



Yuxing InfoTech Investment Holdings Limited
裕興科技投資控股有限公司*

(Incorporated in Bermuda with limited liability)
Stock Code: 8005

Third Quarterly Report
2016

* for identification purposes only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

The GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Exchange. 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 the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on the GEM.

This report, for which the directors of Yuxing InfoTech Investment Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company (the “Directors”), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS FOR THE NINE-MONTH PERIOD

- For the nine months and three months ended 30th September 2016, overall revenue of the Group was approximately HK\$567.5 million and HK\$253.4 million respectively, representing an increase of 27.4% and 38.6% respectively in comparison to the same periods in 2015.
- For the nine months and three months ended 30th September 2016, overall gross profit of the Group increased by 0.5% and 6.3% respectively to approximately HK\$74.6 million and HK\$35.2 million as compared with the same periods of last year.
- Profit attributable to owners of the Company for the nine months and three months ended 30th September 2016 amounted to approximately HK\$104.5 million and HK\$188.5 million respectively (nine months and three months ended 30th September 2015: loss attributable to owners of the Company of approximately HK\$246.1 million and HK\$438.4 million respectively).
- Basic earnings per share for the nine months and three months ended 30th September 2016 were HK5.8 cents and HK10.5 cents respectively (nine months and three months ended 30th September 2015: basic loss per share HK13.7 cents and HK24.4 cents respectively).
- Total equity attributable to owners of the Company as at 30th September 2016 was approximately HK\$2,043.6 million (31st December 2015: approximately HK\$2,122.7 million) or net assets per share of HK\$1.1 (31st December 2015: HK\$1.2).
- The Board does not recommend the payment of any interim dividend for the nine months ended 30th September 2016 (nine months ended 30th September 2015: Nil).

NINE-MONTH RESULTS (UNAUDITED)

The board of Directors of the Company (the "Board") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the nine months and three months ended 30th September 2016 together with the comparative unaudited figures for the same periods in 2015, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the nine months and three months ended 30th September 2016

	Notes	For the nine months ended 30th September		For the three months ended 30th September	
		2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	2	567,499	445,317	253,383	182,837
Cost of sales		(492,902)	(371,060)	(218,185)	(149,729)
Gross profit		74,597	74,257	35,198	33,108
Other revenue and net income/(loss)	3	155,037	61,085	187,672	(353,003)
Distribution and selling expenses		(14,905)	(11,370)	(5,168)	(4,422)
General and administrative expenses		(83,842)	(273,043)	(23,395)	(56,693)
Other operating expenses		(20,844)	(67,004)	(4,904)	(48,491)
Fair value gain on investment properties		610	1,100	8	-
Profit/(Loss) from operations		110,653	(214,975)	189,411	(429,501)
Finance costs		(7,670)	(32,604)	(2,426)	(12,458)
Share of results of an associate		-	(520)	-	-
Profit/(Loss) before tax		102,983	(248,099)	186,985	(441,959)
Income tax credit/(expenses)	4	1,507	(2,942)	1,543	22
Profit/(Loss) for the period		104,490	(251,041)	188,528	(441,937)
Profit/(Loss) attributable to:					
Owners of the Company		104,506	(246,092)	188,532	(438,359)
Non-controlling interests		(16)	(4,949)	(4)	(3,578)
		104,490	(251,041)	188,528	(441,937)
Earnings/(Loss) per share	5				
- Basic		5.80 cents	(13.70) cents	10.46 cents	(24.35) cents
- Diluted		5.77 cents	(13.70) cents	10.40 cents	(24.35) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

For the nine months and three months ended 30th September 2016

	For the nine months ended 30th September		For the three months ended 30th September	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Profit/(Loss) for the period	104,490	(251,041)	188,528	(441,937)
Other comprehensive loss:				
Items that are reclassified or may be reclassified subsequently to profit or loss:				
Available-for-sale financial assets				
Change in fair value during the period	(33,622)	(113,566)	43,530	(201,329)
Less: Reclassification of net changes in fair value to profit or loss upon disposal	(159,214)	–	(123,131)	–
Exchange differences arising on translation of PRC subsidiaries	(9,205)	(15,701)	(2,913)	(15,688)
Other comprehensive loss for the period	(202,041)	(129,267)	(82,514)	(217,017)
Total comprehensive (loss)/income for the period	(97,551)	(380,308)	106,014	(658,954)
Total comprehensive (loss)/income attributable to:				
Owners of the Company	(97,535)	(375,359)	106,018	(655,376)
Non-controlling interests	(16)	(4,949)	(4)	(3,578)
	(97,551)	(380,308)	106,014	(658,954)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30th September 2016

