Yuxing InfoTech Holdings Limited
裕興科技控股有限公司*

(incorporated in Bermuda with limited liability)

2003 Third 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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

OVERALL REVIEW

For the first nine months of this fiscal year, the Group recorded a turnover of approximately HK$320.7 million, representing a significant growth of 30.9% as compared to the corresponding period last year. On a quarterly basis, the turnover of the third quarter of this fiscal year showed an outstanding 46.2% year-on-year growth. Meanwhile, the Group's gross margin also increased significantly to 8.4% and 11.4% respectively for the nine months and three months ended 30th September 2003. The improvement in turnover was attributable to the increase in sales volume from both OEM and information appliance business divisions. The increase in gross margin was attributable to a series of new product lines such as the SuperDVD player which has a higher average selling price and gross margin.

Although the Group's overall operation and business activities have shown marvellous improvement, due to the epidemic of SARS and increase in certain expenses such as selling expenses and the depreciation in the market price of PRC government bonds, the Group still suffered a net loss of approximately HK$20.9 million for the nine months ended 30th September 2003.

The Group currently experiences increasing demand and orders for its products and services, particularly for the OEM and information appliance related products. Therefore, the Group expects that its turnover will continue to improve in the foreseeable future. Meanwhile, the Group will continue to dedicate its resources in introducing new and innovative technology and products in order to maximise its gross margin. Accordingly, the Group expects a stronger operational results for the final quarter of this fiscal year and for the next fiscal year.

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 2003 together with the comparative unaudited figures for the corresponding periods in 2002, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

		Nine months ended 30th September		**Three months ended 30th September**	
	Notes	**2003 HK$'000**	2002 HK$'000	**2003 HK$'000**	2002 HK$'000
Turnover	*2*	**320,733**	244,950	**130,739**	89,443
Cost of sales		**(293,777)**	(227,664)	**(115,807)**	(85,446)
Gross profit		**26,956**	17,286	**14,932**	3,997
Other operating income		**12,815**	17,026	**1,971**	2,065
Selling expenses		**(29,171)**	(13,763)	**(10,265)**	(5,082)
General and administrative expenses		**(27,279)**	(26,459)	**(12,206)**	(9,044)
Other operating expenses		**(3,599)**	(925)	**(3,088)**	(281)
Loss from operations		**(20,278)**	(6,835)	**(8,656)**	(8,345)
Finance costs		**(144)**	(3,029)	**(42)**	(1,324)
Loss before taxation		**(20,422)**	(9,864)	**(8,698)**	(9,669)
Taxation	*3*	**(200)**	(729)	**(149)**	(373)
Loss before minority interests		**(20,622)**	(10,593)	**(8,847)**	(10,042)
Minority interests		**(291)**	(1,554)	**(230)**	(785)
Net loss for the period		**(20,913)**	(12,147)	**(9,077)**	(10,827)
Loss per share – Basic	*4*	**(5.2) cents**	(3.0) cents	**(2.3) cents**	(2.7) 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 as modified for the valuation of investments in securities. The accounting policies and methods of computation 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 the following revised Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003:

SSAP 12 (Revised) Income Taxes

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 accounts. 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

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.

3. Taxation

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

4. Loss per share

The calculation of basic loss per share for the nine months and three months ended 30th September 2003 is based on the unaudited consolidated net loss for the period of approximately HK$20,913,000 and HK$9,077,000 respectively (nine months and three months ended 30th September 2002: consolidated net loss of approximately HK$12,147,000 and HK$10,827,000 respectively) and on 400,000,000 (nine months and three months ended 30th September 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.

RESERVES

There were no transfers to or from reserves of the Group during the nine months ended 30th September 2003 and 2002.

INTERIM DIVIDENDS

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

BUSINESS REVIEW

For the nine months ended 30th September 2003, the overall turnover of the Group continued to register a strong growth momentum with an increase from approximately HK$245.0 million to approximately HK$320.7 million, representing an increase of 30.9% over the corresponding period last year. On a quarterly basis, the turnover of the third quarter of this fiscal year showed an outstanding 46.2% year-on-year growth. The strong revenue growth indicates that the efforts of the Group's internal restructuring and reengineering over the past two years have become apparent from the increasingly positive results. Meanwhile, the Group's gross margin has also increased significantly to 8.4% and 11.4% respectively for the nine months and three months ended 30th September 2003. Nevertheless, 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 112.0% to approximately HK$29.2 million as compared to the corresponding period last year. Meanwhile, due to the depreciation of PRC government bonds held by the Group, the net unrealised holding losses led to an increase in other operating expenses to approximately HK$3.1 million for this quarter, representing a significant increase of 998.9% over the corresponding period last year. Together with the epidemic of Severe Acute Respiratory Syndrome ("SARS") in the first half of 2003, the Group continued to record a net loss of approximately HK$20.9 million for the nine months ended 30th September 2003.

During the quarter under review, the Group has begun shipment of its Internet Protocol ("IP")/broadband set-top boxes to a renowned Hong Kong based telecom service provider, PCCW-HKT for its NOW broadband television ("TV") which provides interactive and pay TV programming in Hong Kong. This deal marks an important milestone and confirms the Group's decision to pursue its strategic objective of making commitments towards the research & development of IP/broadband set-top boxes since the listing of the Company's shares on the GEM of the Stock Exchange. After investing its resources towards this strategic objective for a few years, the Group has begun to realise some fruitful results. In addition, the shipment also signifies the Group's capabilities as being on par with global technology companies as the overseas telecom service providers often have very strict requirements in both technology and quality.

