



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

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

STOCK CODE: 8005

**Interim Report 2007**



\*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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## HIGHLIGHTS FOR THE SIX-MONTH PERIOD

- For the six months and three months ended 30th June 2007, turnover of the Group was approximately HK\$53.6 million and HK\$30.3 million respectively, representing a decline of 86.6% and 83.2% respectively in comparison to the corresponding periods in 2006, mainly attributable to the disposal of one of its subsidiaries during the period under review.
- For the six months ended 30th June 2007, gross profit margin of the Group improved significantly from 9.7% in the first half of 2006 to 29.2%.
- Profit attributable to equity holders of the Company for the six months and three months ended 30th June 2007 amounted to approximately HK\$17.9 million and HK\$8.6 million respectively, representing a significant increase of 53.2% and 88.4% respectively as compared to the corresponding periods last year.
- Basic earnings per share for the six months and three months ended 30th June 2007 was HK4.47 cents and HK2.14 cents respectively.
- The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30th June 2007.

## 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 2007 together with the comparative unaudited figures for the corresponding periods in 2006, 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 2007

	Notes	For the six months ended 30th June		For the three months ended 30th June	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	2	<b>53,572</b>	400,331	<b>30,286</b>	179,912
Cost of sales		<b>(37,957)</b>	(361,436)	<b>(21,812)</b>	(166,079)
Gross profit		<b>15,615</b>	38,895	<b>8,474</b>	13,833
Other operating income		<b>19,391</b>	14,906	<b>13,866</b>	10,622
Selling expenses		<b>(2,315)</b>	(5,344)	<b>(1,168)</b>	(42)
General and administrative expenses		<b>(24,741)</b>	(34,392)	<b>(11,187)</b>	(22,533)
Other operating expenses		<b>(2,024)</b>	(1,139)	<b>(166)</b>	(450)
Profit from operations		<b>5,926</b>	12,926	<b>9,819</b>	1,430
Finance costs		<b>(1,585)</b>	(2,675)	<b>(999)</b>	(1,394)
Gain on disposal of a subsidiary		<b>13,873</b>	–	–	–
Profit before taxation	3	<b>18,214</b>	10,251	<b>8,820</b>	36
Taxation	4	<b>(307)</b>	(901)	<b>(246)</b>	641
Profit for the period		<b>17,907</b>	9,350	<b>8,574</b>	677
Attributable to:					
Equity holders of the Company		<b>17,907</b>	11,691	<b>8,574</b>	4,551
Minority interests		–	(2,341)	–	(3,874)
		<b>17,907</b>	9,350	<b>8,574</b>	677
Earnings per share attributable to equity holders of the Company	5				
– Basic		<b>4.47 cents</b>	2.92 cents	<b>2.14 cents</b>	1.14 cents
– Diluted		<b>4.27 cents</b>	N/A	<b>2.04 cents</b>	N/A

**CONDENSED CONSOLIDATED BALANCE SHEET**

As at 30th June 2007

		(Unaudited) 30th June 2007 HK\$'000	(Audited) 31st December 2006 HK\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Investment properties		26,700	26,700
Property, plant and equipment	6	113,070	114,338
Prepaid lease payments		12,672	12,444
Intangible assets		271	881
Available-for-sale financial assets	7	3,080,901	2,099,626
		<b>3,233,614</b>	2,253,989
<b>CURRENT ASSETS</b>			
Inventories		27,741	105,819
Trade and other receivables	8	58,444	98,091
Prepaid lease payments		317	308
Tax recoverable		–	751
Financial assets at fair value through profit or loss		7,418	6,653
Cash and cash equivalents		76,309	94,144
		<b>170,229</b>	305,766
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	46,613	194,106
Taxation liabilities		311	–
Bank loans		54,543	40,003
		<b>101,467</b>	234,109
<b>NET CURRENT ASSETS</b>			
		<b>68,762</b>	71,657
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
		<b>3,302,376</b>	2,325,646
<b>NON-CURRENT LIABILITIES</b>			
Bank loans		5,221	5,328
<b>NET ASSETS</b>			
		<b>3,297,155</b>	2,320,318
<b>CAPITAL AND RESERVES</b>			
Share capital	11	40,304	40,000
Reserves		3,256,851	2,264,823
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>			
		<b>3,297,155</b>	2,304,823
<b>MINORITY INTERESTS</b>			
		–	15,495
<b>TOTAL EQUITY</b>			
		<b>3,297,155</b>	2,320,318

