



***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>

**Third 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 NINE-MONTH PERIOD

- For the nine months ended 30th September 2004, turnover of the Group significantly increased by 41.8% to approximately HK\$454.9 million as compared to the same period last year.
- For the nine months ended 30th September 2004, gross profit of the Group increased by 29.8% to approximately HK\$35.0 million as compared to the same period last year.
- Net profit/(loss) for the three months and nine months ended 30th September 2004 amounted to approximately HK\$1.1 million and HK\$12.5 million respectively.
- Earning/(loss) per share for the three months and nine months ended 30th September 2004 were HK0.3 cent and HK3.1 cents respectively.
- The Board of the Company does not recommend the payment of an interim dividend for the nine months ended 30th September 2004.

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

		Nine months ended 30th September		Three months ended 30th September	
	Notes	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	2	<b>454,881</b>	320,733	<b>184,334</b>	130,739
Cost of sales		<b>(419,901)</b>	(293,777)	<b>(166,755)</b>	(115,807)
Gross profit		<b>34,980</b>	26,956	<b>17,579</b>	14,932
Other operating income		<b>9,267</b>	12,815	<b>2,273</b>	1,971
Selling expenses		<b>(14,182)</b>	(29,171)	<b>(1,668)</b>	(10,265)
General and administrative expenses		<b>(29,710)</b>	(27,279)	<b>(12,618)</b>	(12,206)
Other operating expenses		<b>(3,352)</b>	(3,599)	<b>(46)</b>	(3,088)
(Loss)/profit from operations		<b>(2,997)</b>	(20,278)	<b>5,520</b>	(8,656)
Finance costs		<b>(4,212)</b>	(144)	<b>(1,706)</b>	(42)
Share of results of associates		<b>(359)</b>	-	<b>(40)</b>	-
(Loss)/profit before taxation		<b>(7,568)</b>	(20,422)	<b>3,774</b>	(8,698)
Taxation	3	<b>(1,541)</b>	(200)	<b>(800)</b>	(149)
(Loss)/profit before minority interests		<b>(9,109)</b>	(20,622)	<b>2,974</b>	(8,847)
Minority interests		<b>(3,426)</b>	(291)	<b>(1,855)</b>	(230)
Net (loss)/profit for the period		<b>(12,535)</b>	(20,913)	<b>1,119</b>	(9,077)
(Loss)/earning per share – Basic	4	<b>(3.13) cents</b>	(5.23) cents	<b>0.28 cent</b>	(2.27) 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 Institute of Certified Public 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**

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.

### **3. Taxation**

The charge for the period represents Hong Kong Profits Tax calculated at 17.5% (nine months and three months ended 30th September 2003: 17.5%) of the estimated assessable profits for the nine months and three months ended 30th September 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 nine months and three months ended 30th September 2004.

The amount of taxation for the period represents:

	Nine months ended 30th September		Three months ended 30th September	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax	<u>1,541</u>	<u>200</u>	<u>800</u>	<u>149</u>

The Group had no significant unprovided deferred taxation for the nine months and three months ended 30th September 2004 (nine months and three months ended 30th September 2003: Nil).

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

The calculation of basic (loss)/earning per share for the nine months and three months ended 30th September 2004 are based on the unaudited consolidated net (loss)/profit for the period of approximately HK\$12,535,000 and HK\$1,119,000 respectively (nine months and three months ended 30th September 2003: consolidated net loss of approximately HK\$20,913,000 and HK\$9,077,000 respectively) and on 400,000,000 (nine months and three months ended 30th September 2003: 400,000,000) ordinary shares in issue for the period.

No diluted earning per share has been presented for either period as the exercise price of the Company's share options was higher than the average market price for shares for either 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.

## RESERVES

There were no transfers to or from reserves of the Group during the nine months ended 30th September 2004 and 2003.

## INTERIM DIVIDENDS

The Board of the Company does not recommend the payment of an interim dividend for the nine months ended 30th September 2004 (nine months ended 30th September 2003: Nil). The year 2003 final dividend of HK\$10.0 million were paid by the Company during the three months ended 30th September 2004.

## BUSINESS REVIEW

For the nine months ended 30th September 2004, the overall turnover of the Group continued to register a strong growth momentum with an increase from approximately HK\$320.7 million to approximately HK\$454.9 million, representing an increased of 41.8% over the same period last year. On a quarterly basis, the turnover of the third quarter of this year showed an outstanding 41.0% year-on-year growth. Meanwhile, a decrease in the advertising and promotion expenses drove down the overall operating expenses to approximately HK\$47.2 million. As a result, the Group trimmed down its net loss to approximately HK\$12.5 million for the nine months ended 30th September 2004 from HK\$20.9 million for the same period last year, representing a significant improvement in the operation of the Group.

