



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

<http://www.yuxing.com.cn>

First Quarterly Report **2004**

\* 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.

## HIGHLIGHTS FOR THE THREE-MONTH PERIOD

- Turnover achieved approximately HK\$137.0 million for the three months ended 31st March 2004, representing a 48.0% period-to-period growth.
- For the three months ended 31st March 2004, gross profit of the Group increased by 62.3% to approximately HK\$10.7 million as compared to the corresponding period last year.
- Net loss for the three months ended 31st March 2004 amounted to approximately HK\$1.0 million.
- Loss per share for the three months ended 31st March 2004 is HK0.2 cent.
- The Board of the Company does not recommend the payment of an interim dividend for the three months ended 31st March 2004.

### 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 2004, together with the comparative unaudited figures for the corresponding period in 2003, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

		<b>Three months ended 31st March</b>	
	<i>Notes</i>	<b>2004 HK\$'000</b>	2003 HK\$'000
Turnover	2	<b>136,994</b>	92,536
Cost of sales		<b>(126,287)</b>	(85,939)
Gross profit		<b>10,707</b>	6,597
Other operating income		<b>5,547</b>	7,856
Selling expenses		<b>(7,693)</b>	(7,169)
General and administrative expenses		<b>(7,932)</b>	(6,602)
Other operating expenses		<b>(99)</b>	(109)
Profit from operations		<b>530</b>	573
Finance costs		<b>(718)</b>	(81)
Share of results of associates		<b>(227)</b>	-
(Loss)/profit before taxation		<b>(415)</b>	492
Taxation	3	<b>(219)</b>	(114)
(Loss)/profit before minority interests		<b>(634)</b>	378
Minority interests		<b>(326)</b>	(192)
Net (loss)/profit for the period		<b>(960)</b>	186
(Loss)/earning per share – Basic	4	<b>(0.2) cent</b>	0.1 cent

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 2003.

### **2. Turnover**

Turnover, which is stated net of value added tax where applicable, are recognised 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 audio-visual products, information appliances and complimentary products and electronic components.

### **3. Taxation**

The charge for the period represents Hong Kong profits tax calculated at 17.5% (three months ended 31st March 2003: 17.5%) of the estimated assessable profit for the three months ended 31st March 2004.

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 whilst a PRC subsidiary of the Group is exempted from PRC income tax for three years starting from the year it commenced business, followed by a 50% reduction on a tax rate of 15% for the next consecutive three years on the assessable income. 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 three months ended 31st March 2004.

### 3. Taxation (Continued)

The amount of taxation for the period represents:

	<b>Three months ended 31st March</b>	
	<b>2004 HK\$'000</b>	2003 HK\$'000
Hong Kong profits tax	<b>219</b>	114

There has no significant unprovided deferred taxation for the three months ended 31st March 2004 (three months ended 31st March 2003: Nil).

### 4. (Loss)/earning per share

The calculation of basic (loss)/earning per share for the three months ended 31st March 2004 is based on the unaudited consolidated net loss for the period of approximately HK\$960,000 (three months ended 31st March 2003: consolidated net profit for the period of approximately HK\$186,000) and on 400,000,000 (three months ended 31st March 2003: 400,000,000) ordinary shares in issue.

No diluted loss per share has been presented for the three months ended 31st March 2004 as the assumed exercise of the Company's share options would result in a decrease in loss per share.

No diluted earning per share has been presented for the three months ended 31st March 2003 because the exercise price of the Company's share options was higher than the average market price for shares for the period.

## RESERVES

There were no transfers to or from reserves of the Group during the three months ended 31st March 2004 and 2003.

## INTERIM DIVIDENDS

The Board of the Company does not recommend the payment of an interim dividend for the three months ended 31st March 2004 (three months ended 31st March 2003: Nil).