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30th June 2007

	Attributable to equity holders of the Company							Total	Minority interest	Total equity
	Share capital	Share premium	Statutory reserves	Revaluation reserves	Share option reserves	Translation reserves	(Accumulated loss)			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January 2006	40,000	381,713	16,874	-	-	5,695	(48,542)	395,740	19,926	415,666
Exchange adjustments	-	-	-	-	-	2,307	-	2,307	-	2,307
Profit for the period	-	-	-	-	-	-	7,140	7,140	1,533	8,673
At 31st March 2006	40,000	381,713	16,874	-	-	8,002	(41,402)	405,187	21,459	426,646
Transfer	-	-	3,316	-	-	-	(3,316)	-	-	-
Exchange adjustments	-	-	-	-	-	1,086	-	1,086	-	1,086
Profit for the period	-	-	-	-	-	-	4,551	4,551	(3,874)	677
At 30th June 2006	40,000	381,713	20,190	-	-	9,088	(40,167)	410,824	17,585	428,409
Equity-settled share based payment	-	-	-	-	139	-	-	139	-	139
Available-for-sale financial assets	-	-	-	1,881,457	-	-	-	1,881,457	-	1,881,457
Exchange adjustments	-	-	-	-	-	6,726	-	6,726	-	6,726
Profit for the period	-	-	-	-	-	-	5,677	5,677	(2,090)	3,587
At 31st December 2006	40,000	381,713	20,190	1,881,457	139	15,814	(34,490)	2,304,823	15,495	2,320,318
Realised on disposal of a subsidiary	-	-	-	-	-	-	-	-	(15,495)	(15,495)
Equity-settled share based payment	-	-	-	-	2,080	-	-	2,080	-	2,080
Exchange adjustments	-	-	-	-	-	33,015	-	33,015	-	33,015
Profit for the period	-	-	-	-	-	-	9,333	9,333	-	9,333
At 31st March 2007	40,000	381,713	20,190	1,881,457	2,219	48,829	(25,157)	2,349,251	-	2,349,251
Issue of shares	304	3,309	-	-	-	-	-	3,613	-	3,613
Equity-settled share based payment	-	-	-	-	2,111	-	-	2,111	-	2,111
Available-for-sale financial assets	-	-	-	918,237	-	-	-	918,237	-	918,237
Exchange adjustments	-	-	-	-	-	35,520	-	35,520	-	35,520
2006 final dividends paid	-	-	-	-	-	-	(20,151)	(20,151)	-	(20,151)
Profit for the period	-	-	-	-	-	-	8,574	8,574	-	8,574
<b>At 30th June 2007</b>	<b>40,304</b>	<b>385,022</b>	<b>20,190</b>	<b>2,799,694</b>	<b>4,330</b>	<b>84,349</b>	<b>(36,734)</b>	<b>3,297,155</b>	<b>-</b>	<b>3,297,155</b>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30th June 2007

	For the six months ended	
	30th June	
	2007	2006
	HK\$'000	HK\$'000
Net cash (used in) operating activities	<b>(15,212)</b>	(40,810)
Net cash generated from/(used in) investing activities	<b>2,314</b>	(5,345)
Net cash (used in)/generated from financing activities	<b>(4,928)</b>	1,788
Net decrease in cash and cash equivalents	<b>(17,826)</b>	(44,367)
Net cash and cash equivalents as at 1st January	<b>94,144</b>	100,220
Effect of foreign exchange rate changes	<b>(9)</b>	3,393
Cash and cash equivalents as at 30th June	<b><u>76,309</u></b>	<b><u>59,246</u></b>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<b><u>76,309</u></b>	<b><u>59,246</u></b>

## NOTES TO THE ACCOUNTS

### 1 Basis of preparation

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation adopted in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2006. The accounts are unaudited but have been reviewed by the Company's audit committee.

### 2 Turnover and segment information

Turnover, which is the stated net of value added tax where applicable, is 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 home appliances and complimentary products and electronic components.

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 2007				
	Information home appliances HK\$'000	Electronic components HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>					
External sales	43,652	2,290	7,630	-	53,572
Inter-segment sales*	52,170	13,055	-	(65,225)	-
Total	<u>95,822</u>	<u>15,345</u>	<u>7,630</u>	<u>(65,225)</u>	<u>53,572</u>
<b>RESULTS</b>					
Segment results	<u>3,708</u>	<u>(1,574)</u>	<u>(177)</u>	<u>-</u>	<u>1,957</u>
Unallocated income					19,391
Unallocated expenses					(15,422)
Profit from operations					5,926
Finance costs					(1,585)
Gain on disposal of a subsidiary					13,873
Profit before taxation					18,214
Taxation					(307)
Profit for the period					<u>17,907</u>