Due to strong demand for newly introduced products and strong domestic economy, the Group's Integrated Circuit ("IC") division continues to record significant growth in terms of turnover and profit contribution for the period under review. For the first three quarters of this year, the IC division of the Group has registered approximately HK\$310.0 million in terms of turnover, representing a year-on-year growth of 79.9%. In addition, the Group's Information Appliance ("IA") division has also seen growth. The turnover of the IA division rose by 143.0% to approximately HK\$74.9 million for the first three quarters of this year as compared to the same period last year. Although the IA division had also brought profit contribution for the Group, it showed signs of declining due to the lower demand from its major customer, PCCW-HKT Limited ("PCCW") and the lower average selling price. However, during the first three quarters of this year, the IA division has been very actively in procuring new customers. In addition to its initial success in Japan, the IA division is also actively discussing with a variety of other potential overseas buyers.

On the other hand, both the Original Equipment Manufacturing/Optical Components (“OEM”) division and the Audio Visual (“AV”) division of the Group continue to suffer operating losses for the first three quarters of this year. While the OEM division tries to move onto mass production of its newly acquired project in production of optical pick-up units, the learning cost was still higher than expected. Although the overall situation is improving, the OEM division does not expect to see any major breakthrough in terms of resolving this issue until early next year. As such, the OEM division’s recorded an operating loss of approximately HK\$2.7 million for the first three quarters of this year. Moreover, the AV division continues to suffer operating loss for the period under review due to the ongoing restructuring. Currently, the senior management of the Group is putting strenuous effort for these two divisions to return its profit to the positive territory.

Lastly, in order for the Group to make the best return to its shareholders, the Group is planning to make a variety of major investments which are expected not only to generate superior return to the Group but also help the Group to improve its overall business activities. The Group has signed a preliminary agreement to make its first investment. As such, the share of the Company has been suspended for trading since 26th August 2004 pending an announcement in relation to price sensitive information. Currently, the Group is finalizing certain details of the proposed investment and expects to complete by the end of this year.

## **BUSINESS PROSPECT**

Despite the current issues with the Group’s various divisions, the Board continues to be very optimistic about the Group’s overall prospective opportunities. First of all, the Group continues to expect a strong performance from its IC division for the rest of this year and next year as the strong PRC economy will propel more demand for the IC division’s various designed-in solutions. Therefore, the turnover for this division is expected to rise at a high double digit growth over the next few quarters.



Although the IA division of the Group has met with certain slower demand with its current largest customer, PCCW, this division is actively diversifying its customer base. In addition to the Japanese customer which the IA division has currently cooperated with, the IA division further expects to sign another major customer by early 2005. In addition, the IA division is discussing cooperation opportunities with various major multi-national technology companies. Although these opportunities are all in the initial discussion stages, once finalized, these cooperation opportunities will further strengthen the Group's capabilities in extending its market presence overseas.

For the OEM division of the Group, although the newly constructed plant is at full operation now, the cooperation project with Philips in the production of optical pick-up units has met with certain unexpected learning cost. Nevertheless, the Board believes that this setback is normal as the Group is newly entering into a high precision optical components manufacturing industry. The OEM division's senior management further believes that this setback is only temporary and does expect that the overall situation to be resolved also by early 2005. Lastly, the Group also expects that the current ongoing restructuring for the AV division is likely to come to an end by early 2005.

As for the Group's current proposed investment, the Board is proactively negotiating with its counterparty. This proposed investment will be made public immediately upon receiving the clearance from the Stock Exchange. The Board believes that this proposed investment will help the Group significantly in terms of market expansion and the overall shareholders' return.

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

As at 30th September 2004, the interests or short positions of the directors of the Company (the "Directors") and chief executive of the Company in the shares and underlying shares 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 the Directors as referred to in rule 5.46 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 Directors	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.

**(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 of beneficial owners was granted unlisted and physically settled share options to subscribe for shares of the Company, details of which as at 30th September 2004 were as follows:

Name of Director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options			
				At 1st January 2004	Exercised during the period	Granted during the period	At 30th September 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%

### (3) Aggregate long positions in the shares and underlying shares of the Company

Name of Directors	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 shares of the Company" above.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30th September 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 the 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 September 2004, the following were the substantial shareholders (other than the 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 shareholders	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 the Directors and chief executive in the shares and underlying shares" above.

Save as disclosed above, as at 30th September 2004, the Company has not been notified by any person (other than the 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 the 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 Directors, 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 three independent non-executive Directors of the Company, namely Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Ye Lian Ru. Mr. Wu Jia Jun was appointed as the chairman of the Committee. Three meetings were held during the nine months ended 30th September 2004.

The Group's unaudited results for the nine months and three months ended 30th September 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.

## **SECURITIES TRANSACTIONS BY THE DIRECTORS**

Although the Company has not adopted any code of conduct regarding the 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 had purchased, redeemed or sold any of the Company's shares during the nine months ended 30th September 2004.

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

Beijing, the PRC, 11th November 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, Mr. Zhong Peng Rong and Ms. Ye Lian Ru.*