



Yuxing InfoTech Holdings Limited

裕興科技控股有限公司*

(incorporated in Bermuda with limited liability)



First Quarterly Report 2005

* 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

For the three months ended 31st March 2005, turnover of the Group increased by 19.8% to approximately HK\$164.1 million as compared to the same period last year.

For the three months ended 31st March 2005, gross profit of the Group decreased by 17.0% to approximately HK\$8.9 million as compared to the same period last year.

Net loss for the three months ended 31st March 2005 amounted to approximately HK\$11.7 million.

Loss per share for the three months ended 31st March 2005 is HK2.93 cents.

The Board of the Company does not recommend the payment of an interim dividend for the three months ended 31st March 2005.

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 2005, together with the comparative unaudited figures for the corresponding period in 2004, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

		Three months ended 31st March	
		2005	2004
		HK\$'000	HK\$'000
	<i>Notes</i>		
Turnover	2	164,140	136,994
Cost of sales		(155,258)	(126,287)
Gross profit		8,882	10,707
Other operating income		914	5,547
Selling expenses		(6,242)	(7,693)
General and administrative expenses		(11,143)	(7,932)
Other operating expenses		(289)	(99)
(Loss)/profit from operations		(7,878)	530
Finance costs		(2,806)	(718)
Share of results of associates		(121)	(227)
Loss before taxation		(10,805)	(415)
Taxation	3	(326)	(219)
Loss before minority interests		(11,131)	(634)
Minority interests		(608)	(326)
Net loss for the period		(11,739)	(960)
Loss per share – Basic	4	(2.93) cents	(0.24) 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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention as modified for the valuation of investments in securities.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. The adoption of the new HKFRSs had no material impact on the Group's results of operations and financial position.

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 2004. The accounts are unaudited but have been reviewed by the Company's audit committee.

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% (three months ended 31st March 2004: 17.5%) of the estimated assessable profits for the three months ended 31st March 2005.

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 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 three months ended 31st March 2005.

The amount of taxation for the period represents:

	Three months ended 31st March	
	2005	2004
	HK\$'000	HK\$'000
Hong Kong profits tax	326	219

There has no significant unprovided deferred taxation for the three months ended 31st March 2005 (three months ended 31st March 2004: Nil).

4. Loss per share

The calculation of basic loss per share for the three months ended 31st March 2005 is based on the unaudited consolidated net loss for the period of approximately HK\$11,739,000 (three months ended 31st March 2004: consolidated net loss for the period of approximately HK\$960,000) and on 400,000,000 (three months ended 31st March 2004: 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.

RESERVES

There were no transfers to or from reserves of the Group during the three months ended 31st March 2005 and 2004.

INTERIM DIVIDENDS

The Board of the Company does not recommend the payment of an interim dividend for the three months ended 31st March 2005 (three months ended 31st March 2004: Nil).

BUSINESS REVIEW

The first quarter of this fiscal year definitely marked a period of turmoil for the Group. First of all, trading in the shares of the Company on GEM has continued to be suspended since 26th August 2004, pending the publication of an announcement of the Group's acquisition of 10.435% equity interests in Shenzhen Jiangnan Industrial Development Co., Ltd. ("JI") and its indirect investment in Ping An Insurance (Group) Company of Chinese Limited ("Ping An Insurance") through the Group's wholly-owned subsidiary, Beijing Golden Yuxing Electronics and Technology Co., Ltd. Towards the end of first quarter of this fiscal year, the Group's Chairman and President, Mr. Zhu Wei Sha, was detained by the Foshan Police Bureau in connection with an investigation of a potential embezzlement case in the People's Republic of China (other than Hong Kong) (the "PRC"). As the investigation is still ongoing, the Company is not in the position to comment thereon further. The directors of the Company (the "Director") were given to understand that Foshan Police Bureau requested the Shenzhen Industrial and Commercial Registration Bureau to carry out the appropriate arrangement to prohibit the approximately 10.44% equity interests in JI held by Golden Yuxing from being transferred, pledged or sold until 14th April 2006. Further development in this respect will be announced as and when appropriate.

BUSINESS REVIEW *(Continued)*

In order to deal with the above issues, the Group has engaged the service from one of the well-known financial advisors available in Hong Kong. Furthermore, the Group has also hired various lawyers both from Hong Kong and the PRC to help the Group to manage legal related matters.