\* 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 2006				
	Information home appliances HK\$'000	Electronic components HK\$'000	Other operations HK\$'000	Elimination HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>					
External sales	78,076	320,676	1,579	–	400,331
Inter-segment sales*	98,453	47,044	2,633	(148,130)	–
<b>Total</b>	<b>176,529</b>	<b>367,720</b>	<b>4,212</b>	<b>(148,130)</b>	<b>400,331</b>
<b>RESULTS</b>					
Segment results	11,806	(5,744)	(1,125)	–	4,937
Unallocated income					14,906
Unallocated expenses					(6,917)
Profit from operations					12,926
Finance costs					(2,675)
Profit before taxation					10,251
Taxation					(901)
Profit for the period					<b>9,350</b>

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

**Geographical segments**

	Turnover For the six months ended 30th June	
	2007 HK\$'000	2006 HK\$'000
The People's Republic of China, other than Hong Kong (the "PRC")	<b>11,018</b>	274,641
Hong Kong	<b>38,258</b>	84,566
Other countries	<b>4,296</b>	41,124
	<b>53,572</b>	<b>400,331</b>

### 3 Profit before taxation

Profit before taxation has been arrived at after crediting and charging the following items:

	For the six months ended 30th June		For the three months ended 30th June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Crediting:</b>				
Net realised gains on disposal of financial assets at fair value through profit or loss	1,240	1,111	226	1,107
Net unrealised holding gains on financial assets at fair value through profit or loss	-	664	535	664
<b>Charging:</b>				
Net unrealised holding losses on financial assets at fair value through profit or loss	740	-	-	-
Amortisation of intangible assets	102	287	51	144
Amortisation of prepaid lease payments	156	149	78	74
Depreciation of property, plant and equipment	4,122	3,997	2,042	2,011
Total depreciation and amortisation	<u>4,380</u>	<u>4,433</u>	<u>2,171</u>	<u>2,229</u>

### 4 Taxation

The taxation charged to the income statement represents:

	For the six months ended 30th June		For the three months ended 30th June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong Profits Tax	-	-	-	(665)
PRC Enterprise Income Tax	307	901	246	24
	<u>307</u>	<u>901</u>	<u>246</u>	<u>(641)</u>

No Hong Kong profits tax has been provided for the six months and three months ended 30th June 2007 as the Group did not have any assessable profit for the period (effective tax rate for the six months and three months ended 30th June 2006: 17.5%).

#### 4 Taxation (Continued)

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 three consecutive years, except for a PRC subsidiary, which 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 three consecutive years on the assessable income.

There has no significant unprovided deferred taxation for the six months and three months ended 30th June 2007 (six months and three months ended 30th June 2006: Nil).

#### 5 Earnings per share

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	For the six months ended 30th June		For the three months ended 30th June	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the purpose of basic earnings per share	<b><u>17,907</u></b>	11,691	<b><u>8,574</u></b>	4,551
	<b>Number of ordinary shares</b>			
	<b><u>'000</u></b>	'000	<b><u>'000</u></b>	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b><u>1,602,498</u></b>	400,000	<b><u>1,604,968</u></b>	400,000

The calculation of diluted earnings per share for the six months and three months ended 30th June 2007 are based on the profit attributable to equity holders of the Company of approximately HK\$17,907,000 and HK\$8,574,000 respectively, and the weighted average number of 1,678,978,000 ordinary shares in issue during the period, after adjusting the number of dilutive potential ordinary shares arising from the outstanding share options granted under the Company's share option scheme.

No diluted earning per share has been presented for the six months and three months ended 30th June 2006 because the exercise price of the Company's share options was higher than the average market price for share for the period.

## 6 Property, plant and equipment

During the period, the Group expended approximately HK\$801,000 on the acquisition of plant and equipment for the expansion of the Group's operations.

## 7 Available-for-sale financial assets

Pursuant to an agreement dated 10th August 2004, the Group through its wholly owned subsidiary Beijing Golden Yuxing Electronics and Technology Company Limited ("Golden Yuxing") acquired a 10.435% equity interest in Shenzhen Jiangnan Industrial Development Co., Ltd. ("JI"), a company which holds, among others, certain interest in the domestic institutional shares of Ping An Insurance (Group) Company of China Limited ("Ping An Shares") which was listed in the Shanghai Stock Exchange in the PRC on 1st March 2007, at a consideration of RMB217,000,000 (equivalent to approximately HK\$222,701,000) (the "Acquisition") from Shanshui Jianlibao Health Industry Investment Co., Ltd. ("SJHII"), a company in which Mr. Zhu Wei Sha, a director of the Company, had an effective 8.1% equity interest. Mr. Zhu Wei Sha ceased to have any equity interests in SJHII after November 2004. The said consideration was determined with reference to the value of 51,000,000 Ping An Shares held directly by JI and deemed to be acquired by Golden Yuxing through its acquisition of the 10.435% equity interest in JI.

