



**Yuxing InfoTech Holdings Limited**

**裕興電腦科技控股有限公司\***

(Incorporated in Bermuda with limited liability)

**2003**

Interim Report

\* for identification purposes only

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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## OVERVIEW

For the first half of this fiscal year, the Group recorded a turnover of approximately HK\$190.0 million representing a significant growth of 22.2% as compared to the corresponding period last year. On a quarterly basis, the second quarter turnover showed an outstanding 52.0% year-on-year growth. The contribution to this growth was derived from the increase in the demand of the Group's new product lines and the steady development of OEM business of the Group.

However, due to cyclical low season and the spread of SARS, the overall economic activities and domestic consumption in electronic products during the first six months of this fiscal year were dented. Thus, the competition among domestic DVD manufacturers became fiercer. As a result, the average gross profit margin of most domestic DVD manufacturers continued to fell. Without exception, the gross profit margin of the Group was further squeezed to 6.3%. Furthermore, the Group incurred additional selling and promotion expenses for an one-time advertising campaign to promote its Super DVD technology and to enhance the brand image of "Yuxing Digital". To sum up, the Group recorded a net loss of approximately HK\$11.8 million for the first half of the fiscal year.

Despite the relative weak business environment and financial figures, the Group has made great leaps in introducing new technology & innovative products as well as expanding the Group's overall presence in both the domestic and overseas markets. The Group believes that these established a solid foundation for a stronger operational results of the Group in the second half and thus, for the whole fiscal year.

**INTERIM RESULTS (UNAUDITED)**

The board of directors (the "Board") of Yuxing InfoTech Holdings Limited (the "Company") announces 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 2003 together with the comparative unaudited figures for the corresponding periods in 2002, 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 2003

		Six months ended 30th June		Three months ended 30th June	
	Notes	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	<b>189,994</b>	155,507	<b>97,458</b>	64,113
Cost of sales		<b>(177,970)</b>	(142,218)	<b>(92,031)</b>	(59,570)
Gross profit		<b>12,024</b>	13,289	<b>5,427</b>	4,543
Other operating income		<b>10,844</b>	14,961	<b>2,988</b>	5,839
Selling expenses		<b>(18,906)</b>	(8,681)	<b>(11,737)</b>	(4,728)
General and administrative expenses		<b>(15,073)</b>	(17,415)	<b>(8,471)</b>	(7,249)
Other operating expenses		<b>(511)</b>	(644)	<b>(402)</b>	(611)
(Loss)/profit from operations	3	<b>(11,622)</b>	1,510	<b>(12,195)</b>	(2,206)
Finance costs		<b>(102)</b>	(1,705)	<b>(21)</b>	(558)
Loss before taxation		<b>(11,724)</b>	(195)	<b>(12,216)</b>	(2,764)
Taxation	4	<b>(51)</b>	(356)	<b>63</b>	(145)
Loss before minority interests		<b>(11,775)</b>	(551)	<b>(12,153)</b>	(2,909)
Minority interests		<b>(61)</b>	(769)	<b>131</b>	(297)
Net loss for the period		<b>(11,836)</b>	(1,320)	<b>(12,022)</b>	(3,206)
Loss per share – Basic	5	<b>(3.0) cents</b>	(0.3) cent	<b>(3.0) cents</b>	(0.8) cent

**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30th June 2003

	<i>Notes</i>	<b>(Unaudited) 30th June 2003 HK\$'000</b>	<b>(Audited) 31st December 2002 HK\$'000</b>
<b>Non-current assets</b>			
Intangible assets		328	384
Property, plant and equipment	6	33,166	13,899
Investments in securities	7	7,286	6,194
		<b>40,780</b>	<b>20,477</b>
<b>Current assets</b>			
Inventories		70,106	79,225
Trade and other receivables	8	43,795	170,417
Loans and interest receivables		–	25,464
Investments in securities	7	93,914	77,812
Pledged bank deposits	10	15,600	37,112
Bank balances and cash		276,502	200,852
		<b>499,917</b>	<b>590,882</b>
<b>Current liabilities</b>			
Trade and other payables	9	72,318	103,287
Taxation payable		290	309
Bank and other loans		–	29,223
		<b>72,608</b>	<b>132,819</b>
<b>Net current assets</b>		<b>427,309</b>	<b>458,063</b>
<b>Total assets less current liabilities</b>		<b>468,089</b>	<b>478,540</b>
<b>Capital and reserves:</b>			
Share capital		40,000	40,000
Reserves		420,335	432,220
<b>Shareholders' funds</b>		<b>460,335</b>	<b>472,220</b>
<b>Minority interests</b>		<b>7,754</b>	<b>6,320</b>
		<b>468,089</b>	<b>478,540</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)**