	Attributable to owners of the Company													Non-controlling interests HK\$'000	Total equity HK\$'000	
	Share capital HK\$'000	Share premium HK\$'000	Shares held for share award scheme HK\$'000	Statutory reserves HK\$'000	Contributed surplus HK\$'000	Share-based compensation reserves HK\$'000	Share option reserves HK\$'000	Investment revaluation reserves HK\$'000	Convertible bond reserves HK\$'000	Property revaluation reserves HK\$'000	Translation reserves HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000			Total HK\$'000
As at 1st January 2016	45,036	128,416	-	8,668	234,621	-	57,655	190,041	-	16,023	54,348	(1,113)	1,388,024	2,122,719	1,073	2,123,792
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	104,506	104,506	(16)	104,490
Other comprehensive loss:																
Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	(33,622)	-	-	-	-	-	(33,622)	-	-	(33,622)
Reclassification of net changes in fair value of available-for-sale financial assets to profit or loss upon disposal	-	-	-	-	-	-	(159,214)	-	-	-	-	-	(159,214)	-	-	(159,214)
Exchange differences arising on translation of PRC subsidiaries	-	-	-	-	-	-	-	-	-	(9,205)	-	-	(9,205)	-	-	(9,205)
Total other comprehensive loss	-	-	-	-	-	-	(192,836)	-	-	(9,205)	-	-	(202,041)	-	-	(202,041)
Total comprehensive loss for the period	-	-	-	-	-	-	(192,836)	-	-	(9,205)	-	-	104,506	(97,535)	(16)	(97,551)
Transactions with owners:																
Contributions and distributions																
Issue of shares upon exercise of share options	41	4,246	-	-	-	(636)	-	-	-	-	-	-	-	3,651	-	3,651
Equity-settled share based payment	-	-	-	-	-	14,788	-	-	-	-	-	-	-	14,788	-	14,788
Share options cancelled	-	-	-	-	-	(280)	-	-	-	-	-	280	-	-	-	-
Total transactions with owners	41	4,246	-	-	-	13,872	-	-	-	-	-	280	-	18,439	-	18,439
As at 30th September 2016	45,077	132,662	-	8,668	234,621	-	71,527	(2,795)	-	16,023	45,143	(1,113)	1,493,810	2,043,623	1,057	2,044,680
As at 1st January 2015	44,803	57,265	(28,459)	8,668	234,621	-	-	242,950	-	16,023	78,393	(1,113)	1,662,757	2,315,908	10,786	2,326,694
Loss for the period	-	-	-	-	-	-	-	-	-	-	-	-	(246,092)	(246,092)	(4,949)	(251,041)
Other comprehensive loss:																
Change in fair value of available-for-sale financial assets	-	-	-	-	-	-	(113,566)	-	-	-	-	-	(113,566)	-	-	(113,566)
Exchange differences arising on translation of PRC subsidiaries	-	-	-	-	-	-	-	-	-	(15,701)	-	-	(15,701)	-	-	(15,701)
Total other comprehensive loss	-	-	-	-	-	-	(113,566)	-	-	(15,701)	-	-	(129,267)	-	-	(129,267)
Total comprehensive loss for the period	-	-	-	-	-	-	(113,566)	-	-	(15,701)	-	-	(246,092)	(375,359)	(4,949)	(380,308)
Transactions with owners:																
Contributions and distributions																
Final dividend paid in respect of the financial year ended 31st December 2014	-	-	-	-	-	-	-	-	-	-	-	-	(89,233)	(89,233)	-	(89,233)
Issue of shares upon exercise of share options	233	24,232	-	-	-	(3,978)	-	-	-	-	-	-	-	20,487	-	20,487
Shares purchased for share award scheme	-	-	(436)	-	-	-	-	-	-	-	-	-	-	(436)	-	(436)
Equity-settled share based payment	-	-	-	-	-	73,068	55,079	-	-	-	-	-	-	128,147	-	128,147
Vesting of shares of share award scheme	-	34,193	21,481	-	-	(55,674)	-	-	-	-	-	-	-	-	-	-
Issue of convertible bonds	-	-	-	-	-	-	-	9,558	-	-	-	-	-	9,558	-	9,558
Total transactions with owners	233	58,425	21,045	-	-	17,394	51,101	9,558	-	-	-	-	(89,233)	68,523	-	68,523
As at 30th September 2015	45,036	115,690	(7,414)	8,668	234,621	17,394	51,101	129,384	9,558	16,023	62,692	(1,113)	1,327,432	2,009,072	5,837	2,014,909

NOTES:

1 **Basis of preparation**

The Group's unaudited condensed consolidated financial statements for the nine months ended 30th September 2016 have been prepared in accordance with the Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. These condensed consolidated financial statements are unaudited but have been reviewed by the Company's audit committee.

These unaudited condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31st December 2015. They have been prepared on the historical cost basis, except for investment properties, financial assets at fair value through profit or loss and available-for-sales financial assets, except for unlisted equity securities outside Hong Kong, which are measured at fair value.

The accounting policies used in preparing these unaudited condensed consolidated financial statements are consistent with those used in the Group's audited consolidated financial statements for the year ended 31st December 2015. The adoption of the new/revised Hong Kong Financial Reporting Standards that are relevant to the Group and effective from the current period had no significant effects on the results and financial position of the Group for the current and prior periods.

2 **Revenue**

Revenue, which is stated net of value added tax where applicable, is recognised when goods are delivered and the related risks and rewards of ownership have passed.

The Group is principally engaged in manufacture, sales and distribution of information home appliances and complementary products to consumer markets.