During the year 2006, Golden Yuxing further acquired the 15.175% and 11.05% equity interest in JI for the consideration of RMBNil and RMB1 respectively and held the total 36.66% equity interest in JI. Golden Yuxing maintained the beneficial right to the 51,000,000 Ping An Shares held by JI. In the opinion of the Company's Directors, Golden Yuxing has no significant influence over JI as the other 63.34% equity interest is controlled by one shareholder, who also manages all significant and day-to-day operations of JI.

As at 30th June 2007, the equity interest in JI held by the Group was revalued by Vigers Appraisal & Consulting Limited, independent qualified professional valuers not connected with the Group, of approximately RMB3,002,030,000 (equivalent to approximately of HK\$3,080,901,000). The valuation was arrived at by reference to the unaudited management accounts of JI as at 30th June 2007 and adjusted by the estimated market value of its Ping An Shares. The Group recorded a revaluation surplus on the interests in JI of approximately of RMB2,785,030,000 (equivalent to approximately of HK\$2,858,200,000) as at 30th June 2007.

In April 2005, although no notification had been served on the Group by the PRC authority, the Company directors were informed by JI that the Foshan Police Bureau had requested the Shenzhen Industrial and Commercial Administration Bureau to refuse the transfer, pledge or sale of the 10.435% equity interest in JI held by Golden Yuxing. The Company was not informed of any restriction on the disposition of the 51,000,000 Ping An Shares held by JI. In 2006, the 18,000,000 Ping An Shares of JI were pledged to a bank in the PRC for the banking facilities granted to Sheng Bang Qiang Dian Electronics (Shenzhen) Co., Ltd., an indirect wholly owned subsidiary of the Company (*note 10(c)*). The Company's Directors have not been informed by the PRC authorities about this moratorium or any further development about the moratorium up to the date of this report, as further detailed in the Company's announcement and circular on 8th December 2006 and 5th February 2007 respectively.

## 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 2007, included in trade and other receivables were trade receivables less allowance for bad and doubtful debts of approximately HK\$17,103,000 (31st December 2006: approximately HK\$73,397,000). The ageing analysis of the trade receivables was as follows:

	<b>30th June 2007 HK\$'000</b>	31st December 2006 HK\$'000
0-30 days	<b>9,509</b>	53,238
31-60 days	-	14,861
61-90 days	<b>1,082</b>	631
Over 90 days	<b>8,073</b>	25,049
	<b>18,664</b>	93,779
Less: Impairment on bad and doubtful debts	<b>(1,561)</b>	(20,382)
	<b>17,103</b>	73,397

## 9 Trade and other payables

Included in trade and other payables were trade payables of approximately HK\$24,234,000 (31st December 2006: approximately HK\$153,958,000). As at 30th June 2007, the ageing analysis of the trade payables was as follows:

	<b>30th June 2007 HK\$'000</b>	31st December 2006 HK\$'000
0-30 days	<b>5,900</b>	85,124
31-60 days	<b>4,792</b>	56,416
61-90 days	<b>1,537</b>	2,462
Over 90 days	<b>12,005</b>	9,956
	<b>24,234</b>	153,958

## 10 Pledge of assets

At 30th June 2007, the following assets were pledged to secure banking facilities granted to the Group:

- (a) Investment properties of the Group with carrying value of HK\$26,700,000 (2006: HK\$26,700,000);
- (b) Prepaid lease payments and building of the Group with carrying value of HK\$7,523,000 (2006: HK\$7,385,000) and HK\$49,979,000 (2006: HK\$49,305,000) respectively;
- (c) Indirect investment of 18,000,000 shares (2006: 18,000,000 shares) of Ping An Insurance held by Ji (*note 7*); and
- (d) Financial assets at fair value through profit or loss of the Group with carrying value of approximately HK\$4,111,000 (2006: HK\$4,173,000).