For the six months ended 30th June 2003

	Share Capital HK\$'000	Share premium HK\$'000	Statutory reserves HK\$'000	Translation reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2002	40,000	381,713	11,767	1,060	63,303	497,843
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong not recognised in the condensed consolidated income statement	-	-	-	(27)	-	(27)
Net profit for the period	-	-	-	-	1,886	1,886
At 31st March 2002	40,000	381,713	11,767	1,033	65,189	499,702
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong not recognised in the condensed consolidated income statement	-	-	-	(15)	-	(15)
Net loss for the period	-	-	-	-	(3,206)	(3,206)
At 30th June 2002	40,000	381,713	11,767	1,018	61,983	496,481
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong not recognised in the condensed consolidated income statement	-	-	-	16	-	16
Net loss for the period	-	-	-	-	(24,277)	(24,277)
At 31st December 2002	<u>40,000</u>	<u>381,713</u>	<u>11,767</u>	<u>1,034</u>	<u>37,706</u>	<u>472,220</u>



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) *(continued)*

For the six months ended 30th June 2003

	Share Capital HK\$'000	Share premium HK\$'000	Statutory reserves HK\$'000	Translation reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2003	40,000	381,713	11,767	1,034	37,706	472,220
Increase in statutory reserves	-	-	56	-	-	56
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong not recognised in the condensed consolidated income statement	-	-	-	(77)	-	(77)
Net profit for the period	-	-	-	-	186	186
At 31st March 2003	40,000	381,713	11,823	957	37,892	472,385
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong not recognised in the condensed consolidated income statement	-	-	-	(28)	-	(28)
Net loss for the period	-	-	-	-	(12,022)	(12,022)
<b>At 30th June 2003</b>	<b>40,000</b>	<b>381,713</b>	<b>11,823</b>	<b>929</b>	<b>25,870</b>	<b>460,335</b>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30th June 2003

	Six months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Net cash generated from/(used in) operating activities	114,352	(72,755)
Net cash (used in)/generated from investing activities	(32,315)	149,498
Net cash used in financing	(6,282)	(85,613)
Net increase/(decrease) in cash and cash equivalents	75,755	(8,870)
Cash and cash equivalents at 1st January	200,852	122,820
Effect of foreign exchange rate changes	(105)	(42)
Cash and cash equivalents at 30th June	<u>276,502</u>	<u>113,908</u>
Analysis of balances of cash and cash equivalents: Bank balances and cash	<u>276,502</u>	<u>113,908</u>





## 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 ("SSAP") 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 "GEM Listing Rule"). 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 2002, except as described below:

In the current period, the Group has adopted, for the first time, the following revised SSAP issued by HKSA which is effective for accounting periods commencing on or after 1st January 2003:

SSAP 12 (Revised)	Income Taxes
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Adoption of the above SSAP has led to a change in the Group's accounting policies. In addition, the revised SSAP has introduced revised disclosure requirements which have been adopted in these condensed consolidated financial statements. However, the adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### 2 Turnover and segment information

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 complimentary products and electronic components.

**2 Turnover and segment information** (continued)

An analysis of the Group's turnover and operating results for the periods by business and geographical segments is as follows:

**Business segments**

For the six months ended 30th June 2003

Information	home	Electronic	Other	Eliminations	Consolidated
	appliances	components	operations		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>TURNOVER</b>					
External sales	57,870	126,365	5,759	-	189,994
Inter-segment sales*	27,712	40,744	1,003	(69,459)	-
Total	<u>85,582</u>	<u>167,109</u>	<u>6,762</u>	<u>(69,459)</u>	<u>189,994</u>
<b>RESULTS</b>					
Segment results	<u>(17,070)</u>	<u>(3,209)</u>	<u>357</u>	-	(19,922)
Unallocated income					10,260
Unallocated expenses					<u>(1,960)</u>
Loss from operations					(11,622)
Finance costs					<u>(102)</u>
Loss before taxation					(11,724)
Taxation					<u>(51)</u>
Loss before minority interests					(11,775)
Minority interests					<u>(61)</u>
Net loss for the period					<u>(11,836)</u>

\* Inter-segment sales were charged at terms determined and agreed between the Group companies.