3 Other revenue and net income/(loss)

	For the nine months ended 30th September		For the three months ended 30th September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other revenue				
Dividend income from listed securities	5,336	6,119	4,459	5,347
Interest income from bank deposits	1,843	6,475	542	1,942
Imputed interest income from investment in an insurance contract	117	–	42	–
Rental income from investment properties	5,349	5,679	1,803	1,885
Sundry income	5,302	2,083	3,007	1,547
	<u>17,947</u>	<u>20,356</u>	<u>9,853</u>	<u>10,721</u>
Other net income/(loss)				
Net unrealised gains/(losses) on financial assets at fair value through profit or loss				
– held for trading	20,257	(118,774)	53,511	(210,175)
– designated upon initial recognition	408	–	(262)	–
(Losses)/Gains on disposal of financial assets at fair value through profit or loss				
– held for trading	(48,033)	136,874	(156)	(154,583)
– designated upon initial recognition	5,836	10,289	1,640	98
– derivative financial instrument	575	404	24	404
Gain on disposal of available-for-sale financial assets	157,947	–	123,055	–
Gain on disposal of an associate	–	520	–	520
Fair value change on derivative financial instrument	–	11,403	–	–
Reversal of impairment loss on other receivables	100	13	7	12
	<u>137,090</u>	<u>40,729</u>	<u>177,819</u>	<u>(363,724)</u>
	<u>155,037</u>	<u>61,085</u>	<u>187,672</u>	<u>(353,003)</u>

4 Income tax credit/(expenses)

The taxation (credited)/charged to profit or loss represents:

	For the nine months ended 30th September		For the three months ended 30th September	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
PRC enterprise income tax	<u>(1,507)</u>	<u>2,942</u>	<u>(1,543)</u>	<u>(22)</u>

The income tax provision in respect of operations in the PRC is calculated at the applicable tax rate of 25% on the estimated assessable profits for the nine months and three months ended 30th September 2016 and 2015 based on existing legislation, interpretations and practices in respect thereof. One operating subsidiary (nine months and three months ended 30th September 2015: two) of the Company has been officially designated by the local tax authority as "New and High Technology Enterprise" which is exempted for part of PRC enterprise income tax. As a result, the effective tax rate for the subsidiary is 15% for the nine months and three months ended 30th September 2016 (nine months and three months ended 30th September 2015: 15%). Another operating subsidiary (nine months and three months ended 30th September 2015: one) of the Company has been officially designated by the local tax authority as "Participant of Development in Western China" which is exempted for part of PRC enterprise income tax starting from 1st January 2015 to 31st December 2017. As a result, the effective tax rate for the subsidiary is 9% for the nine months and three months ended 30th September 2016 (nine months and three months ended 30th September 2015: 9%).

No Hong Kong Profits Tax has been provided for the nine months and three months ended 30th September 2016 and 2015 as the Group did not have any assessable profit from Hong Kong for both periods.

5 Earnings/(Loss) per share

The calculation of the basic and diluted earnings/(loss) per share attributable to owners of the Company is based on the following data:

	For the nine months ended 30th September		For the three months ended 30th September	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Profit/(Loss) attributable to owners of the Company	<u>104,506</u>	<u>(246,092)</u>	<u>188,532</u>	<u>(438,359)</u>

5 Earnings/(Loss) per share (Continued)

	For the nine months ended 30th September		For the three months ended 30th September	
	2016	2015	2016	2015
	'000	'000	'000	'000
Issued ordinary shares at 1st January	1,801,429	1,792,117	–	–
Issued ordinary shares at 1st July	–	–	1,802,299	1,797,627
Effect of share options exercised	<u>527</u>	<u>3,653</u>	<u>521</u>	<u>2,692</u>
Weighted average number of ordinary shares for basic earnings/(loss) per share	1,801,956	1,795,770	1,802,820	1,800,319
Effects of dilutive potential ordinary shares:				
Exercise of share options	9,986	N/A	10,268	N/A
Conversion of convertible bonds	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Weighted average number of ordinary shares for diluted earnings/(loss) per share	<u>1,811,942</u>	<u>1,795,770</u>	<u>1,813,088</u>	<u>1,800,319</u>
Earnings/(Loss) per share:				
– Basic	<u>5.80 cents</u>	<u>(13.70) cents</u>	<u>10.46 cents</u>	<u>(24.35) cents</u>
– Diluted (Note)	<u>5.77 cents</u>	<u>(13.70) cents</u>	<u>10.40 cents</u>	<u>(24.35) cents</u>

Note:

The calculation of diluted earnings per share for the nine months and three months ended 30th September 2016 is based on the profit attributable to owners of the Company of approximately HK\$104,506,000 and HK\$188,532,000 respectively, and the weighted average number of ordinary shares issued during the nine months and three months ended 30th September 2016 of approximately 1,811,942,000 shares and 1,813,088,000 shares respectively which has been adjusted for the number of dilutive potential ordinary shares arising from the outstanding share options granted under the Company's share option scheme.

Diluted loss per share is the same as the basic loss per share for the nine months and three months ended 30th September 2015 because the potential ordinary shares arising from the outstanding share options under the Company's share option scheme and the conversion of convertible bonds outstanding had an anti-dilutive effect on the basic loss per share during the period.

RESERVES

Movements in the reserves of the Group for the nine months ended 30th September 2016 (the “Period”) are set out in the unaudited condensed consolidated statement of changes in equity of the financial statements.

DIVIDENDS

The Board does not recommend the payment of any interim dividend for the Period (nine months ended 30th September 2015: Nil).