## BUSINESS REVIEW

For the first quarter of this fiscal year, despite both global and domestic economies continue to show strong recovery signs, the competition within the domestic consumer electronics industry remains severe. In addition, the first half of each year has traditionally been a slow season for consumer electronics industry, and as such, within the Group's four main business divisions, the result is a mixed one. For the Audio-Visual ("AV") division where more exposure towards domestic market and where the competition is fiercer, the AV division of the Group recorded a lower turnover as compared to the first quarter of last year. Meanwhile, for the OEM/Optical Components ("OEM"), the Information Appliance ("IA") and the Integrated Circuits ("IC") distribution divisions where the competition is less fierce, all three divisions recorded reasonable growth in revenue. Because of the market demand for products from the above three divisions, the Group's consolidated turnover rose significantly by 48.0% to about HK\$137.0 million as compared to the corresponding period last year. The Group also achieved a rise in both gross profit margin and gross profit from 7.1% and approximately HK\$6.6 million respectively in the first quarter of last year to 7.8% and approximately HK\$10.7 million respectively for the first quarter of this fiscal year. However, the Group incurred a significant reduction in other operating income which resulted to a net loss of approximately HK\$1.0 million for the first quarter of this fiscal year as compared to a net profit of approximately HK\$0.2 million for the first quarter of last year.

## **BUSINESS REVIEW** *(Continued)*

For the Group's AV division, despite the continuous fierce competition within the domestic consumer electronic industry, senior management of this division are implementing new strategies and actions in order to turn around this division. The division has taken certain drastic measures against some of its less profitable product lines and distribution network. The effects of this action are in twofold: less turnover but higher overall gross profit margin. Because of the division's strenuous effort in introducing various niche products during the first quarter of this year, the gross profit margin of the Group's AV division improved significantly to over 10% from less than 8% a year ago. On the other hand, as some of the less profitable product lines and distribution network are cut, the division's turnover has also been affected. The net result is a decline in turnover by about 44.6% as compared to the corresponding period last year.

For the first quarter under review, the Group's 51% owned IC distribution division saw a stunning growth in business activities. The turnover of this division increased by 107.1% and the division's gross profit shoot up 25.3% from the first quarter of the previous fiscal year. There are two major reasons for this superb improvement of operating results. The first reason is the general increase in market demand for IC and electronics products. Secondly, the demand for the division's designed-in solutions using its own proprietary embedded software has risen significantly.

Furthermore, both the turnover and gross profit of the Group's two other divisions, the OEM and IA divisions, where the industries are much less competitive, reported reasonable growth. However, as both divisions are still relatively small, the effects of their growth have not significantly reflected in the Group's consolidated turnover. As of the first quarter of this fiscal year, the OEM division's turnover accounted for about 13.1% of the Group's consolidated turnover while the IA division only accounted for about 13.3%.

For the OEM division of the Group, the momentum of overall business activities continues to remain strong as its turnover recorded about 5.2% growth as compared to the corresponding period last year. The improving turnover mainly come from higher OEM orders and sales of optical components, a project in cooperation with Philips Optical Storage ("Philips"). For the IA division of the Group, a period-to-period growth of 5,958.6% is recorded.



## BUSINESS PROSPECTS

As the global economy is expected to strengthen over the next few years, banking authorities in both the United States of America and the People's Republic of China (other than Hong Kong) (the "PRC") are tightening their monetary policies in order to control inflation. This will lead to a possible future rise in the interest rates which in turn will increase the cost and availability of financing for many corporations. With a significant positive cash position, the Group is well positioned to invest in the expansion of the business activities and benefit from the growth of the global economy. As the Group is currently expecting strong business activities and revenue growth for three of the Group's four major products division namely the IA, OEM and IC divisions, having a strong cash position will definitely facilitate the Group's overall operation.