**2 Turnover and segment information** (continued)**Business segments** (continued)

For the six months ended 30th June 2002

	Information home appliances HK\$'000	Electronic components HK\$'000	Other operations HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>					
External sales	45,146	82,327	28,034	–	155,507
Inter-segment sales*	96,629	13,422	1,084	(111,135)	–
Total	<u>141,775</u>	<u>95,749</u>	<u>29,118</u>	<u>(111,135)</u>	<u>155,507</u>
<b>RESULTS</b>					
Segment results	<u>(11,633)</u>	<u>806</u>	<u>(364)</u>	<u>–</u>	<u>(11,191)</u>
Unallocated income					16,487
Unallocated expenses					<u>(3,786)</u>
Profit from operations					1,510
Finance costs					<u>(1,705)</u>
Loss before taxation					(195)
Taxation					<u>(356)</u>
Loss before minority interests					(551)
Minority interests					<u>(769)</u>
Net loss for the period					<u>(1,320)</u>

\* Inter-segment sales were charged at terms determined and agreed between the Group companies.

**2 Turnover and segment information** (continued)**Geographical segments**

	<b>Turnover For the six months ended 30th June</b>	
	<b>2003 HK\$'000</b>	2002 HK\$'000
The People's Republic of China, other than Hong Kong (the "PRC")	<b>157,144</b>	149,128
Hong Kong	<b>27,140</b>	5,487
Other countries	<b>5,710</b>	892
	<b><u>189,994</u></b>	<u>155,507</u>

**3 (Loss)/profit from operations**

(Loss)/profit from operations is stated after crediting and charging the following:

	<b>Six months ended 30th June</b>		<b>Three months ended 30th June</b>	
	<b>2003 HK\$'000</b>	2002 HK\$'000	<b>2003 HK\$'000</b>	2002 HK\$'000
<b>Crediting:</b>				
Realised gains on disposal of other investments	<b>645</b>	7,595	<b>625</b>	3,235
Unrealised gains on other investments	<b>178</b>	1,837	<b>178</b>	-
<b>Charging:</b>				
Amortisation of intangible assets	<b>56</b>	232	<b>28</b>	38
Depreciation of owned property, plant and equipment	<b>1,109</b>	838	<b>631</b>	436
Realised losses on disposal of other investments	<b>117</b>	-	<b>117</b>	-
Unrealised losses on other investments	<b>328</b>	2,306	<b>458</b>	1,923
Allowance for bad and doubtful debts	<b>1,238</b>	4,552	<b>1,238</b>	1,563
	<b><u>1,238</u></b>	<u>4,552</u>	<b><u>1,238</u></b>	<u>1,563</u>



#### **4 Taxation**

The charge for the period represents Hong Kong profits tax calculated at 17.5% (six months and three months ended 30th June 2002: 16%) of the estimated assessable profits for the six months and three months ended 30th June 2003.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Pursuant to the relevant laws and regulations in 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 PRC income tax has been made in the accounts as certain of the PRC subsidiaries were exempted from PRC income tax and certain of the PRC subsidiaries have no assessable profit for the six months and three months ended 30th June 2003.

#### **5 Loss per share**

The calculation of basic loss per share for the six months and three months ended 30th June 2003 is based on the unaudited consolidated net loss for the period of approximately HK\$11,836,000 and HK\$12,022,000 respectively (six months and three months ended 30th June 2002: consolidated net loss of approximately HK\$1,320,000 and HK\$3,206,000 respectively) and on 400,000,000 (six months and three months ended 30th June 2002: 400,000,000) ordinary shares in issue for the period.

No diluted loss per share has been presented for either period as the exercise of the Company's share options would result in a decrease in loss per share.

#### **6 Property, plant and equipment**

During the period, the Group expended approximately HK\$10,302,000 and HK\$10,073,000 on the acquisition of land and building and plant and equipment respectively, for the expansion of the Group's operation.



## 7 Investments in securities

	Investment securities		Other investments		Total	
	30th June 2003 HK\$'000	31st December 2002 HK\$'000	30th June 2003 HK\$'000	31st December 2002 HK\$'000	30th June 2003 HK\$'000	31st December 2002 HK\$'000
Equity securities						
– Listed in Hong Kong	-	-	1,416	-	1,416	-
– Unlisted	7,286	6,194	4,100	1,297	11,386	7,491
Debt securities						
– Listed in PRC	-	-	76,177	76,515	76,177	76,515
– Unlisted	-	-	12,221	-	12,221	-
Total	<b>7,286</b>	6,194	<b>93,914</b>	77,812	<b>101,200</b>	84,006
Classified under:						
Current	-	-	93,914	77,812	93,914	77,812
Non-current	7,286	6,194	-	-	7,286	6,194
	<b>7,286</b>	6,194	<b>93,914</b>	77,812	<b>101,200</b>	84,006
Market value of listed equity and debt securities	-	-	77,593	76,515	77,593	76,515