FINANCIAL AND BUSINESS REVIEW

After more than ten years of development and under the steady growth of the global Internet Protocol Television (“IPTV”) market, the Group’s IPTV set-top boxes (“STB”) business has entered into a stage of market maturity. With the accumulation of technological expertise over the years and its own intermediary software platform, the Group could meet the needs of different customers, and finish the work of integrating with termination systems and customising end products. Products launched by the Group in the markets include standard-definition STB, high digital STB, hybrid dual mode STB, Over-the-Top TV (“OTT”)/IPTV STB, as well as STB equipped with an Android system, etc. During the period under review, the Group’s overall revenue amounted to approximately HK\$567.5 million, representing an increase of 27.4% as compared with the same period of last year. Although the Group’s revenue in the overall PRC market decreased by 30.1% to approximately HK\$103.5 million for the Period as compared with the same period of last year, the Group’s revenue in overseas and Hong Kong markets for the Period increased by 21.9% and 415.1% to approximately HK\$330.8 million and HK\$133.2 million respectively as compared with the same period of last year. Due to the drop in the average gross profit margin of overseas markets, the overall gross profit of the Group in the third quarter of 2016 only increased by 0.5% to approximately HK\$74.6 million as compared with the same period of last year and the gross profit margin only reached 13.1% for the Period (nine months ended 30th September 2015: 16.7%).

FINANCIAL AND BUSINESS REVIEW *(Continued)*

In the PRC market, the Group had successfully launched, through cooperation with one of the largest PRC telecom equipment and system providers, various types of STB into areas including Hubei Province, Sichuan Province, Liaoning Province, Anhui Province, Jilin Province, Jiangsu Province and Tianjin Municipalities, etc., and the Group had deployed smart STB equipped with an Android system in many provinces across the PRC. However, due to the weakened order procurement sentiment of this PRC customer in the third quarter of 2016 and a further market competition, this led to a significant decrease in the sales quantity of STB in the PRC as compared with the same period of last year. Therefore, the revenue of the Group's Information Home Appliances ("IHA") business in the PRC for the Period decreased significantly by 29.5% to approximately HK\$103.3 million as compared with the same period of last year.

In the overseas markets, the Group keeps on maintaining good cooperation relationship with various existing telecom operators and system integration suppliers. The Group has managed to forward continuous shipments of its products to customers in Australia, Czechoslovakia and Spain, etc. At the same time, the Group was actively exploring new markets in Vietnam, United Kingdom and Denmark. During the period under review, due to the intense market competition, the Group has offered a competitive price for the new generation of STB to the Australian customer in order to stimulate sales since the second quarter of 2016. Although it led to a significant decrease in the gross profit margin, the sales in Australia for the Period increased by 18.0% to approximately HK\$311.7 million as compared with the same period of last year. Consequently, overall revenue in overseas markets increased by 21.9% to approximately HK\$330.8 million for the Period as compared with the same period of last year.

As one of the leading suppliers of IPTV STB in Hong Kong, during the period under review, the Group has started to cooperate with a Hong Kong well-known television programme operator to assist with its expansion on OTT service in the Hong Kong market. The first batch of OTT STB was delivered to this new customer in the first quarter of 2016, which contributed a greater revenue to the Group. In addition, the Group still maintains great cooperation relationship with a Hong Kong telecommunication operator in its marketing activities. As a result, the revenue in the Hong Kong market increased significantly by 415.1% to HK\$133.2 million for the Period as compared with the same period of last year.

FINANCIAL AND BUSINESS REVIEW *(Continued)*

With the increase of the Group's overall revenue, the Group's distribution and selling expenses for the Period increased by 31.1% to approximately HK\$14.9 million as compared with the same period of last year. This was mainly due to the exploration of the overseas markets by the Group during the period under review. At the same time, the Group's general and administrative expenses significantly decreased to approximately HK\$83.8 million for the Period (nine months ended 30th September 2015: approximately HK\$273.0 million). This significant decrease in general and administrative expenses for the Period was mainly due to (1) the decrease in the non-cash expenses arising from the grant of share options and share awards by the Company to eligible participants of totaling approximately HK\$14.8 million (nine months ended 30th September 2015: approximately HK\$128.1 million); and (2) the fact that there was no adjustment to salaries and benefits and the distribution of discretionary bonuses to both the Directors and employees of the Group for the Period (nine months ended 30th September 2015: approximately HK\$76.2 million).

The Group's other revenue and net income increased significantly by 153.8% to approximately HK\$155.0 million for the Period (nine months ended 30th September 2015: approximately HK\$61.1 million). This significant increase was mainly due to the recorded gains on disposal of totaling approximately 10.1 million A shares of Ping An Insurance (Group) Company of China, Ltd. ("Ping An") under available-for-sale financial assets of approximately HK\$157.9 million for the Period (nine months ended 30th September 2015: HK\$Nil). This recorded gains on disposal was the major contribution to the profit attributable to owners of the Company for the Period.

The Group's other operating expenses decreased significantly to approximately HK\$20.8 million for the Period (nine months ended 30th September 2015: approximately HK\$67.0 million) as the Group only recorded a net exchange losses resulted from depreciation in Renminbi ("RMB") against Hong Kong dollars of approximately HK\$14.6 million for the Period (nine months ended 30th September 2015: approximately HK\$57.8 million).