## 11 Share Capital

	Number of shares		Share capital	
	30th June 2007	31st December 2006	30th June 2007 HK\$'000	31st December 2006 HK\$'000
<b>Authorised:</b>				
At beginning of the period/year (ordinary shares of HK\$0.1 each)	2,000,000,000	2,000,000,000	200,000	200,000
Subdivision of one share of HK\$0.1 each into four shares of HK\$0.025 each ( <i>Note a</i> )	6,000,000,000	-	-	-
Shares of HK\$0.025 each (2006: HK\$0.1 each)	<u>8,000,000,000</u>	<u>2,000,000,000</u>	<u>200,000</u>	<u>200,000</u>
<b>Issued and fully paid:</b>				
At beginning of the period/year (ordinary shares of HK\$0.1 each)	400,000,000	400,000,000	40,000	40,000
Exercise of share options ( <i>Note b</i> )	12,144,000	-	304	-
Subdivision of one share of HK\$0.1 each into four shares of HK\$0.025 each ( <i>Note a</i> )	1,200,000,000	-	-	-
Shares of HK\$0.025 each (2006: HK\$0.1 each)	<u>1,612,144,000</u>	<u>400,000,000</u>	<u>40,304</u>	<u>40,000</u>

Notes:

- (a) On 22nd June 2007, ordinary resolution was passed by the shareholders of the Company to approve the subdivision (the "Share Subdivision") of each issued and unissued shares of HK\$0.1 each in the authorised share capital into four ordinary shares of HK\$0.025 each. The Share Subdivision became effective on 25th June 2007.
- (b) For the period ended 30th June 2007, 12,144,000 shares were issued at HK\$0.025 per share as a result of the exercise of share options of the Company.

## RESERVES

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

## INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2007 (six months ended 30th June 2006: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

#### Turnover and Gross Profit

During the period under review, the Group successfully completed the disposal of one of its subsidiaries, which mainly focused on Integrated Circuits business (“IC Subsidiary”). Because of this disposal of the IC Subsidiary which accounted for a significant portion of the Group’s revenue, the Group’s consolidated turnover declined by 86.6% to approximately HK\$53.6 million for the six months ended 30th June 2007. Turnover of the continuing operations declined by 39.9% from approximately HK\$89.2 million to approximately HK\$53.6 million for the six months ended 30th June 2007. The reason for the decline in turnover of the continuing operations was due to reduction in orders from the Group’s Information Appliances (“IA”) division. Nevertheless, the Group’s gross profit margin improved significantly from only 9.7% in the first half of the previous fiscal year to 29.2% for the period under review. Despite the improvement in gross profit margin, the gross profit declined by 59.9% to approximately HK\$15.6 million as compared to the same period last year. This was mainly due to the disposal of the IC Subsidiary and lower contribution from IA division.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### Operating Results

##### *Other Operating Income*

Other operating income increased to approximately HK\$19.4 million for the six months ended 30th June 2007 (six months ended 30th June 2006: approximately HK\$14.9 million). This was mainly due to dividends of approximately HK\$11.4 million to be received from the Group's indirect investments in 51 million shares of Ping An Insurance (Group) Company of China Limited ("Ping An Insurance") during the period under review (six months ended 30th June 2006: approximately HK\$9.9 million) and a recovery of impairment loss made by the Group in the previous year during the first half of the fiscal year.

##### *Operating Expenses*

Because of the disposal of the Group's IC Subsidiary during the period under review, the Group's overall selling expenses and general and administrative expenses have decreased by 56.7% and 28.1% to approximately HK\$2.3 million and HK\$24.7 million respectively as compared to the six months ended 30th June 2006.

##### *Finance Costs*

As the Group has repaid certain of its bank borrowings during the period under review, finance costs decreased to approximately HK\$1.6 million (six months ended 30th June 2006: approximately HK\$2.7 million).

##### *Profit for the period*

Due to the above factors, the Group registered a profit attributable to equity holders of the Company of approximately HK\$17.9 million for the six months ended 30th June 2007, indicating a significant improvement of 53.2% compared to approximately HK\$11.7 million in the first half of 2006.



## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### Liquidity, Charge on Group Assets and Financial Resources

As at 30th June 2007, the Group had net current assets of approximately HK\$68.8 million. The Group had cash and bank deposits totalling approximately HK\$76.3 million. The Group's financial resources were funded mainly by its shareholders' funds except for certain bank loans and a long-term mortgage loan totalling approximately HK\$59.8 million. As at 30th June 2007, the Group's current ratio was 1.7 times and the gearing ratio, as measured by total liabilities over total assets, was 3.1%. 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. The change in the capital structure of the Company are set out in note 11 to the accounts.

#### Significant Investments/Material Acquisitions and Disposals

For the six months ended 30th June 2007, the Group had successfully completed the disposal of the IC Subsidiary for a consideration of HK\$30 million, resulting in a gain of approximately HK\$13.9 million. This consideration represented about an average annual return of 30% over the Group's investment in the IC Subsidiary during a period of over six years.