## 8 Trade and other receivables

The Group generally grants a normal credit period of 60 to 90 days to its trade customers. At 30th June 2003, included in trade and other receivables were trade receivables of approximately HK\$18,795,000 less allowance for bad and doubtful debts (31st December 2002: approximately HK\$55,382,000). The ageing analysis of the trade receivables was as follows:

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
0–30 days	<b>11,061</b>	33,764
31–60 days	<b>2,723</b>	16,154
61–90 days	<b>278</b>	1,123
Over 90 days	<b>4,733</b>	4,341
	<hr/> <b>18,795</b> <hr/>	<hr/> 55,382 <hr/>

## 9 Trade and other payables

Included in trade and other payables were trade payables of approximately HK\$42,262,000 (31st December 2002: approximately HK\$83,814,000). At 30th June 2003, the ageing analysis of the trade payables was as follows:

	<b>30th June 2003 HK\$'000</b>	31st December 2002 HK\$'000
0–30 days	<b>31,419</b>	73,087
31–60 days	<b>6,240</b>	7,077
61–90 days	<b>2,828</b>	1,124
Over 90 days	<b>1,775</b>	2,526
	<hr/> <b>42,262</b> <hr/>	<hr/> 83,814 <hr/>

## 10 Pledge of assets

At 30th June 2003, the following assets were pledged to secure banking facilities granted to the Group:

- Bank deposits of the Group of approximately HK\$15,600,000 (31st December 2002: approximately HK\$37,112,000); and
- investment in securities of the Group with the carrying value of approximately HK\$3,900,000 (31st December 2002: approximately HK\$3,900,000).



## RESERVES

Movements in the reserves of the Group and the Company during the period are set out in the condensed consolidated statement of changes in equity (unaudited) of this report.

## INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2003 (six months ended 30th June 2002: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Turnover and Gross Profit

For the six months ended 30th June 2003, the Group's turnover increased by 22.2% to approximately HK\$190.0 million as compared to the corresponding period last year. On a quarterly basis, the second quarter turnover showed an outstanding 52.0% year-on-year growth. However, due to cyclical low season and the spread of Severe Acute Respiratory Syndrome ("SARS"), the overall economic activities and domestic consumption in electronic products during the first six months were dented. Thus, the competition among domestic DVD manufacturers became fiercer. As a result, the average gross profit margin of most domestic DVD manufacturers continued to fell. Without exception, the gross profit margin of the Group was further squeezed. Thus, gross profit of the Group decreased by 9.5% to approximately HK\$12.0 million as compared to the corresponding period last year.

#### Operating Results

##### *Other Operating Income*

Other operating income decreased to approximately HK\$10.8 million for the six months ended 30th June 2003 (six months ended 30th June 2002: approximately HK\$15.0 million). This was mainly due to the relatively lower interest rate of the bank deposits and the drop in the market price of PRC Government bonds in the first half of the fiscal year as compared to the corresponding period last year.





## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### FINANCIAL REVIEW *(continued)*

#### Operating Results *(continued)*

##### *Operating Expenses*

The Group incurred additional selling and promotion expenses for an one-time advertising campaign to promote its Super DVD Technology and to enhance the brand image of "Yuxing Digital" and thus selling expenses increased by 117.8% to approximately HK\$18.9 million for the six months ended 30th June 2003 (six months ended 30th June 2002: approximately HK\$8.7 million).

##### *Finance Costs*

Finance costs decreased significantly to approximately HK\$0.1 million for the six months ended 30th June 2003 (six months ended 30th June 2002: approximately HK\$1.7 million), which was mainly due to the repayment of a loan by the Group in mid 2002.

#### Net Loss for the Period

Due to the reasons as mentioned above, the Group recorded a net loss of approximately HK\$11.8 million for the period under review (six months ended 30th June 2002: approximately HK\$1.3 million).

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

As at 30th June 2003, the Group had net current assets of approximately HK\$427.3 million. The Group had cash and bank deposits totalling approximately HK\$292.1 million, of which approximately HK\$15.6 million were pledged with a bank for banking facilities. Taking into consideration the existing financial resources available to the Group, it is anticipated by the directors of the Company (the "Directors") that the Group should have adequate financial resources to meet its ongoing operating and development requirements.