FINANCIAL AND BUSINESS REVIEW *(Continued)*

As for investment business, the Group conducted some investments in the secondary market. Based on value investment, the Group selected the investment products in the secondary market by taking risk control and maintaining reasonable earning expectation as the investment strategy, maintenance and appreciation of asset value are the long-term investment commitments of the Group. Meanwhile, the Group also constantly reviews and manages its investment portfolios. As part of such review and management, the Group has disposed of a total of approximately 10.1 million A shares of Ping An on the market and acquired a total of 10.5 million H shares of Ping An on the market during the period under review (“Financial Management Actions”). Such Financial Management Actions minimised the currency risk arising from the fluctuations of RMB for the Period. Through the disposal from Financial Management Actions, the Group has recognised accounting gains on the disposal of available-for-sale financial assets of approximately HK\$157.9 million. Such accounting gain has a positive impact on the Group’s financial results for the Period. For more details please refer to the announcements of the Company dated 28th June 2016 and 30th August 2016 in relation to the Financial Management Actions. Notwithstanding the Financial Management Actions, the Group still recorded net losses on financial assets at fair value through profit or loss of approximately HK\$21.0 million for the Period (nine months ended 30th September 2015: net gains of approximately HK\$28.8 million).

As a result of the foregoing, the Group recorded a profit attributable to owners of the Company of approximately HK\$104.5 million for the Period (nine months ended 30th September 2015: a loss attributable to owners of the Company of approximately HK\$246.1 million). Moreover, the Group recorded a profit attributable to owners of the Company of approximately HK\$188.5 million for the three months ended 30th September 2016 (three months ended 30th September 2015: a loss attributable to owners of the Company of approximately HK\$438.4 million).

FINANCIAL AND BUSINESS REVIEW *(Continued)*

Key Risks and Uncertainties

During the period under review, the Group endeavoured to improve the risk management system on different aspects of company strategies, business operation and finance. A number of risks and uncertainties may affect the financial results and business operations of the Group. For the IHA business, fierce market competition in the PRC and overseas markets, the possible economic slowdown in the PRC, RMB exchange rate fluctuation and the increase in production cost and labour cost may bring uncertain impact on the Group's development of such business. For the investing business, the frequent changes of market policies and regulations in relation to the PRC stock market and the unclear global economic environment would be two key risk factors. In future business operations, the Group will be highly aware of the aforesaid risks and uncertainties and will proactively adopt effective measures to tackle such risks and uncertainties.

Environmental Policies and Performance

The Group is committed to building an environmental-friendly corporation and always takes the environmental protection issue into consideration during its daily operation. The Group does not lead to produce material waste nor emit material quantities of air pollution materials during its production and manufacturing process. The Group also strives to minimise adverse environmental impact by encouraging its employees to recycle office supplies and other materials and to save electricity.

FINANCIAL AND BUSINESS REVIEW *(Continued)*

Compliance with Laws and Regulations

The operations of the Group are mainly carried out by the Company's subsidiaries in the PRC and Hong Kong and the Company was listed on the Exchange in 2000. As such, the Group's assets and operations shall comply with the relevant laws and regulations both in the PRC and Hong Kong accordingly. During the period under review, the Group has complied with all the relevant laws and regulations applicable to it in all material respects in the PRC and Hong Kong. The Group will continue to keep itself updated with the requirements of the relevant laws and regulations both in the PRC and Hong Kong, and apply to it to ensure the compliance.

BUSINESS PROSPECT

The global IPTV market has reached a mature stage, especially the PRC market which is in a steadily growing status. The Group requires the continuous improvement of its products in order to obtain a stronger competitive advantage. Being one of the earliest companies developing in broadband STB in the world, the Group, with efforts in this field for over ten years and based on its accumulation of technological expertise over the years and its own research and development ("R&D") capability, will continue changing the traditional model by working hard on exploring the linkage of Internet, television and telecom. Meanwhile, in order to acquire more sophisticated competitive advantages to improve its innovation capabilities and to meet the different needs of its customers, the Group will put a high proportion of investment in R&D, continue to upgrade its products and actively develop new products to respond to new market opportunities. The Group expects its STB business to achieve a better performance in the near future.

BUSINESS PROSPECT *(Continued)*

Regarding its investment business, the Group will focus on investing in the IPTV related industries and the convergence of television, telecom and Internet fields. These fields contain emerging opportunities of huge convergence and great development. It is believed that the Group's existing and accumulated experiences in the IHA business will help it to efficiently complete the value evaluation, the resources integration and the value upgrade of the invested companies. Meanwhile, the Group will also focus on home living Internet field and security cloud field based on the development of the convergence of computer, communication and consumer electrics, intelligent Internet and security technology. Reference is made to the Company's announcement dated 6th June 2016, the Group also intends to take initiatives in developing businesses in relation to global Internet Data Center ("IDC") and cloud computing. To take advantage of its business network and industry creditability in the Greater China region as well as in the international market, the Group aims to expand internationally by developing global cloud computing data centers for largescale corporations and global cloud computing total solutions for small and medium enterprises in the Greater China region. The Group will leverage the experience of its management team in operating global IDC and cloud computing and identify suitable cooperation partner in order to develop the business in the Greater China region and overseas. The Board considers that the engagement in the internet-related businesses and big data processing business, which are among the sunrise sectors with potential growth in Greater China region and other countries, will be beneficial to the Group, thereby creating values to the Company and the shareholders of the Company (the "Shareholders"). The expected source of funding of the Group's future plans will be from internal resources, equity or debt financing. The Group will continue to proactively identify suitable development or investment opportunities to strengthen the business portfolio of the Group, integrate resources in the industry, and generate sustainable and steady financial performance in the long run.

