Jun and Mr. Zhong Peng Rong. Mr. Wu Jia Jun was appointed as the chairman of the Committee. One meeting was held during the three months ended 31st March 2003.

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 three months ended 31st March 2003. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the three months ended 31st March 2003.

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

Beijing, the PRC, 14th May 2003