In addition, the Group had no long-term financing as the Group's financial resources were funded by its shareholders' funds.

#### 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.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### FINANCIAL REVIEW *(continued)*

#### Significant Investments/Material Acquisitions and Disposals

For the six months ended 30th June 2003, the Group had no significant investments and no material acquisitions or disposals.

#### Segment Information

During the period under review, the Group faced an unexpected negative business environment as a result of the outbreak of SARS in the PRC, the total turnover of information home appliances decreased significantly by 39.6% to approximately HK\$85.6 million as compared to the corresponding period last year and an operating loss of approximately HK\$17.1 million was incurred.

In addition to the sales of integrated circuits, the Group also included the sales of its new product, optical pick-up units in the segment of electronic components in the first half of this fiscal year. Hence, the total turnover of electronic components for the period under review increased significantly by 74.5% to approximately HK\$167.1 million as compared to the corresponding period last year. As the new product was only recently launched, its profit generation has yet to become apparent after the deduction of operating expenses. Hence, an operating loss of approximately HK\$3.2 million was incurred.

Geographical markets were mainly located in the PRC with no material changes noted for the interim period of this fiscal year and corresponding period last year.

#### 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 2003, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### FINANCIAL REVIEW *(continued)*

#### Human Resources

As at 30th June 2003, the Group had over 850 full time employees, of which 15 were based in Hong Kong and the rest were in the PRC. For the six months ended 30th June 2003, staff costs amounted to approximately HK\$7.7 million (six months ended 30th June 2002: approximately HK\$9.3 million). All employees of the Company's subsidiaries 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 the basic salaries, staff benefits include medical scheme, various insurance schemes and share options.

### BUSINESS REVIEW

#### Corporate Affairs

In order to increase the overall competitiveness of the Group, the Group has structured its operations into three major business centres locating in Beijing, Shenzhen and Hong Kong respectively. Beijing Golden Yuxing Electronics and Technology Co., Ltd. ("Beijing Golden Yuxing"), which the Group was originally founded, is responsible for marketing and development of new products under the brand name "Yuxing". It continues to maintain the characteristics of a design house where an efficient and flexible culture has deeply rooted. In the first half of this fiscal year, Beijing Golden Yuxing successfully strengthened its countrywide sales and distribution network. In addition, through its highly innovative R&D team, the company successfully introduced a series of pioneering products that met the particular demand of the domestic market. The Group believes that these products such as Super DVD player, 2-in-1 information appliance ("IA") products and "Mobile Classroom" have high function/price ratios over the existing products in the market and will likely bring a stronger profit growth for the Group for the second half of the fiscal year.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **BUSINESS REVIEW** *(continued)*

#### **Corporate Affairs** *(continued)*

Sheng Bang Qiang Dian Electronics (Shenzhen) Co., Ltd. (“Shenzhen Sheng Bang”), the Group’s wholly owned subsidiary in Shenzhen which is responsible for system and component manufacturing as well as OEM business, has cultivated a cost-oriented principle. The company focuses more on mass production and development of the most advanced manufacturing process to maintain the highest productivity at the lowest cost. Having been PHILIPS’ sole agent and manufacturer of optical pick-up unit since late 2002, the company passed PHILIPS’ internal quality control and has begun mass production of optical pick-up units in the first half of this fiscal year. This incorporation shows that Shenzhen Sheng Bang has successfully integrated into upstream component manufacturing.

Yuxing Technology Company Limited (“Yuxing Technology”), the Group’s wholly owned subsidiary in Hong Kong, is in the Group’s front line in expanding new business opportunities and markets in Hong Kong through exploring new technology, projects and business partners. Furthermore, Hi-Level Technology Limited (“Hi-Level”), another subsidiary of the Group in Hong Kong which focuses on integrated circuits distribution and embedded software business, has successfully introduced various products through innovative embedded solutions. These products such as LCD monitor, digital camera and digital music player have all received excellent market responses.