On the other hand, the Group's secondary market investment strategy will continue, based on value investment, selecting lower risk investment products and maintaining reasonable earning expectation. Maintenance and appreciation of asset value are still the long-term investment commitments of the Group.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the “Share Option Scheme”) pursuant to the ordinary resolutions passed by the Shareholders at the special general meeting (“SGM”) on 14th January 2015 (the “Option Adoption Date”). The Share Option Scheme is valid for ten years from the Option Adoption Date and shall expire at the close of business on the day immediately preceding the 10th anniversary thereof unless terminated earlier by the Shareholders in general meeting.

The total number of shares which may be issued upon the exercise of all share options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total issued share capital of the Company on the Option Adoption Date (the “Scheme Mandate”) unless the Company obtains a fresh approval from the Shareholders to renew the 10% limit on the basis that the maximum number of shares in respect of which share options may be granted under the Share Option Scheme together with any share options outstanding and yet to be exercised under the Share Option Scheme and any other share option schemes shall not exceed 30% of the issued share capital of the Company from time to time. At the SGM which was held on the Option Adoption Date, the Scheme Mandate was approved by the Shareholders and the total number of shares that may fall to be allotted and issued under the Share Option Scheme would be 179,211,680 shares, representing 10% of the total number of shares in issue as at the Option Adoption Date. On 16th January 2015, the Company offered to grant 186 eligible participants to subscribe for a total of 107,527,008 ordinary shares of HK\$0.025 each in the capital of the Company at an exercise price HK\$2.2 per share (“Share Option”). These Share Options are exercisable up to five years from the date of grant. On 8th June 2016, the Company removed vesting period of all existing Share Options which are outstanding and unvested under the Share Option Scheme pursuant to the ordinary resolutions passed by the Shareholders at a SGM and such Share Options therefore shall be immediately vested with the consent of relevant Share Options holders. As a result, non-cash share-based compensation expenses in respect of all outstanding and unvested Share Options at the date of approval of removal of vesting period of the Share Options of approximately HK\$7.6 million was recognised as expense by the Group with the same amount credited to share option reserves under equity for the Period. For details of the amendment of the terms of Share Options, please refer to the Company’s announcement dated 18th May 2016 and the circular dated 23rd May 2016.

SHARE OPTION SCHEME (Continued)

The following table discloses details of the granted Share Options held by Directors, the chief executive, continuous contract employees, suppliers of goods or services and other eligible participants under the Share Option Scheme and movements during the period under review:

Category	Date of grant	Exercise price per share HK\$	Exercisable period*	Number of shares issuable under the Share Options					Outstanding as at 30th September 2016
				Outstanding as at 1st January 2016	Granted during the period	Reclassification of category during the period	Exercised during the period	Cancelled during the period	
Directors									
Mr. Zhu Wei Sha	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,792,116	-	-	-	-	1,792,116
Mr. Chen Fu Rong (resigned on 20th May 2016)	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,792,116	-	(1,792,116)	-	-	-
Mr. Kevin Choo (Chief Executive Officer; appointed as a Director on 25th May 2016)	16th January 2015	2.2	16th January 2015 – 15th January 2020	8,000,000	-	-	-	-	8,000,000
Mr. Shi Guang Rong	16th January 2015	2.2	16th January 2015 – 15th January 2020	6,500,000	-	-	-	-	6,500,000
Mr. Wang An Zhong (resigned on 20th June 2016)	16th January 2015	2.2	16th January 2015 – 15th January 2020	3,000,000	-	(3,000,000)	-	-	-
Mr. Zhu Jiang	16th January 2015	2.2	16th January 2015 – 15th January 2020	7,000,000	-	-	-	-	7,000,000
Mr. Zhong Peng Rong	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	-	1,000,000
Mr. Wu Jia Jun	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	-	1,000,000
Ms. Shen Yan	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	-	1,000,000
Continuous contract employees	16th January 2015	2.2	16th January 2015 – 15th January 2020	59,210,776	-	4,792,116	(1,660,000)	(672,000)	61,670,892
Suppliers of goods or services	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,920,000	-	-	-	-	1,920,000
Other eligible participants	16th January 2015	2.2	16th January 2015 – 15th January 2020	6,000,000	-	-	-	-	6,000,000
				98,215,008	-	-	(1,660,000)	(672,000)	95,883,008
Outstanding as at 30th September 2016									95,883,008
Weighted average exercise price (HK\$)				2.2	-	2.2	2.2	2.2	2.2

SHARE OPTION SCHEME (Continued)

- * Share Options granted to the Directors, continuous contract employees, suppliers of goods or services and other eligible participants are subject to vesting conditions. However, the vesting period of all existing Share Options granted to the Directors, continuous contract employees, suppliers of goods or services and other eligible participants which are outstanding and unvested has been removed by the approval of the Shareholders at the SGM held on 8th June 2016.

Notes:

- (a) The price of the shares of the Company before the date of the grant of the Share Options is the closing price of the shares of the Company as quoted on the Stock Exchange on the trading day immediately before the date on which the share options were granted.
- (b) There were no Share Options which lapsed according to the terms of the Share Option Scheme during the Period.
- (c) The weighted average closing price of the shares of the Company immediately before the dates of exercise is HK\$2.45 for the Period (30th September 2015: HK\$3.27).