For the current year, the IC distribution division of the Group will likely see the highest growth in terms of turnover and profit as the division is expecting to introduce more digital consumer electronics with its own designed-in solutions. As the overall electronics industry continues to fragment, more and more consumers electronics manufacturers are outsourcing their research & development work to third-party design houses in order to introduce new products at a faster speed and thus becoming more competitive. As the trend continues, the IC distribution division of the Group, which is already one of the top design houses in the PRC, will benefit from this trend. Given the fact that the IC distribution division's turnover of over HK\$80 million, a growth of close to 100% period-to-period, in the first quarter of this year, which is also the traditional low season for the electronics industry, the IC distribution division of the Group is expecting similar strong growth for the rest of the year.

The Group continues to expect strong performance in both of the IA and the OEM divisions. For the IA division, the development of the overseas market has been quite fruitful. In addition to existing and stable orders from PCCW Limited, the IA division has successfully explored another major customer which is a Japanese property developer. This particular Japanese property developer will begin to utilize our set-top boxes to deploy video-on-demand services to real estates under the developer's management. The IA division of the Group expects to begin initial trial shipment to this Japanese customer in the second quarter of this year with volume shipment towards the end of this year.

## **BUSINESS PROSPECTS** *(Continued)*

For the OEM division of the Group, its newest manufacturing facility will be completed and commence mass production in May 2004. The newest facility, located in Zhong Shan, Guangdong province, the PRC, will double the production capacity of the current site and will fulfill the division's expected business activities within the next two years. In addition to the existing project, a new cooperation with Philips for the production of optical components will commence at that time as well. This will further fuel the growth of the OEM division's turnover and profit.

The AV division has been the Group's biggest issue over the past few years. Since the beginning of the year, the AV division's newest strategy of focusing on product and distribution channel, where the AV division has more competitive advantages, has proven to be quite successful. For the remaining of the year, the Group expects that the turnover of the AV division will continue to shrink but the net loss of this division will also reduce as the division's senior management continues to restructure the AV division to focus more on value-added and niche products. Therefore, the AV division's senior management believes that this will only be a near term effect. As the AV division of the Group has begun to build a strong market reputation and brand name, the turnover will revert to the growth mode again.

For the Group's overall business prospect, despite the short-term reduction in the turnover from the AV division, all the other three divisions of the Group will continue to enjoy strong revenue growth. As such, the Group's overall turnover will rise significantly again this year. In addition, the profit of all four divisions of the Group are expecting to improve this year and thus, bringing a higher return to the Group's shareholders.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st March 2004, 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 Futures 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 5.46 to 5.67 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:

- Mr. Zhu Wei Sha and Mr. Chen Fu Rong hold these shares through Super Dragon Co., Ltd. (“Super Dragon”), a company in which Mr. Zhu Wei Sha and Mr. Chen Fu Rong hold 63.6% and 36.4% of the entire issued share capital respectively.
- Dragon Treasure Ltd. (“Dragon Treasure”) is a nominee company and acts as the trustee for holding these shares on behalf of the past and present employees of the Group, including Mr. Shi Guang Rong and Mr. Wang An Zhong.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

### (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 31st March 2004 were as follows:

Name of Director	Date of grant	Exercise price per share HK\$	Exercise period	Number of share options			
				At 1st January 2004	Exercised during the period	Granted during the period	At 31st March 2004
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	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.

## INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(Continued)*

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 31st March 2004, 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 5.46 to 5.67 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 31st March 2004, 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 <i>(Note 1)</i>	Corporate	165,000,000	Beneficial owner	41.25%
Dragon Treasure <i>(Note 2)</i>	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 for holding these shares 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 "Interests and short positions of Directors and chief executive in shares, underlying shares and debentures" above.

Save as disclosed above, as at 31st March 2004, 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 in the GEM Listing Rules) has an 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. One meeting was held during the three months ended 31st March 2004.

## BOARD PRACTICES AND PROCEDURES

Throughout the period under review, the Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45 of the GEM Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the three months ended 31st March 2004.

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

Beijing, the PRC, 11th May 2004