During the year of 2004, the Group made an indirect investment in 51 million domestic institutional shares of Ping An Insurance, which was listed in the Shanghai Stock Exchange in the PRC on 1st March 2007, one of China's largest insurance companies, through the acquisition of the 10.435% equity interest in Shenzhen Jiangnan Industrial Development Co., Ltd. as referred to in an agreement dated 10th August 2004. For the financial year 2006, Ping An Insurance recorded basic earning per share of RMB1.27 and declared a final dividend of RMB0.22 per share. The Directors are confident that Ping An Insurance and its shareholders will continue to benefit from the robust economic development of the PRC.

For the six months ended 30th June 2007, the Group had no significant investments and no material acquisitions.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### **FINANCIAL REVIEW** *(Continued)*

#### **Segment Information**

The Group's star business segment was the information home appliances ("IHA"). However, due to reduction in orders from the Group's IA division, the total turnover of the IHA segment decreased by 44.1% to approximately HK\$43.7 million as compared to the corresponding period last year. Despite the lower turnover, the IHA segment recorded an operating profit of approximately HK\$3.7 million.

During the period under review, the Group had successfully completed the disposal of the IC Subsidiary. As a result of this disposal, the turnover of Electronic Components segment declined by 99.3% to approximately HK\$2.3 million compared to the corresponding period last year, while an operating loss of approximately HK\$1.6 million was recorded during the period under review.

Geographical markets of the Group were mainly located in Hong Kong during the period under review. This was mainly due to the disposal of the IC subsidiary which mainly focused on the PRC market in the first half year of 2007. For the continuing operations business, the consolidated turnover of overseas markets declined by 89.3% to approximately HK\$4.3 million as compared to the same period last year. The reason for this decline was due to the reduction in orders in this sector during the period under review. The turnover generated from the Hong Kong market increased by 12.9% to approximately HK\$38.3 million as compared to the corresponding period last year.

#### **Exposure to Fluctuations in Exchange Rates**

Most of the trading transactions of the Group were denominated in Hong Kong dollars and in Renminbi. The assets of the Group were mainly denominated in Renminbi and the remaining portions were denominated in Hong Kong dollars. The official rates for Hong Kong dollars and Renminbi have been stable for the period under review. No hedging or other alternative measures have been implemented by the Group. As at 30th June 2007, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### FINANCIAL REVIEW *(Continued)*

#### Human Resources

As at 30th June 2007, the Group had over 800 (as at 30th June 2006: over 900) full time employees, of which 8 were based in Hong Kong and the rest were in the PRC. For the six months ended 30th June 2007, staff costs amounted to approximately HK\$13.6 million (six months ended 30th June 2006: approximately HK\$12.5 million), which increased by 8.8% as compared to the corresponding period last year. This increase was mainly due to employee share option costs which were non-cash expenses. 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 profit attributable to the shareholders of the Company has risen to approximately HK\$17.9 million despite a reduction in the turnover of the Group to approximately HK\$53.6 million caused by the disposal of the IC Subsidiary in January of 2007. The profit attributable to the shareholders of the Company could have risen more significantly if not for the expenses accounted for the share options which the Company granted towards the end of previous fiscal year.

The strong increase in profit attributable to the shareholders of the Company derived mainly from the gain resulted in the disposal of the IC Subsidiary of approximately HK\$13.9 million and the dividend income to be received from the Group's major indirect investment in Ping An Insurance of approximately HK\$11.4 million. As to turnover of the continuing operations, the consolidated turnover of approximately HK\$53.6 million declined by 39.9% from approximately HK\$89.2 million in the same period of previous fiscal year, this was due to certain reduction in orders from the Group's IA division. Nevertheless, the Group's gross profit margin improved significantly from only 9.7% in the first half of the previous fiscal year to 29.2% for the period under review.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

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

For electronics industry, the second quarter is often the slowest season of the year. However, comparing on a quarterly basis, the Group's turnover in the second quarter of fiscal year 2007 has significantly improved by 30.1% while the gross profit has also improved by 18.7% from the first quarter 2007. Furthermore, the Group's overall general & administrative expenses have also reduced approximately HK\$2.4 million from the previous quarter. Therefore, the operating profit has increased by approximately HK\$13.7 million (including investment income from the dividends to be received from the Group's indirect investment in 51 million shares of Ping An Insurance) from an operating loss of approximately HK\$3.9 million in the first quarter of this fiscal year. The stronger operational performance for the second quarter of this fiscal year was mainly contributed by the Group's IA division despite its weaker performance when compared on a yearly basis.

In terms of the Group's most valuable investments, the Company's shareholders have unanimously ratified the Group's indirect investment in 51 million shares of Ping An Insurance during the period under review. Furthermore, the strong performance from the indirect investment in the shares of Ping An Insurance since its listing has provided the Group a potential gain of approximately HK\$2.8 billion although this gain would not likely to be booked due to the three-year lock-up period, which is expected to expire on 1st March 2010, required by Shanghai Stock Exchange upon the listing of Ping An Insurance on 1st March 2007.