As global economy improves, more and more telecom service providers are increasing their capital expenditures to provide higher value-added services. The concept of IP/broadband TV is relatively new to the global TV broadcasting industry. Unlike traditional pay-TV services which are provided through either coaxial cable or satellite receiver, IP/broadband TV delivers the digital signals of high quality TV programs directly into one's own home through the use of a telephone line. This technology allows fixed-line telecom service operators to offer value-added services such as pay-TV programming to their customers. According to the latest figures from a US-based research institute "In-Stat/MDR", the global shipments of the IP/ broadband set-top boxes will reach about 500,000 units by the end of this year. Given this number and the Group's expected shipment for this year, the Group can be considered as one of the major suppliers of IP/broadband set-top boxes in this market. According to the research by In-Stat/MDR, by the end of 2007, there will be about 19 million subscribers to video services from telecom service providers, representing well over 3 digit annual growth rate. The Group has and will continue to dedicate more resources in the IP/broadband industry in both the PRC and overseas markets with the intention of capturing this huge potential growth and maintaining the Group's leadership. The Group has currently secured a strategic partner with offices based both in Silicon Valley, United State of America and Taiwan to help the Group to market its products overseas.

In addition to the Group's success in the IP/broadband set-top boxes sector, the Group's original equipment manufacturing ("OEM") business is also enjoying some terrific success. Along with increasing orders of players and systems from major OEM customers such as Skyworth, TCL, Amoi Electronics and Tsing Hua Tong Fang, the Group's strengthening relationship with Philips in cooperation of developing, manufacturing and marketing of several key components used for optical storage devices helps the Group's effort in expanding the OEM market.

Due to the fact that the cooperation between the Group and PCCW-HKT and Philips only began in late 2002, the benefits of the cooperation with these companies have not been fully reflected in the Group's current financial statements. Nevertheless, the achievement of the Group in terms of product and market development has taken a giant leap.

In terms of the domestic market, the fierce competition continues to exert pressure on the overall commodity products such as regular audio-visual ("AV") products. However, in order to combat the competition, the Group continues to follow focus on innovative products and technologies which are tailored to suit the specific Chinese culture. This strategy has somewhat helped to alleviate the overall pressure on the Group's gross margin.

The SuperDVD player, which was introduced by the Group in the first half of this year, has not only been well received by the domestic consumers but also by other consumer electronics companies with strong interests in producing players based on the SuperDVD technology developed by the Group. Recently, a consumer electronics company has placed a significant order with the Group for SuperDVD products. In addition, many other well-known consumer electronics companies are also discussing with the Group the licensing of the Group's SuperDVD technology in the manufacture of their products. This indicates that the Group's SuperDVD technology is rapidly expanding its market share.

In order to carry on the momentum of the Group's success in IP/broadband set-top boxes, the Group has begun developing a new product which will be named PC-mate and is expected to be launched by early next year. This product will bring a new evolution to connect the resources of the Internet with the relaxing viewing environment of the living room. With this product, everyone will be able to enjoy the vast amount of multimedia contents on the Internet and enjoy them in the comfort of a TV screen.

BUSINESS PROSPECT

As the year of the "Goat" about to wind up, the traditional peak season for both domestic and overseas markets arrives as well. Unlike previous years where the global economy was in a recession, the global economy is in a recovery mode this year. Thus, the Group expects a strong performance in all fronts for the remaining second half of this year.

Although there were many talks of "convergence" over the past few years, the global economic downturn has significantly slowed the movement of convergence between the Internet and TV. However, along with the improvement of the global economy, the overall business environment has become more and more favorable. Globally, the improvement in economy has propelled major telecom service providers to increase their capital expenditures and to offer higher value-added services. One of these additional services is the provision of broadcasting services of TV programs through telephone lines using IP technology.

Furthermore, the recent initiatives by major technology companies such as Intel and Microsoft in introducing the concept of "Home Media Center" further shows that the global technology focus has been shifting away from the traditional "PC-based" to "TV-based". The Group's newest product, PC-mate, is a thin-client device that enables consumers to enjoy multimedia contents such as movie clips, photo slideshows and MP3 music from the Internet on home AV systems which often yield greater quality as comparing to PC-based audio and visual systems. Though the product is not expected to be launched until next year, the Group has already received numerous enquiries regarding this product line.

Clearly, the global technology is gradually shifting its focus from PC-based and mobile-based technologies to home media based technologies. Since 1997, the Group has had the vision of convergence of multimedia contents delivered to a TV through the Internet. As one of the PRC's most experienced companies in this industry, the Group is well positioned to capture the rapidly increasing demand arising through this convergence.

In addition to the above new product lines, the Group expects to maintain and further strengthen its relationship with Philips. Through this relationship and the technological cooperation with Philips, the Group has already benefited by obtaining many new customers. As the Group continues to make great efforts and investments in strengthening its relationship with Philips, the Group also expects great returns in obtaining new OEM customers and partners, hence a significant increase in revenue from OEM business.

Lastly, in order to continue to improve the competitiveness and overall gross margin of the Group in the domestic market, the Group will continue to focus on introducing new products and technologies that are tailor-made specifically towards the unique Chinese culture.

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

As at 30th September 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 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:

(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.

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

Pursuant to the previous share option scheme of the Company adopted on 18th January 2000 (which was terminated with effect from 18th May 2003) ("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 September 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 September 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%

(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 *(Note)*	2,084,189	0.52%

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 September 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 September 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 September 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. Three meetings were held during the nine months ended 30th September 2003.

BOARD PRACTICES AND PROCEDURES

Throughout the period under review, the Company has compiled 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 nine months ended 30th September 2003. 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 2003.

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

Beijing, the PRC, 12th November 2003