The non-cash share-based payment in respect of the Share Options granted on 16th January 2015 for the Period was approximately HK\$14,788,000 (nine months ended 30th September 2015: approximately HK\$55,080,000).

The cost of share options granted is estimated on the date of the grant using the Binomial Model with the following parameters:

Date of grant	16th January 2015
Number of shares issuable under options granted	107,527,008
Exercise price	HK\$2.2
Fair value at the date of grant	HK\$0.72 – HK\$0.75
Risk-free interest rate based on the yields of the 5-year Exchange Fund Notes	0.88%
Expected volatility [#]	46%
Expected dividend yield	2.27%
Expected life	3 years to 5 years

- [#] The expected volatility is based on statistical analysis of daily share prices annualised for one year immediately preceding the grant date.

SHARE OPTION SCHEME *(Continued)*

Save as disclosed above, at the date of approval of these unaudited condensed consolidated financial statements for the Period, no other share options were exercised subsequent to the end of the period under review.

When the Share Options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserves will be transferred to retained profits.

The fair value of the Share Options are subject to a number of assumptions and the limitation of the Binomial Model.

SHARE AWARD SCHEME

Pursuant to a resolution of the Board meeting dated 6th October 2014 (the "Adoption Date of Share Award Scheme"), the Board approved the adoption of share award scheme (the "Share Award Scheme") under which the shares may be awarded to selected employees (excluding any Director and any chief executive) (the "Selected Employees") in accordance with its provisions. The purpose of the Share Award Scheme is to recognise and reward the contribution of certain employees to the business growth and development of the Group through an award of the shares of the Company. The Share Award Scheme will remain in force for a period of three years commencing on the Adoption Date of Share Award Scheme. The vesting period and vesting condition of the awarded shares are determined by the Board upon the grant of the awarded shares. A trust has been set up and fully funded by the Company for the purpose of purchasing, administrating and holding the shares for the Share Award Scheme. The total number of shares which may be granted to the Selected Employees under the Share Award Scheme shall not exceed 3% of the total issued share capital of the Company from time to time. For details of the Share Award Scheme, please refer to the announcement of the Company dated 6th October 2014.

During the Period, the Company did not grant any awarded shares to the Selected Employees. In comparison, during the nine months ended 30th September 2015, the Company has granted a total of 22,596,000 awarded shares to the Selected Employees, which caused the Group to recognise the non-cash share-based compensation expenses of approximately HK\$73.0 million with a corresponding credit to share-based compensation reserve for the nine months ended 30th September 2015.

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

As at 30th September 2016, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as required, pursuant to the minimum standards of dealing by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the 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 total issued share capital of the Company
Mr. Zhu Wei Sha	Corporate (Note)	116,365,800	Interest of a controlled corporation	6.45%
	Personal	1,590,000	Beneficial owner	0.09%
Mr. Shi Guang Rong	Personal	22,660,000	Beneficial owner	1.26%
Mr. Zhu Jiang	Personal	7,926,756	Beneficial owner	0.44%
Mr. Zhong Peng Rong	Personal	144,000	Beneficial owner	0.01%
Mr. Wu Jia Jun	Personal	600,000	Beneficial owner	0.03%
Ms. Shen Yan	Personal	324,000	Beneficial owner	0.02%

Note: Mr. Zhu Wei Sha holds these shares through Super Dragon Co., Ltd. (“Super Dragon”), a company in which Mr. Zhu Wei Sha holds the entire issued share capital and is the sole director of Super Dragon as at 30th September 2016.

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 on 14th January 2015, the Directors and chief executive of the Company in the capacity as beneficial owners were granted unlisted and physically settled Share Options to subscribe for the shares of the Company, details of which as at 30th September 2016 were as follows:

Category	Date of grant	Exercise price per share HK\$	Exercisable period	Number of shares issuable under the Share Options				Outstanding as at 30th September 2016
				Outstanding as at 1st January 2016	Granted during the period	Exercised during the period	Cancelled during the period	
Directors								
Mr. Zhu Wei Sha	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,792,116	-	-	-	1,792,116
Mr. Kevin Choo (Chief Executive Officer)	16th January 2015	2.2	16th January 2015 – 15th January 2020	8,000,000	-	-	-	8,000,000
Mr. Shi Guang Rong	16th January 2015	2.2	16th January 2015 – 15th January 2020	6,500,000	-	-	-	6,500,000
Mr. Zhu Jiang	16th January 2015	2.2	16th January 2015 – 15th January 2020	7,000,000	-	-	-	7,000,000
Mr. Zhong Peng Rong	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	1,000,000
Mr. Wu Jia Jun	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	1,000,000
Ms. Shen Yan	16th January 2015	2.2	16th January 2015 – 15th January 2020	1,000,000	-	-	-	1,000,000
				<u>26,292,116</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,292,116</u>