In order to increase the overall liquidity of the Company's shares being traded on the GEM, the Board decided to subdivide the shares of the Company during the period under review and this decision was subsequently approved by a special general meeting held on 22nd June 2007.

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### **BUSINESS PROSPECT**

As the electronics industry enters into the traditional peak season, the Group's senior management is expecting much better performance operational-wise in the second half of this fiscal year. First of all, the IA division is expected to enjoy continuous improvement in its order book as it continues to strengthen its relationship with various telecom equipment suppliers in China and system integrators in Europe. It is expected that the division's strenuous effort in developing these relationships over the past two years will begin to ripen. Within the near future, the division is expected to conclude a contract with a major European Telecom Operator. Although the initial shipment is not significant, this will mark an important milestone in the division's development. Furthermore, the shipment to one of the division's customers that has slowed down in the past few months due to certain technical issues is expected to resume. Therefore, the turnover contributed by this customer is expected to resume over the next few months and will act as a catalyst towards the division's turnover growth in the second half of this fiscal year. At the same time, as the global Internet Protocol Television ("IPTV") industry continues to experience a significant rise in demand, the division as the second largest IPTV set-top box supplier is well positioned to capture the opportunities presented to the division.

For the Original Equipment Manufacturing ("OEM") division, the Group is expecting a significant improvement as well as its new products of advertising kiosks, portable digital televisions and other digital consumer electronics will incur much better demand. In addition, as mentioned in the business prospect of the Group's first quarterly report of this fiscal year, the Group was negotiating to become an exclusive supplier for a new product which is associated with a major event in China in 2008. This contract is still expected to be concluded within the near future. Further announcements will be made by the Company pursuant to the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") as and when appropriate.

Last but not the least, the Group's most significant assets, the indirect investment in the 51 million shares of Ping An Insurance has provided a superior return to the Group in the past and it is the expectation of the Group's senior management that it will continue to provide an excellent return in the future. As there are a few outstanding issues associated with the Group's acquisition of this investment, the Group's senior management has been working towards a satisfactory resolution. It is expected that the issues will be successfully resolved over the next few months.

## SHARE OPTION SCHEME

The Company's new share option scheme (the "Existing Scheme"), which was adopted pursuant to the ordinary resolutions passed by the shareholders of the Company on 18th May 2003 for the purpose of providing incentives to certain eligible participants and unless otherwise cancelled or amended, will expire on 17th May 2013. Under the Existing Scheme, the Board may grant share options to eligible employees, including Executive Directors, or any persons or entities who have contributed or will contribute to the growth and development of the Group, to subscribe for shares in the Company.

The following table discloses details of the existing granted options held by Executive Directors and the employees of the Company under the Existing Scheme and movements during the period under review:

	Date of grant	Exercisable period	Exercise price HK\$	Number of share options				
				At 1st January 2007	Exercised during the period	Granted during the period	Cancelled/lapsed during the period	At 30th June 2007
<b>Directors</b>								
- Mr. Wang An Zhong	26th December 2006	26th December 2006 – 17th May 2013	0.2975	4,000,000	-	-	-	4,000,000
- Mr. Shi Guang Rong	26th December 2006	26th December 2006 – 17th May 2013	0.2975	2,000,000	(800,000)	-	-	1,200,000
- Mr. Wu Jia Jun	26th December 2006	26th December 2006 – 17th May 2013	0.2975	1,600,000	-	-	-	1,600,000
- Mr. Zhong Peng Rong	26th December 2006	26th December 2006 – 17th May 2013	0.2975	1,600,000	-	-	-	1,600,000
- Ms. Shen Yan	26th December 2006	26th December 2006 – 17th May 2013	0.2975	1,600,000	-	-	-	1,600,000
<b>Continuous contract employees</b>	26th December 2006	26th December 2006 – 17th May 2013	0.2975	94,000,000	(11,344,000)	-	(1,648,000)	81,008,000
				<u>104,800,000</u>	<u>(12,144,000)</u>	<u>-</u>	<u>(1,648,000)</u>	<u>91,008,000</u>

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

As at 30th June 2007, 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 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)	660,000,000	Interest of a controlled corporation	40.94%
Mr. Chen Fu Rong	Corporate (Note 1)	660,000,000	Interest of a controlled corporation	40.94%
Mr. Shi Guang Rong	Personal (Note 2)	24,800,000	Beneficial owner	1.54%
Mr. Wang An Zhong	Personal (Note 2)	4,336,756	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 May 2003. Directors were granted share options to subscribe for shares of the Company, details of which as at 30th June 2007 were as follows:

Name of Director	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options				
				At 1st January 2007	Exercised during the period	Granted during the period	Cancelled/lapsed during the period	At 30th June 2007
Mr. Wang An Zhong	26th December 2006	26th December 2006 – 17th May 2013	0.2975	4,000,000	-	-	-	4,000,000
Mr. Shi Guang Rong	26th December 2006	26th December 2006 – 17th May 2013	0.2975	2,000,000	(800,000)	-	-	1,200,000
Mr. Wu Jia Jun	26th December 2006	26th December 2006 – 17th May 2013	0.2975	1,600,000	-	-	-	1,600,000
Mr. Zhong Peng Rong	26th December 2006	26th December 2006 – 17th May 2013	0.2975	1,600,000	-	-	-	1,600,000
Ms. Shen Yan	26th December 2006	26th December 2006 – 17th May 2013	0.2975	1,600,000	-	-	-	1,600,000
				<u>10,800,000</u>	<u>(800,000)</u>	<u>-</u>	<u>-</u>	<u>10,000,000</u>

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30th June 2007, 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 30th June 2007, 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	660,000,000	Beneficial owner	40.94%
Dragon Treasure (Note 2)	Corporate	448,000,000	Trustee	27.79%

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 30th June 2007, 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.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed for the six months ended 30th June 2007.

## 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 for the six months ended 30th June 2007.

## 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. Shen Yan. Ms. Shen Yan was appointed as the chairman of the Committee and she has appropriate professional qualifications and financial experience. Two meetings were held during the six months ended 30th June 2007.

The Group's unaudited consolidated results for the six months and three months ended 30th June 2007 have been reviewed by the Committee, which 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 listed securities during the six months ended 30th June 2007.

## **COMPLIANCE ADVISER'S INTEREST**

The Company has been notified by Anglo Chinese Corporate Finance, Limited (the "Compliance Adviser") that as at 30th June 2007, neither Compliance Adviser nor any of their respective directors, employees or associates had any interests in the Company's share capital as at 30th June 2007.

Pursuant to the agreement dated 17th May 2007 entered into between the Company and the Compliance Adviser, the Compliance Adviser will receive a fee for acting as the Compliance Adviser for the period from 22nd May 2007 to 21st May 2009.

## **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.

## **CORPORATE GOVERNANCE PRACTICES**

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential for the rapid growth of the Group and for safeguarding and maximizing shareholders' interests.

## CORPORATE GOVERNANCE PRACTICES *(Continued)*

The Group has adopted a set of Code on Corporate Governance (“Company Code”) which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It is prepared with reference to the principles, code provisions and recommended best practices set out in the Code on Corporate Governance Practices (“GEM Code”) contained in Appendix 15 of the GEM Listing Rules, which came into effect on 1st January 2005. The Board will continue to monitor and revise the Company Code and assess the effectiveness of our corporate governance practices in tandem with changes in the environment and requirements under the GEM Code, to ensure the Company Code is in line with the expectations and interests of shareholders and comply with the GEM Code and the GEM Listing Rules.

Subject to the deviations as disclosed hereof, the Company has complied with all the GEM Code during the period under review.

- (a) Under provision A.2.1 of the GEM Code, the role of chairman and chief executive officer should be separated and should not be performed by the same individual. The responsibilities between the chairman and the chief executive officer should be clearly established and set out in writing. Mr. Zhu Wei Sha is the Chairman of the Board and the Chief Executive Officer of the Group. As such, such dual role constitutes a deviation from Code Provisions A.2.1. However, the Board is of the view that: (i) the Company has sufficient internal controls to provide checks and balances on the functions of the Chairman and Chief Executive Officer; (ii) Mr. Zhu Wei Sha as the Chairman of the Board and the Chief Executive Officer of the Group is responsible for ensuring that all directors act in the best interests of the shareholders. He is fully accountable to the shareholders and contributes to the Board and the Group on all top-level and strategic decisions; and (iii) this structure will not impair the balance of power and authority between the Board and the management of the Company.

## CORPORATE GOVERNANCE PRACTICES *(Continued)*

- (b) Under provision E.1.2 of the GEM code, the chairman of the Board should attend the AGM and arrange for the chairman of the audit, remuneration and nomination committees (as appropriate) to be available to answer questions at the AGM. Mr. Chen Fu Rong, the deputy chairman of the Company has been performing the above duties in lieu of Mr. Zhu Wei Sha, the chairman of the Company, who was absent from office for the date when the annual general meeting was held.

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

Shenzhen, the PRC, 13th August 2007

*As at the date of this report, 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. Shen Yan.*