With each business centre under different management teams that are responsible for business centre’s own administration and operation, the Group has achieved greater efficiency and productivity in the operation of the Group. As the restructuring was only recently completed, the effect on the business of the Group has yet to become apparent from the Group’s first half financial reports. Nevertheless, the Group has received signs of gradual improvement in all sides of its operation.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **BUSINESS REVIEW** *(continued)*

#### **Digital Audio-Visual (“AV”) Products**

Based on the Group’s newly introduced Super DVD technology, Super DVD player, which is the Group’s latest generation of digital AV product, was launched to the domestic market in the first half of the fiscal year. This unique technology with over 8-hour high-quality video playback, nearly four times of a normal DVD, was well received by the domestic consumer market. The benefits of having 8-hour playing capabilities are quite apparent to domestic consumers, who often enjoy watching night-time soap opera/mini series or having a little karaoke party as their favourite pastimes. Since the product requires fewer discs by virtue of its extended playing capabilities, the consumers can enjoy the benefits of lower video prices and less hassles in disc changing. Shortly after its introduction, one of the domestic major consumer electronics distribution outlets, GOME Electronics Mall, placed a significant order from the Group. In addition, many other local content providers such as Jingwen Records, China International TV Corp., BTAPC and Guangzhou Beauty Culture Communication Co. Ltd. also showed optimism towards this innovative product and made commitments towards supplying movies, television shows and karaoke songs to support the growth of Super DVD technology. With the support of these content providers, the Group has already had over 30 different video titles supporting Super DVD technology. The Group further plans to increase the number of available videos to over 100 by the end of this year to further expand the applicability of Super DVD technology.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **BUSINESS REVIEW** *(continued)*

#### **IA Products**

In addition to the breakthroughs in its digital AV products, the Group's IA products have also experienced superb results. Unlike most set-top boxes in the market, its unique 2-in-1 design is equipped with a broadband Internet connection for video/game-on-demand ("VOD") service and a built-in DVD player. This product, which enables the diversity of entertainment through either the VOD service or the DVD player, offers a superb function over price ratio to consumers. Recently, one of the renowned international telecom service providers in Hong Kong completed and signed an agreement to make a significant purchase of the Group's IA products. Besides, the Group continues to perform well in exploring the domestic market as it has already secured an order with a major consumer electronics manufacturer that will embed the Group's IA technology within some of their high-end television sets. The Group is currently on the final stage of discussion with another major consumer electronics manufacturer for similar cooperation.

Currently, the Group is developing a stand-alone version. Unlike the traditional set-top boxes, this new version will not require the need of a dedicated service provider. In other words, this product will enable users to view directly from whatever is available on the Internet via a television instead from a personal computer.

#### **E-Learning Products ("ELP")**

ELP industry was where the Group's business was originally based on and where Beijing Golden Yuxing continues to maintain a leading position. It has always been one of the Group's missions to improve the education quality in the PRC. The newest addition to the Group's ELP family, "Mobile Classroom", a portable device that comes with 10 discs of 300 hours high quality educational materials for learning English, is designed with that mission in mind and will be launched to the market in the third quarter of this fiscal year. With the Group's vast educational resources, the Group is able to deliver the best teaching materials from the best teachers in the PRC to people virtually located everywhere!



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **BUSINESS REVIEW** *(continued)*

#### **Marketing and Distribution Channel Management**

During the first half of the fiscal year, the Group continued to reinforce its distribution channels and sales network through expanding its presence into several of the PRC's largest electronic retailers in the major cities. The Group has also increased the number of distribution outlets and agents in the medium and small cities. In order to manage the increased distribution network efficiently and improve the overall operation, the Group utilised advanced technology in electronic and communication system to foster faster information feed from the sales channel. This has facilitated the efficiency of the Group's marketing decision-making in product and inventory management. In addition, during the first half of the fiscal year, the Group launched an aggressive advertising campaign to promote the Super DVD technology and to enhance the brand image of "Yuxing Digital". The Group has received positive feedback on its brand recognition as demonstrated from its sales figure of the products. In future, the Group will continue to market great efforts to drive the Group's overall brand image into the hearts of the consumers and further garner the brand loyalty of "Yuxing Digital".

#### **OEM Business**

Despite the relative short period since the Group has engaged in the OEM business in the PRC, the division has been on a steady growth. Several major consumer electronics companies have outsourced their production to the Group. Currently nearly up to 1/3 of the Group's production capacity is occupied by OEM customers in the PRC. There is also a trend for increasing OEM orders. This has given the Group an edge of higher economies of scale thus leading to a lower cost of production. As the productivity continues to improve thus leading to a lower cost, the OEM business division foresees higher growth in the future.



## MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

### **BUSINESS REVIEW** *(continued)*

#### **Electronic Components Business**

As of late 2002, the Group signed a cooperation agreement with PHILIPS, one of world's largest technology companies. Pursuant to the agreement, Shenzhen Sheng Bang shall receive know-how on manufacturing optical pick-up units based on PHILIPS technology and become PHILIPS' sole distribution agent of its optical pick-up units in the Asian and Pacific region. The Group has completed the first stage of technological transfer with PHILIPS by passing PHILIPS strict internal control. In addition, PHILIPS' original customers of optical pick-up units have also switched their orders to Shenzhen Sheng Bang. The technology in assembly and production of optical pick-up unit, which requires both high precision equipment and highly skilled labour force, was typically in the hands of major foreign technology companies located either in Japan, Europe or Korea. Shenzhen Sheng Bang not only has successfully mastered this complicated optical technology, but also achieved an extraordinary yield rate. This signifies Shenzhen Sheng Bang's superb progress in reaching the next generation of production technology.

In addition, the cooperation with PHILIPS has brought additional benefits than just the technology. Through the cooperation with PHILIPS, the company is able to make its presence among other major technology companies, which are all potential customers of the Group. The Group is currently under negotiation with some of these major technology companies for the supply of optical pick-up units. These discussions may lead the Group to other future potential cooperation and thereby facilitate the Group's overall business expansions.

#### **Integrated Circuits and Embedded Software**

Hi-Level, an integrated circuits and embedded software provider, has been the growth driver in revenue for the Group over the past two years. However, in the first half of this fiscal year, the division registered little growth mainly due to the impact of SARS. In addition, the global shortage of LCD panels has caused many of the division's customers to postpone the production of LCD monitors and thus causing a delay in the shipment of Hi-Level's flat panel controllers. Nevertheless, with the increasing supplies of LCD panels, the Group is expecting that the situation will be improved in the second half of this fiscal year. Furthermore, the division's two newest product solutions, digital camera and digital music player, have received warm market responses and shipments are gradually rising.





## BUSINESS PROSPECT

The negative impact of SARS and cyclical low season had an industry wide effect that also severely influenced the Group's first half-year operation and financial results. Nevertheless, the Group is still on schedule in introducing new products, developing new markets and initiating new projects. As the above two major factors will subside significantly in the second half of 2003, the domestic consumer electronics market is expected to be recovered. In other words, with increasing orders and new products introduction, the Group is expecting stronger results in the second half of this fiscal year.

The demand for the Group's newest technology, Super DVD, is experiencing a rising trend. Currently, over 50% of DVD shipment of the Group is equipped with Super DVD technology. As the demand continues to rise, the Group further plans to introduce more products that are equipped with Super DVD technology in order to target the full spectrum of the domestic DVD market. The content providers are also fuelling the growth of Super DVD technology as more and more content providers are joining the Group to promote this technology. The Group expects that, by early next year, nearly all of the DVD shipment will come with Super DVD technology which will offer the Group with an excellent product differentiation advantage from existing DVD players.

The Group's unique and innovative technology platform has always led the IA industry with its ground-breaking products. The Group's latest 2-in-1 IA product, which allows consumers to enjoy a VOD and movie-on-disc in one product, has received a major order in Hong Kong and also received many interests from major television manufacturers who will embed the Group's technology in their high-end products. The Group further plans to introduce its newest unique stand-alone version of IA product by the end of this fiscal year. This new home version will be able to utilise the video contents on the Internet via personal computer and make them available for television viewers without the need of service providers. With this stand-alone IA product, anyone can enjoy the freedom of VOD services.

With the expected recovery in global economy and steady increase in demand of the Group's products and services, the Group has commenced constructing a new production facility that will accommodate all of its near-future production needs. The facility, located in Zhong Shan, Guangdong Province, PRC and scheduled to be completed by mid-2004, will be equipped with the latest manufacturing equipment which will further help to increase the Group's productivity and efficiency.



## SHARE OPTION SCHEME

Pursuant to the ordinary resolutions passed by the shareholders of the Company at a special general meeting held on 18th May 2003, it was approved that the previous share option scheme of the Company adopted on 18th January 2000 (the “**Previous Scheme**”) was terminated and a new share option scheme (the “**Existing Scheme**”) was adopted. A summary of the principal terms of the rules of the Existing Scheme can be referred to the circular of the Company dated 24th April 2003.

No further share option will be offered under the Previous Scheme upon its termination. Nevertheless, all share options granted under the Previous Scheme (the “**Previous Granted Options**”) prior to its termination will continue to be valid and exercisable in accordance with the provisions of the Previous Scheme. The Previous Scheme will in all other respects remain in force to the extent necessary to give effect to the exercise of the Previous Granted Options.