Nevertheless, despite all these issues, the Group's overall operation was not materially affected as the overall consolidated sales from the first quarter of this fiscal year increased by 19.8% from approximately HK\$137.0 million to approximately HK\$164.1 million as compared to the same period last year. However, the gross profit decreased by 17.0% to approximately HK\$8.9 million as compared to the same period last year. This was mainly due to higher depreciation expenses incurred by the Group's new factory in Zhongshan, PRC which was not in operation until the early third quarter of 2004. Meanwhile, due to lower non-operating income and higher general and administrative expenses which were caused by the unexpected and much higher fees required for retaining professional advisers for resolving the Group's current issues of investment in Ping An Insurance as described above, the Group recorded an operating loss of approximately HK\$7.9 million for the period under review. The Group's net loss further deteriorated by higher financing costs as the Group has financed certain of its investments through bank borrowings. As a result, the net loss of approximately HK\$11.7 million was recorded for the first quarter of the fiscal year.

For the quarter in review, the Group's 51% owned integrated circuits ("IC") distribution continued its stunning growth in business activities. Both the overall sales and operating profit of this division have increased by above 50% and 28% respectively from the first quarter of the previous fiscal year reaching approximately HK\$133.5 million and approximately HK\$1.4 million respectively. There are two major reasons for this superb improvement of operating results. First of all is the general increase in market demand for IC and electronics products. Secondly, the demand for IC division's designed-in solution using its own proprietary embedded software has risen significantly.

Furthermore, the Group's another main profit generating division, information appliances (IA) division, saw both of its sales and profit contribution declined due to a reduction in order from its largest customer, PCCW-HKT. However, the IA division has received a major order from its Japanese customer and is expected to begin voluminous shipment starting in the second quarter of the fiscal year.

BUSINESS PROSPECT

For the upcoming quarters, the Company will continue to work closely with its professional advisers in order to clear any outstanding issues of the Group's equity interests in JI and its indirect investment in Ping An Insurance with the Stock Exchange and other regulators. Although the Group cannot be sure as to when the resumption of the Company's shares will take place, the Group is very confident that this shall happen within the foreseeable future. As to the qualification on the Group's year 2004 audited annual financial statement, the Group is also expecting to have this issue cleared up within the upcoming quarters as the Group will likely be able to prove affirmatively the value of the investment that caused the qualification.

In terms of operation, the Group continues to expect that the IC division will maintain its strong growth momentum as this 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 electronics manufacturers are outsourcing their research and development work to third-party design houses in order to introduce new products at a faster rate and thus becoming more competitive. As the trend continues, the IC division of the Group will definitely benefit from this trend.

Meanwhile, the IA division will likely contribute stronger profit as well as the shipment to its Japanese customer will improve. In addition, a series of new product lines are expected to be introduced to the market during either the second or third quarters of this fiscal year. These new product lines, which will incorporate with many interesting features, can totally revolutionize how consumers will enjoy the video entertainment. The Group is also expecting that these product lines can make a sizable contribution to the Group's revenue and profit in the quarters to come.

Last but not the least, the Group is also expecting to receive a non-operating income of approximately RMB7.1 million this year. The amount will derive from the Group's indirect investment in the 51 million domestic institutional shares of Ping An Insurance which has recently declared a dividend of RMB0.14 per share.

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

As at 31st March 2005, 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 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 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:

- Messrs. Zhu Wei Sha and Chen Fu Rong held these shares through Super Dragon Co., Ltd. (“Super Dragon”), a company in which Messrs. Zhu Wei Sha and Chen Fu Rong held 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 in the Company on behalf of the past and present employees of the Group, including Messrs. Shi Guang Rong and 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 share option scheme approved by the shareholders of the Company on 18th January 2000, 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 2005 were as follows:

Name of Director	Date of grant	Exercise price per share HK\$	Exercisable period	Number of share options			
				At 1st January 2005	Exercised during the period	Granted during the period	At 31st March 2005
Mr. Wang An Zhong	28th November 2000	0.95	28th November 2001 to 27th November 2005	1,000,000	-	-	1,000,000

Name 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, UNDERLYING SHARES AND DEBENTURES *(Continued)*

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

Name of Director	Aggregate number in ordinary shares	Aggregate number of 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%

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 31st March 2005, 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 rule 5.46 to 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 2005, 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 at 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 in the Company on behalf of the past and present employees of the Group, including Messrs. Shi Guang Rong and 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, underlying shares and debentures" above.

Save as disclosed above, as at 31st March 2005, 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 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, namely Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan. Mr. Wu Jia Jun was appointed as the chairman of the Committee. One meeting was held for the three months ended 31st March 2005.

The Group’s unaudited results for the three months ended 31st March 2005 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

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 2005.

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 three months ended 31st March 2005.

By Order of the Board
Yuxing InfoTech Holdings Limited
Chen Fu Rong
Deputy Chairman

Shenzhen, the PRC, 11th May 2005