Further details regarding the Share Options are set out under the heading “Share Option Scheme” in this report.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30th September 2016, 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 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 2016, the following is a list of 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 Shareholders	Nature of interests	Number of ordinary shares	Capacity	Percentage to the total issued share capital of the Company
Cloudrider Limited ("Cloudrider") (Note 1)	Corporate	450,357,200	Beneficial owner	24.98%
Lontrue Co., Ltd* (朗源股份有限公司) ("Lontrue") (Note 1)	Corporate	450,357,200	Interest of a controlled corporation	24.98%
Honbridge Holdings Limited (Stock code: 8137) ("Honbridge") (Note 2)	Corporate	450,357,200	Person having a security interest in shares	24.98%
Hong Bridge Capital Limited ("Hong Bridge") (Note 2)	Corporate	450,357,200	Interest of a controlled corporation	24.98%
Mr. He Xuechu (Note 2)	Personal	450,357,200	Interest of a controlled corporation	24.98%
Ms. Foo Yatyan (Note 2)	Personal	450,357,200	Interest of a controlled corporation	24.98%
Super Dragon (Note 3)	Corporate	116,365,800	Beneficial owner	6.45%

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO *(Continued)*

Notes:

1. Reference is made to the announcements of the Company dated 11th April 2016, 12th April 2016 and 16th May 2016 in relation to a proposed disposal of shares in the Company by Super Dragon. Super Dragon has on 10th April 2016 entered into a sale and purchase agreement (“Sale and Purchase Agreement”) with Cloudrider, in relation to a proposed sale by Super Dragon and proposed acquisition by the Cloudrider of 450,357,200 ordinary shares of the Company (“Sale Shares”) (representing 25% of the issued ordinary shares of the Company as at 31st March 2016) at HK\$2.40 per share. On 16th May 2016, the transfer of the Sale Shares has been completed as contemplated under the Sale and Purchase Agreement. According to the disclosure forms filed by Cloudrider and Lontrue on 19th May 2016, Lontrue holds 35.65% of the equity interest of Cloudrider and is deemed to be interested in 450,357,200 shares of the Company. Mr. Li Qiang, the executive Director and co-chairman of the Board of the Company, is the sole shareholder and director of Capital Melody Limited, holding 32.09% of the equity interest of Cloudrider as at 30th September 2016.
2. Reference is made to the announcement of Honbridge dated 11th April 2016 and a circular dated 24th May 2016 in relation to a loan agreement dated 11th April 2016 between Honbridge and Cloudrider. A loan in the principal amount of HK\$540,000,000 granted by Honbridge to Cloudrider pursuant to a loan agreement at the rate of 3% per annum, which may be drawn down in two tranches (the “Loan”). The maturity date was 12 months after the drawdown of the Tranche A Loan, subject to an option to extend by Cloudrider to the date falling 24 months after the drawdown. The Loan is secured by (i) share charges provided by Bronze Pony Investments Limited and Capital Melody Limited having granted security over all of their shareholdings in Cloudrider, and (ii) a debenture consisting of a fixed and floating charge over all of the assets of Cloudrider in favour of Honbridge, or such other security as required by Honbridge to its satisfaction. According to the disclosure forms filed by Honbridge, Hong Bridge, Mr. He Xuechu and Ms. Foo Yatyan on 23rd September 2016, Hong Bridge holds more than one-third of the issued share capital of Honbridge and Mr. He Xuechu holds more than one-third of the issued share capital of Hong Bridge which in turn holds more than one-third of the issued share capital of Honbridge. As such, Mr. He Xuechu and Hong Bridge are deemed interested in 450,357,200 shares of the Company in which Honbridge has an interest. Ms. Foo Yatyan is deemed to be interested in 450,357,200 shares of the Company because the interests are related to the interests of children under 18 and/or spouse.
3. Mr. Zhu Wei Sha holds these shares through Super Dragon, a company in which Mr. Zhu Wei Sha holds the entire issued share capital and is the sole director of Super Dragon as at 30th September 2016.

Save as disclosed above, as at 30th September 2016, the Company had 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 contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the Period.

COMPETING INTERESTS

None of the Directors or the controlling Shareholders and their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competed or might compete with the business of the Group or has any other conflict of interest with the Group during the Period.

CORPORATE GOVERNANCE CODE

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 continued growth of the Group and for safeguarding and maximising Shareholders' interests.

The Group has adopted a set of Code on Corporate Governance (the "Company Code") which sets out the corporate standards and practices used by the Group to direct and manage its business affairs. It is prepared by making reference to the principles, code provisions and recommended best practices set out in the Corporate Governance Code (the "GEM Code") contained in Appendix 15 of the GEM Listing Rules. The Board will continue to monitor and revise the Company Code and assess the effectiveness of 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 the Shareholders and will comply with the GEM Code and the GEM Listing Rules. The Company has complied with all the provisions of the GEM Code and the Company Code during the Period.

AUDIT COMMITTEE

The Company established an audit committee on 20th November 1999 with written terms of reference in compliance with the GEM Listing Rules.

The primary duties of the audit committee are to review and supervise the financial reporting process of the Group. It also reviews the effectiveness of both the external audit and internal controls and risk management system. The audit committee comprises three independent non-executive Directors, namely Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan (chairman of the audit committee).

The audit committee has reviewed the Group's unaudited condensed consolidated results for the Period pursuant to the relevant provisions contained in the GEM Code and was of the opinion that the preparation of such statements has complied with the applicable accounting standards and that adequate disclosure has been made in respect thereof.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed shares during the Period.

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 with all Directors and all 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.

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

Hong Kong, 10th November 2016

As at the date hereof, the executive Directors are Mr. Zhu Wei Sha, Mr. Li Qiang, Mr. Kevin Choo, Mr. Shi Guang Rong, Mr. Zhu Jiang and Mr. Gao Fei; and the independent non-executive Directors are Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan.