Yuxing InfoTech Holdings Limited

裕 興 科 技 控 股 有 限 公 司*

(incorporated in Bermuda with limited liability)

Interim 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.

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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcement 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 SIX-MONTH PERIOD

- For the six months ended 30th June 2004, turnover of the Group increased by 42.4% to approximately HK$270.5 million as compared to the corresponding period last year.
- For the six months ended 30th June 2004, gross profit of the Group significantly increased by 44.7% to approximately HK$17.4 million as compared to the corresponding period last year.
- Net loss for the six months ended 30th June 2004 amounted to approximately HK$13.7 million.
- Loss per share for the six months ended 30th June 2004 is HK3.41 cents.
- The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30th June 2004.

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 2004 together with the comparative unaudited figures for the corresponding periods in 2003, 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 2004

		For the six months ended 30th June		For the three months ended 30th June	
	Notes	**2004** **HK$'000**	2003 HK$'000	**2004** **HK$'000**	2003 HK$'000
Turnover	2	**270,547**	189,994	**133,553**	97,458
Cost of sales		**(253,146)**	(177,970)	**(126,859)**	(92,031)
Gross profit		**17,401**	12,024	**6,694**	5,427
Other operating income		**6,994**	10,844	**1,447**	2,988
Selling expenses		**(12,514)**	(18,906)	**(4,821)**	(11,737)
General and administrative expenses		**(17,092)**	(15,073)	**(9,160)**	(8,471)
Other operating expenses		**(3,306)**	(511)	**(3,207)**	(402)
Loss from operations	3	**(8,517)**	(11,622)	**(9,047)**	(12,195)
Finance costs		**(2,506)**	(102)	**(1,788)**	(21)
Share of results of associates		**(319)**	–	**(92)**	–
Loss before taxation		**(11,342)**	(11,724)	**(10,927)**	(12,216)
Taxation	4	**(741)**	(51)	**(522)**	63
Loss before minority interests		**(12,083)**	(11,775)	**(11,449)**	(12,153)
Minority interests		**(1,571)**	(61)	**(1,245)**	131
Net loss for the period		**(13,654)**	(11,836)	**(12,694)**	(12,022)
Loss per share – Basic	5	**(3.41) cents**	(2.96) cents	**(3.17) cents**	(3.01) cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2004

	Notes	(Unaudited) 30th June 2004 HK$'000	(Audited) 31st December 2003 HK$'000
Non-current assets			
Property, plant and equipment	6	**92,951**	51,063
Intangible assets		**1,555**	2,822
Investments in securities	7	**6,738**	4,739
Interests in associates		**2,691**	3,009
		103,935	61,633
Current assets			
Inventories		**126,213**	119,902
Other asset		**56,604**	56,604
Trade and other receivables	8	**86,874**	129,571
Loans and interest receivables		**49,730**	37,812
Investments in securities	7	**19,832**	13,931
Pledged bank deposits	10	**10,000**	22,777
Bank balances and cash		**268,147**	300,498
		617,400	681,095
Current liabilities			
Trade and other payables	9	**149,943**	167,871
Taxation payable		**873**	132
Secured bank and other loans – due within one year		**95,667**	93,146
		246,483	261,149
Net current assets		**370,917**	419,946
Total assets less current liabilities		**474,852**	481,579
Non-current liability			
Secured bank loan – due after one year		**5,785**	–
		469,067	481,579
Capital and reserves			
Share capital		**40,000**	40,000
Reserves		**418,405**	432,488
Shareholders' funds		**458,405**	472,488
Minority interests		**10,662**	9,091
		469,067	481,579