The following table discloses details of the Previous Granted Options held by the employees of the Company (including an Executive Director) under the Previous Scheme and movements during the period under review:

Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				At 30th June 2003
			At 1st January 2003	Exercised during the period	Granted during the period	Cancelled/lapsed during the period	
27th June 2000	27th June 2001 – 26th June 2005	4.80	5,000,000	–	–	–	5,000,000
28th November 2000	28th November 2001 – 27th November 2005	0.95	7,385,000	–	–	965,000	6,420,000
3rd December 2000	3rd December 2001 – 2nd December 2005	0.95	610,000	–	–	60,000	550,000

**SHARE OPTION SCHEME** *(continued)*

Date of grant	Exercise period	Exercise price per share HK\$	Number of share options				
			At 1st January 2003	Exercised during the period	Granted during the period	Cancelled/lapsed during the period	At 30th June 2003
4th December 2000	4th December 2001 – 3rd December 2005	0.95	310,000	–	–	170,000	140,000
5th December 2000	5th December 2001 – 4th December 2005	0.95	40,000	–	–	40,000	–
9th February 2001	9th February 2002 – 8th February 2006	0.83	4,500,000	–	–	1,390,000	3,110,000
11th April 2001	11th April 2002 – 10th April 2006	0.75	3,800,000	–	–	1,820,000	1,980,000
15th June 2001	15th June 2002 – 14th June 2006	1.45	600,000	–	–	600,000	–
			<u>22,245,000</u>	<u>–</u>	<u>–</u>	<u>5,045,000</u>	<u>17,200,000</u>

No share options had been granted under the Existing Scheme during the period under review.



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June 2003, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Future Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as required, pursuant to rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

### (1) Long positions in the shares of the Company

Name of Director	Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Mr. Zhu Wei Sha	Corporate (Note 1)	165,000,000	Interest of a controlled corporation	41.25%
Mr. Chen Fu Rong	Corporate (Note 1)	165,000,000	Interest of a controlled corporation	41.25%
Mr. Shi Guang Rong	Personal (Note 2)	6,000,000	Beneficial owner	1.50%
Mr. Wang An Zhong	Personal (Note 2)	1,084,189	Beneficial owner	0.27%

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 Au Zhong.



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(continued)*

### (2) Long positions in the underlying shares of the Company

Pursuant to the Previous Scheme, a Director in the capacity as beneficial owners was granted unlisted and physically settled share options to subscribe for shares of the Company, details of which as at 30th June 2003 were as follows:

Name of Director	Date of Grant	Exercise price per share HK\$	Exercise period	Number of share options			
				At 1st January 2003	Exercised during the period	Granted during the period	At 30th June 2003
Mr. Wang An Zhong	28th November 2000	0.95	28th November 2001 – 27th November 2005	1,000,000	–	–	1,000,000

Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Personal	1,000,000	Beneficial owner	0.25%

**DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES,  
UNDERLYING SHARES AND DEBENTURES** *(continued)***(3) Aggregate long positions in the shares and underlying shares of the Company**

Name of Director	Aggregate number in ordinary shares	Aggregate number in underlying shares	Total	Percentage to the issued share capital of the Company
Mr. Zhu Wei Sha	165,000,000	–	165,000,000	41.25%
Mr. Chen Fu Rong	165,000,000	–	165,000,000	41.25%
Mr. Shi Guang Rong	6,000,000	–	6,000,000	1.50%
Mr. Wang An Zhong	1,084,189	1,000,000	2,084,189	0.52%

*(Note)*

*Note:*

These are the shares underlying the unlisted physical settled share options granted to Mr. Wang An Zhong under the Previous Scheme. Details of such share options are disclosed under "Long positions in the underlying share of the Company" above.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30th June 2003, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to rules 5.40 to 5.58 of the GEM Listing Rules.



## INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Director or chief executive of the Company, as at 30th June 2003, the following were the substantial shareholders (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

### Long positions in the shares of the Company

Name of Shareholder	Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Super Dragon (Note 1)	Corporate	165,000,000	Beneficial Owner	41.25%
Dragon Treasure (Note 2)	Corporate	134,508,000	Trustee	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 these 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 the shares and underlying shares of the Company are disclosed in the section "Directors' interests and short positions in shares, underlying shares and debentures" above.

Save as disclosed above, as at 30th June 2003, the Company has not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.



## COMPETING INTERESTS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group.

## 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. Two meetings were held during the six months ended 30th June 2003.

## BOARD PRACTICES AND PROCEDURES

Throughout the period under review, the Company has complied with the 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 2003. 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 2003.

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

Beijing, the PRC, 13th August 2003