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30th June 2004

	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 and loss 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 and loss not recognised in the condensed consolidated income statement	–	–	–	(28)	–	(28)
Net loss for the period	–	–	–	–	(12,022)	(12,022)
At 30th June 2003	40,000	381,713	11,823	929	25,870	460,335
Transfer	–	–	(56)	56	–	–
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong and gain not recognised in the condensed consolidated income statement	–	–	–	95	–	95
Realised on disposal of a subsidiary	–	–	–	(1)	–	(1)
Net profit for the period	–	–	–	–	12,059	12,059
At 31st December 2003	40,000	381,713	11,767	1,079	37,929	472,488

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

For the six months ended 30th June 2004

	Share capital	Share premium	Statutory reserves	Translation reserves	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2004	40,000	381,713	11,767	1,079	37,929	472,488
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong and loss not recognised in the condensed consolidated income statement	–	–	–	(485)	–	(485)
Net loss for the period	–	–	–	–	(960)	(960)
At 31st March 2004	40,000	381,713	11,767	594	36,969	471,043
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong and gain not recognised in the condensed consolidated income statement	–	–	–	56	–	56
Net loss for the period	–	–	–	–	(12,694)	(12,694)
At 30th June 2004	**40,000**	**381,713**	**11,767**	**650**	**24,275**	**458,405**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30th June 2004

	For the six months ended 30th June	
	2004	2003
	HK$'000	*HK$'000*
Net cash generated from operating activities	**10,522**	114,352
Net cash used in investing activities	**(63,526)**	(32,315)
Net cash generated from/(used in) financing activities	**21,083**	(6,282)
Net (decrease)/increase in cash and cash equivalents	**(31,921)**	75,755
Cash and cash equivalents as at 1st January	**300,498**	200,852
Effect of foreign exchange rate changes	**(430)**	(105)
Cash and cash equivalents as at 30th June	**268,147**	276,502
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**268,147**	276,502

NOTES TO THE ACCOUNTS:

1 Basis of preparation

The unaudited condensed consolidated interim statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. They have been prepared under the historical cost convention as modified for the valuation of investments in securities. 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 and segment information

Turnover, which is the 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 products 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 2004				
	Information/ home appliances *HK$'000*	Electronic components *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
TURNOVER					
External sales	87,989	176,718	5,840	–	270,547
Inter-segment sales*	63,043	30,986	1,906	(95,935)	–
Total	151,032	207,704	7,746	(95,935)	270,547
RESULTS					
Segment results	(9,760)	1,667	(143)	–	(8,236)
Unallocated income					5,851
Unallocated expenses					(6,132)
Loss from operations					(8,517)
Finance costs					(2,506)
Share of results of associates					(319)
Loss before taxation					(11,342)
Taxation					(741)
Loss before minority interests					(12,083)
Minority interests					(1,571)
Net loss for the period					(13,654)

* *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 2003				
	Information/ home appliances *HK$'000*	Electronic components *HK$'000*	Other operations *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
TURNOVER					
External sales	57,870	126,365	5,759	–	189,994
Inter-segment sales*	27,712	40,744	1,003	(69,459)	–
Total	85,582	167,109	6,762	(69,459)	189,994
RESULTS					
Segment results	(17,070)	(3,209)	357	–	(19,922)
Unallocated income					10,260
Unallocated expenses					(1,960)
Loss from operations					(11,622)
Finance costs					(102)
Loss before taxation					(11,724)
Taxation					(51)
Loss before minority interests					(11,775)
Minority interests					(61)
Net loss for the period					(11,836)

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

2 Turnover and segment information *(Continued)*

Geographical segments

	Turnover For the six months ended 30th June	
	2004	2003
	HK$'000	*HK$'000*
The People's Republic of China, other than Hong Kong (the "PRC")	**171,792**	157,144
Hong Kong	**92,826**	27,140
Other countries	**5,929**	5,710
	270,547	189,994

3 Loss from operations

Loss from operations is stated after crediting and charging the following:

	For the six months ended 30th June		For the three months ended 30th June	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Crediting:				
Net realised gains on disposal of investments in securities	**–**	528	**–**	508
Charging:				
Amortisation of intangible assets	**1,651**	56	**832**	28
Depreciation of owned property, plant and equipment	**1,707**	1,109	**855**	631
Net realised losses on disposal of investments in securities	**1,488**	–	**3,004**	–
Net unrealised holding losses on investments in securities	**1,585**	150	**2,013**	280
Allowance for bad and doubtful debts	**–**	1,238	**–**	1,238

4 Taxation

The charge for the period represents Hong Kong Profits Tax calculated at 17.5% (six months and three months ended 30th June 2003: 17.5%) of the estimated assessable profits for the six months and three months ended 30th June 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 the 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 the 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 the PRC income tax has been made in the accounts as certain PRC subsidiaries of the Group were exempted from the PRC income tax and certain PRC subsidiaries of the Group have no assessable profit for the six months and three months ended 30th June 2004.

The Company had no significant unprovided deferred taxation for the period or at the balance sheet date.

5 Loss per share

The calculation of the basic loss per share for the six months and three months ended 30th June 2004 are based on the unaudited consolidated net loss for the period of approximately HK$13,654,000 and approximately HK$12,694,000 respectively (six months and three months ended 30th June 2003: consolidated net loss of approximately HK$11,836,000 and approximately HK$12,022,000 respectively) and on 400,000,000 (six months and three months ended 30th June 2003: 400,000,000) ordinary shares in issue for the period.

No diluted loss per share has been presented for either period as the assumed 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$33,419,000 on construction in progress, approximately HK$8,600,000 on the acquisition of land and building and approximately HK$1,276,000 on the acquisition of plant and equipment for the expansion of the Group's operation.

7 Investments in securities

	Investment securities		Other investments		Total	
	30th June 2004	31st December 2003	**30th June 2004**	31st December 2003	**30th June 2004**	31st December 2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Equity securities						
– Listed in Hong Kong	**–**	–	**19,832**	13,931	**19,832**	13,931
– Listed in overseas	**422**	422	**–**	–	**422**	422
– Unlisted	**6,316**	4,317	**–**	–	**6,316**	4,317
Total	**6,738**	4,739	**19,832**	13,931	**26,570**	18,670
Classified under:						
Current	**–**	–	**19,832**	13,931	**19,832**	13,931
Non-current	**6,738**	4,739	**–**	–	**6,738**	4,739
	6,738	4,739	**19,832**	13,931	**26,570**	18,670
Market value of listed securities	**422**	422	**19,832**	13,931	**20,254**	14,353

8 Trade and other receivables

The Group generally grants a normal credit period of 60 to 90 days to its trade customers. As at 30th June 2004, included in trade and other receivables were trade receivables less allowance for bad and doubtful debts of approximately HK$47,260,000 (31st December 2003: approximately HK$94,069,000). The ageing analysis of the trade receivables was as follows:

	30th June 2004	31st December 2003
	HK$'000	*HK$'000*
0–30 days	**24,242**	72,380
31–60 days	**15,189**	15,550
61–90 days	**3,294**	3,312
Over 90 days	**4,535**	2,827
	47,260	94,069

9 Trade and other payables

Included in trade and other payables were trade payables of approximately HK$129,643,000 (31st December 2003: approximately HK$127,378,000). As at 30th June 2004, the ageing analysis of the trade payables was as follows:

	30th June 2004	31st December 2003
	HK$'000	*HK$'000*
0–30 days	**80,139**	110,935
31–60 days	**37,449**	13,553
61–90 days	**6,477**	1,849
Over 90 days	**5,578**	1,041
	129,643	127,378

10 Pledge of assets

At 30th June 2004, the following assets were pledged to secure banking facilities and other loans granted to the Group:

(a) Bank deposits of the Group of approximately HK$10,000,000 (31st December 2003: approximately HK$22,777,000);

(b) Investments in securities of the Group with carrying value of approximately HK$5,900,000 (31st December 2003: approximately HK$3,900,000);

(c) Construction in progress of the Group with carrying value of approximately HK$12,947,000 (31st December 2003: approximately HK$12,947,000); and

(d) Property of the Group with carrying value of approximately HK$8,600,000 (31st December 2003: Nil).

RESERVES

Movements in the reserves of the Group and the Company during the period are set out in the unaudited condensed consolidated statement of changes in equity of the financial statements.

INTERIM DIVIDENDS

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30th June 2004 (six months ended 30th June 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and Gross Profit

Despite the traditional slow season for general consumer electronics products and PRC's tightening monetary policy, the Group's overall operating performance has nevertheless improved significantly. This superb expansion in business activities can be contributed by two main reasons. First of all, the strong global economic growth had either directly or indirectly propelled the demand for products and components manufactured by the Group. Secondly, several of the Group's new product lines from the Information Appliance ("IA") division and the Integrated Circuits ("IC") division have been very well-received by the market. As a result, the Group recorded an overall turnover of approximately HK$270.5 million, representing a significant growth of 42.4% as compared to the corresponding period last year. Because of higher turnover, the gross profit of the Group significantly increased by 44.7% to approximately HK$17.4 million as compared to the corresponding period last year.

Operating Results

Other Operating Income

As all of the PRC government bonds had been disposed by the Group by the end of 2003, other operating income decreased to approximately HK$7.0 million for the six months ended 30th June 2004 (six months ended 30th June 2003: approximately HK$10.8 million).

Operating Expenses

The Group managed to improve its operations during the period under review. A decrease in the advertising and promotion expenses drove down the overall operating expenses to approximately HK$32.9 million (six months ended 30th June 2003: approximately HK$34.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

Operating Results *(Continued)*

Finance Costs

For the expansion of the Group's operation during the period under review, the Group has borrowed loans from the banks. As a result, finance costs increased significantly to approximately HK$2.5 million as compared to the corresponding period last year (six months ended 30th June 2003: approximately HK$0.1 million).

Net Loss for the period

Due to the reasons as mentioned above, the Group still recorded a net loss of approximately HK$13.7 million for the period under review (six months ended 30th June 2003: approximately HK$11.8 million).

Liquidity, Charge on Group Assets and Financial Resources

As at 30th June 2004, the Group had net current assets of approximately HK$370.9 million. The Group had cash and bank deposits totalling approximately HK$278.1 million, of which HK$10.0 million were pledged with a bank for banking facilities. The Group's financial resources were funded mainly by its shareholders' funds except for a long-term mortgage loan with a bank for a new office in Hong Kong. As at 30th June 2004, the Group's current ratio was 2.5 times and the gearing ratio, as measured by total liabilities over total assets, was 35%. Overall, the financial and liquidity positions of the Group remain at a stable and healthy level.

Capital Structure

The shares of the Company were listed on the 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 2004, the Group had no significant investments and no material acquisitions or disposals.

Segment Information

For the period under review, the Group's information/home appliances ("IHA") segment has recorded a significant growth due to a strong demand for newly introduced products from the IA division, the steady demand flow from PCCW-HKT Limited ("PCCW") for its NOW broadband television ("TV") and the stable performance of Original Equipment Manufacturing/Optical Components ("OEM"). The total turnover of the IHA segment increased significantly by 76.5% to approximately HK$151.0 million as compared to the corresponding period last year. However, the on-going overall restructuring of the Audio Visual ("AV") division in the IHA segment continues to suffer a decline in turnover, a higher overall administrative expenses and a lower profit contribution to the Group. As a result, an operating loss of approximately HK$9.8 million was incurred in this segment.

In the segment of electronic components ("EC"), the IC division's continuous effort in expanding its market presence and newly introduced designed-in solutions in MP3 players, digital cameras, LCD monitors etc., which have been well-received by the market, have pushed the EC segment's turnover to a superb growth of 24.3% to approximately HK$207.7 million as compared to the corresponding period last year. Hence an operating profit of approximately HK$1.7 million was recorded in this segment.

Geographical markets of the Group were mainly located in the PRC. However, starting from 2003, the Group has actively explored its Hong Kong and overseas market with turnover increased by 242.0% and 3.8% respectively as compared to the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW *(Continued)*

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 2004, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

Human Resources

As at 30th June 2004, the Group had over 950 full time employees, of which 16 were based in Hong Kong and the rest were in the PRC. For the six months ended 30th June 2004, staff costs amounted to approximately HK$8.5 million (six months ended 30th June 2003: approximately HK$7.7 million). All employees of the Company's subsidiaries are selected and promoted based on their suitability for the position offered. The salary and benefit levels of the Group's employees are in line with 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

During the period under review, the Group's IA and IC divisions recorded a significant growth due to strong demand for newly introduced products from these two divisions while the performance of the OEM division of the Group remained stable. However, the on-going overall restructuring of the AV division of the Group has caused the AV division's turnover to register a year-on-year decline of 53.1%.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

For the first half of this year, the IC division of the Group recorded an approximate turnover of HK$171.3 million, representing a year-on-year growth of 64.1% and thus making this division the largest within the Group in terms of turnover. Meanwhile, the operating profit contributed from this division also increased to about HK$2.0 million as compared to the operating loss amounted to about HK$0.2 million in the corresponding period last year. The IC division's newly introduced designed-in solutions in MP3 players, digital cameras, LCD monitors etc, which have been well-received by the market, are the main reason contributing for this huge rise. In addition, the IC division's continuous effort in expanding its market presence has also helped to push its turnover to a new level. Currently, the IC division has established a strong presence in the electronics component market for the southern part of China. For this part of the region, the particular markets that the division competes in, have gradually reached a plateau. In order to broaden its presence, the IC division has further expanded into eastern part of China by establishing a branch office in Shanghai.

Due to the steady demand flow from PCCW for its NOW broadband TV, the IA division of the Group continues to register a strong turnover and an excellent profit contribution. For the period under review, the turnover of the IA division improved to approximately HK$42.0 million from approximately HK$0.3 million in the corresponding period last year. In addition to the above-mentioned demand from PCCW, the IA division has also received an order from a new Japanese customer, which has decided to use the IA division's set-top-boxes to receive video-on-demand services for a variety of apartment complexes under this customer's management. During the period under review, the Group shipped a few trial units to this customer that has established a set of strict and thorough testing criteria which was used on the trial units. These trial units have succeeded in passing the testing and the Japanese customer has already placed an order with the Group with shipment date starting in early third quarter of this fiscal year.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW *(Continued)*

For the Group's AV division, the on-going restructuring continues during the period under review. The AV division has eliminated some of its less profitable product lines and distribution network. During this transition period, the AV division of the Group continues to suffer a decline in turnover by another 53.1% from the corresponding period last year. However, as the AV division continues to introduce niche products, the division's overall gross margin has also improved from 9.4% in the first half of 2003 to 11.1% in 2004. During the implementation of eliminating old product lines and restructuring distribution network, certain one-off administrative cost is incurred and thus, leading to a higher overall administrative expenses and lower profit contribution. As a result, an operating loss of approximately HK$9.5 million was incurred in this division.

During the period under review, the production facility of the Group has been moved from Shenzhen to Zhong Shan city, Guangdong province. Production was slightly affected during this transition from the old factory to the new factory. In addition, the traditional slow season also had some impact on the OEM division's turnover. As such, the OEM division's turnover registered a small decline from approximately HK$32.8 million to approximately HK$32.7 million year-on-year basis. Nevertheless, as the new factory commenced operation in mid-May 2004, the OEM division has begun trial production of the optical pick-up units for Philips Optical Storage ("Philips") and this marked the start of the second-phase cooperation between Philips and the Group.

In summary, over the past six months of this fiscal year, the Group's senior management continues to dedicate its effort towards improving the Group's profitability. Although the Group still incurred a net loss in the first half of 2004, the Group's senior management believes that the Group's overall financial and operating performances will significantly improve towards the second half of this fiscal year as the Group has obtained new key customers, expanded into new markets and introduced new product lines while without incurring much higher operating expenses.

BUSINESS PROSPECT

As the year enters into the second half, which traditionally has been the peak season for consumer electronics industry, the Group is expected to see stronger business activities and better financial results as compared to the first half of this fiscal year. Within the Group's four major divisions (i.e. IA, IC, AV and OEM), the Group continues to expect stronger results from the IA and the IC divisions. However, the Group also expects to see a gradual improvement in the AV division on the imminent completion of the overall restructuring of this division. For the OEM division, as the new manufacturing facility has been completed, the second phase of cooperation with Philips is expected to ramp up. This will also give the OEM division a strong boost in revenue. However, given the complexity in processes of manufacturing optical pick-up units, the OEM division may incur certain higher learning cost for such products as originally expected.

The AV division of the Group has eliminated most of its traditional AV product lines which can only provide very minimal profit towards the Group. Instead, through the Group's strong internal technical capability, the AV division will focus on niche market providing more unique products that will come with bundled entertainment and/or education software. Not only do these new products contain traditional AV functions, they also come with certain value-added functions such as a built-in CPU for processing capabilities. The Group believes that as China's economy continues to grow, the domestic consumption power will increase as well. As such, there will be an increasing amount of affluent individuals who are willing to pay more for certain value-added functions. Although the AV division does not expect to see much rise in revenue for the coming months, it does expect to see a higher profit margin from these new lines of products in the long run.

Due to the completion of the new facility located in Zhong Shan, the OEM division of the Group is preparing to expand its manufacturing service beyond its original line of business, contract manufacturing of AV and AV-related products. The division has recently ordered a few state-of-the-art BGA (ball-grid array) insertion equipment. With the latest new equipment, the OEM division will be able to expand its contract manufacturing services for a variety of other consumer electronics products. For the cooperation with Philips on the manufacturing of optical pick-up units, the OEM division is currently undergoing trial production and is expecting to enter into mass production by the late third quarter of this year. Due to the complexity of the manufacturing process, the trial run has taken slightly longer than originally anticipated. As such, the division is expected to incur higher learning cost.

BUSINESS PROSPECT *(Continued)*

For the IA division of the Group, the expansion in market presence has been quite successful. Given the rapidly rising global market and the limited resources of the IA division, the division has adapted to a strategy which rides on the marketing strengths of the division's major strategic partners to expand its business activities. One of our strategic partners has successfully helped the IA division of the Group in entering the Japanese market. The same strategic partner is expected to help the IA division of the Group to break into the Taiwanese and possibly the Korean market. Although there are no confirmed orders from either one of these two markets yet, the IA division has solid expectations for the next few quarters. Furthermore, another strategic partner of the Group is currently negotiating with a telecom operator from a Southeast Asian country for the provision of digital video services. This particular strategic partner is also bundling the IA division's set-top boxes as part of its total IPTV solution. Currently, the IA division of the Group expects orders from PCCW will be quite stable over the next few quarters. Moreover, the IA division expects orders from the Japanese customer to begin rising rapidly over the next few quarters and thus, continues to push it's revenue and profit contribution to the Group higher.

For the current fiscal year, the IC division of the Group will definitely be the star of the Group providing the highest revenue and profit contribution. In addition to its recent success in the introduction of various designed-in solutions for digital camera and digital audio player, the division is expected to introduce other designed-in solutions for more sophisticated digital consumer electronics products such as digital camera with optical zoom capabilities, LCD TV products etc. As such, the division continues to be very optimistic towards the overall future prospect and is expecting that the year 2004 will be a record-breaking year for the division in terms of revenue and profit contribution.

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 in the circular of the Company dated 24th April 2003.

SHARE OPTION SCHEME *(Continued)*

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 remain in force in all other aspects and 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 an Executive Director and the employees of the Company under the Previous Scheme and movements during the period under review:

				Number of share options				
	Date of grant	Exercisable period	Exercise price per share *HK$*	At 1st January 2004	Exercised during the period	Granted during the period	Cancelled/ lapsed during the period	At 30th June 2004
Director – Mr. Wang An Zhong	28th November 2000	28th November 2001 – 27th November 2005	0.95	1,000,000	–	–	–	1,000,000
Continuous Contract Employees	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	5,420,000	–	–	–	5,420,000
	3rd December 2000	3rd December 2001 – 2nd December 2005	0.95	550,000	–	–	–	550,000
	4th December 2000	4th December 2001 – 3rd December 2005	0.95	140,000	–	–	–	140,000
	9th February 2001	9th February 2002 – 8th February 2006	0.83	3,110,000	–	–	–	3,110,000
	11th April 2001	11th April 2002 – 10th April 2006	0.75	1,980,000	–	–	–	1,980,000
				17,200,000	–	–	–	17,200,000

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

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

As at 30th June 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 the minimum standards of dealing by Directors as referred to in rule 5.46 of the Rules Governing the Listing of Securities of 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 hold 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") is a nominee company acting 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 AND UNDERLYING SHARES *(Continued)*

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

Pursuant to the Previous Scheme, a Director in the capacity of beneficial owners was granted unlisted and physically settled share options to subscribe for shares of the Company, details of which as at 30th June 2004 were as follows:

				Number of share options			
Name of Director	Date of grant	Exercisable period	Exercise price per share *HK$*	At 1st January 2004	Exercised during the period	Granted during the period	At 30th June 2004
Mr. Wang An Zhong	28th November 2000	28th November 2001 – 27th November 2005	0.95	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%

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES AND UNDERLYING SHARES *(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 *(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 June 2004, any interests or short positions in the shares and underlying shares 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 the minimum standards of dealing by Directors as referred to in rule 5.46 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 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 *(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 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 the shares and underlying shares" above.

Save as disclosed above, as at 30th June 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.

OTHER INTERESTS DISCLOSEABLE UNDER THE SFO

Save as disclosed in the sections "Interests and short positions of Directors and chief executive in the shares and underlying shares" and "Interests and short positions of substantial shareholders discloseable under the SFO" above, so far as is known to the Director, there is no other person who has an interest or short position in the shares and underlying shares that is discloseable under the SFO.

COMPETING INTERESTS

None of the Directors or management shareholders of the Company and their respective associates (as defined under 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 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. The primary duties of the Committee are to review and supervise the financial reporting process of the Group. 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 2004.

The Group's unaudited results for the six months and three months ended 30th June 2004 have been reviewed by the Committee, who is of the opinion that such financial statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

AUDIT COMMITTEE *(Continued)*

In view of the amendments to the GEM Listing Rules which became effective on 31st March 2004, the Committee will be reconstituted upon the appointment of an additional independent non-executive director in compliance with rule 5.05 of the GEM Listing Rules.

SECURITIES TRANSACTIONS BY DIRECTORS

Although the Company has not adopted any code of conduct regarding Directors' securities transactions, it has made specific enquiry of all Directors and the Directors have confirmed that they have complied with all the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules during the period under review.

BOARD PRACTICES AND PROCEDURES

Throughout the period under review, the Company was in compliance 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 six months ended 30th June 2004.

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

Beijing, the PRC, 12th August 2004

As at the date hereof, the executive directors of the Company are Mr. Zhu Wei Sha, Mr. Chen Fu Rong, Mr. Shi Guang Rong and Mr. Wang An Zhong; the independent non-executive directors of the Company are Mr. Wu Jia Jun and Mr. Zhong Peng Rong.