



# 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 RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30TH SEPTEMBER 2018

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## **THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30TH SEPTEMBER 2018**

### **HIGHLIGHTS FOR THE NINE-MONTH PERIOD**

- For the nine months and three months ended 30th September 2018, overall revenue of the Group was approximately HK\$211.5 million and HK\$46.8 million respectively, representing a significant decrease of 37.8% and 70.7% respectively in comparison to the same periods of 2017.
- For the nine months and three months ended 30th September 2018, overall gross profit of the Group decreased by 18.7% and increased by 47.4% respectively to approximately HK\$12.5 million and HK\$8.4 million as compared with the same periods of last year.
- Loss attributable to owners of the Company for the nine months and three months ended 30th September 2018 amounted to approximately HK\$292.6 million and HK\$53.4 million respectively (nine months and three months ended 30th September 2017: profit attributable to owners of the Company of approximately HK\$7.6 million and HK\$18.5 million respectively).
- Basic loss per share for the nine months and three months ended 30th September 2018 were HK16.22 cents and HK2.96 cents respectively (nine months and three months ended 30th September 2017: basic earnings per share HK0.42 cent and HK1.03 cents respectively).
- Total equity attributable to owners of the Company as at 30th September 2018 was approximately HK\$2,086.1 million (31st December 2017: approximately HK\$2,415.6 million) or net assets per share of HK\$1.2 (31st December 2017: HK\$1.3).
- The Board does not recommend the payment of any interim dividend for the nine months ended 30th September 2018 (nine months ended 30th September 2017: 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 2018 together with the comparative unaudited figures for the same periods in 2017, 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 2018

	Note	For the nine months ended 30th September		For the three months ended 30th September	
		2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Revenue	2	211,531	340,030	46,837	159,622
Cost of sales		<u>(199,048)</u>	<u>(324,680)</u>	<u>(38,405)</u>	<u>(153,900)</u>
Gross profit		12,483	15,350	8,432	5,722
Other revenue and net (loss)/income	3	(154,797)	136,500	(24,112)	77,326
Distribution and selling expenses		(11,011)	(12,109)	(3,743)	(4,301)
General and administrative expenses		(85,616)	(81,666)	(30,887)	(23,219)
Other operating expenses		(4,409)	(5,916)	(1,046)	(3,475)
Net changes in fair value of investment properties		<u>20,358</u>	<u>(3,104)</u>	<u>(269)</u>	<u>(14)</u>
(Loss)/Profit from operations		(222,992)	49,055	(51,625)	52,039
Finance costs		<u>(69,396)</u>	<u>(41,256)</u>	<u>(1,747)</u>	<u>(33,341)</u>
(Loss)/Profit before tax		(292,388)	7,799	(53,372)	18,698
Income tax expenses	4	<u>(162)</u>	<u>(187)</u>	<u>(2)</u>	<u>(174)</u>
(Loss)/Profit for the period		<u><u>(292,550)</u></u>	<u><u>7,612</u></u>	<u><u>(53,374)</u></u>	<u><u>18,524</u></u>
<b>(Loss)/Profit attributable to:</b>					
Owners of the Company		(292,550)	7,612	(53,374)	18,524
Non-controlling interests		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
		<u><u>(292,550)</u></u>	<u><u>7,612</u></u>	<u><u>(53,374)</u></u>	<u><u>18,524</u></u>
(Loss)/Earnings per share	5				
– Basic		(16.22) cents	0.42 cent	(2.96) cents	1.03 cents
– Diluted		<u>(16.22) cents</u>	<u>0.42 cent</u>	<u>(2.96) cents</u>	<u>1.03 cents</u>

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
(UNAUDITED)**

*For the nine months and three months ended 30th September 2018*

	For the nine months ended 30th September		For the three months ended 30th September	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
(Loss)/Profit for the period	(292,550)	7,612	(53,374)	18,524
Other comprehensive (loss)/income:				
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	-	229,117	-	86,039
Less: Reclassification of net changes in fair value to profit or loss upon disposal	-	(54,527)	-	(54,527)
Exchange differences arising on translation of PRC subsidiaries	<u>(36,903)</u>	<u>19,226</u>	<u>(31,171)</u>	<u>8,744</u>
Other comprehensive (loss)/income for the period	<u>(36,903)</u>	<u>193,816</u>	<u>(31,171)</u>	<u>40,256</u>
Total comprehensive (loss)/income for the period	<u><b>(329,453)</b></u>	<u><b>201,428</b></u>	<u><b>(84,545)</b></u>	<u><b>58,780</b></u>
<b>Total comprehensive (loss)/income attributable to:</b>				
Owners of the Company	<u>(329,453)</u>	<u>201,411</u>	<u>(84,545)</u>	<u>58,780</u>
Non-controlling interests	<u>-</u>	<u>17</u>	<u>-</u>	<u>-</u>
	<u><b>(329,453)</b></u>	<u><b>201,428</b></u>	<u><b>(84,545)</b></u>	<u><b>58,780</b></u>

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the nine months ended 30th September 2018

	Attributable to owners of the Company												Non-controlling interests	Total equity
	Share capital	Share premium	Statutory reserves	Contributed surplus	Share option reserves	Investment revaluation reserves	Convertible bond reserves	Property revaluation reserves	Translation reserves	Other reserves	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st January 2018	45,077	133,249	8,668	234,621	69,439	276,848	37,676	18,835	52,208	-	1,538,958	2,415,579	-	2,415,579
Adjustment on adoption of HKFRS 9	-	-	-	-	-	(276,848)	-	-	-	-	276,848	-	-	-
As at 1st January 2018 (after adjustment)	45,077	133,249	8,668	234,621	69,439	-	37,676	18,835	52,208	-	1,815,806	2,415,579	-	2,415,579
<b>Loss for the period</b>	-	-	-	-	-	-	-	-	-	-	(292,550)	(292,550)	-	(292,550)
<b>Other comprehensive loss:</b>														
Exchange differences arising on translation of PRC subsidiaries	-	-	-	-	-	-	-	-	(36,903)	-	-	(36,903)	-	(36,903)
<b>Total other comprehensive loss</b>	-	-	-	-	-	-	-	-	(36,903)	-	-	(36,903)	-	(36,903)
<b>Total comprehensive loss for the period</b>	-	-	-	-	-	-	-	-	(36,903)	-	(292,550)	(329,453)	-	(329,453)
<b>Transactions with owners:</b>														
<i>Contributions and distributions</i>														
Share options lapsed	-	-	-	-	(8,203)	-	-	-	-	-	8,203	-	-	-
Redemption of equity component of convertible bonds upon maturity	-	-	-	-	-	-	(37,676)	-	-	-	37,676	-	-	-
<b>Total transactions with owners</b>	-	-	-	-	(8,203)	-	(37,676)	-	-	-	45,879	-	-	-
<b>As at 30th September 2018</b>	<b>45,077</b>	<b>133,249</b>	<b>8,668</b>	<b>234,621</b>	<b>61,236</b>	<b>-</b>	<b>-</b>	<b>18,835</b>	<b>15,305</b>	<b>-</b>	<b>1,569,135</b>	<b>2,086,126</b>	<b>-</b>	<b>2,086,126</b>
As at 1st January 2017	45,077	133,249	8,668	234,621	70,850	(24,446)	-	17,264	31,312	(1,113)	1,443,355	1,958,837	1,036	1,959,873
<b>Profit for the period</b>	-	-	-	-	-	-	-	-	-	-	7,612	7,612	-	7,612
<b>Other comprehensive income:</b>														
Change in fair value of available-for-sale financial assets	-	-	-	-	-	229,117	-	-	-	-	-	229,117	-	229,117
Reclassification of net changes in fair value of available-for-sale financial assets to profit or loss upon disposal	-	-	-	-	-	(54,527)	-	-	-	-	-	(54,527)	-	(54,527)
Exchange differences arising on translation of PRC subsidiaries	-	-	-	-	-	-	-	-	19,209	-	-	19,209	17	19,226
<b>Total other comprehensive income</b>	-	-	-	-	-	174,590	-	-	19,209	-	-	193,799	17	193,816
<b>Total comprehensive income for the period</b>	-	-	-	-	-	174,590	-	-	19,209	-	7,612	201,411	17	201,428
<b>Transactions with owners:</b>														
<i>Contributions and distributions</i>														
Share options lapsed	-	-	-	-	(569)	-	-	-	-	-	569	-	-	-
Issue of convertible bonds	-	-	-	-	-	-	37,676	-	-	-	-	37,676	-	37,676
<b>Total transactions with owners</b>	-	-	-	-	(569)	-	37,676	-	-	-	569	37,676	-	37,676
<b>As at 30th September 2017</b>	<b>45,077</b>	<b>133,249</b>	<b>8,668</b>	<b>234,621</b>	<b>70,281</b>	<b>150,144</b>	<b>37,676</b>	<b>17,264</b>	<b>50,521</b>	<b>(1,113)</b>	<b>1,451,536</b>	<b>2,197,924</b>	<b>1,053</b>	<b>2,198,977</b>

## NOTES:

### 1 Basis of preparation

The Group's unaudited condensed consolidated financial statements for the nine months ended 30th September 2018 have been prepared in accordance with Hong Kong Accounting Standards ("HKASs") 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 GEM. 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 2017. They have been prepared on the historical cost basis, except for investment properties, financial assets and liabilities at fair value through profit or loss, 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 2017, except for the adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs") which are relevant to the Group's operation and are effective for the Group's financial year beginning on 1st January 2018 as described below.

Annual improvements to HKFRSs	2014-2016 Cycle: HKFRS 1 and HKAS 28
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

The adoption of these amendments to HKFRSs did not result in substantial changes to the Group's accounting policies and amounts reported for the current or prior periods except for HKFRS 9.

#### ***HKFRS 9: Financial instruments***

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39 *Financial Instruments: Recognition and Measurement*. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

On 1st January 2018, the Directors assessed which business models should be applied to the financial assets and financial liabilities held by the Group on the initial application of HKFRS 9 and has classified its financial instruments into the appropriate HKFRS 9 categories as follows:

		Measurement category	
	Note	Original (HKAS 39)	New (HKFRS 9)
<b>Financial assets</b>			
Listed equity securities held for trading		Fair value through profit or loss ( "FVPL" )	FVPL
Private investment funds held for trading		FVPL	FVPL
Unlisted debt securities held for trading		FVPL	FVPL
Money market funds designated upon initial recognition		FVPL	FVPL
Listed equity securities not held for trading	(a)	Available-for-sale, at fair value	FVPL
Private investment funds not held for trading	(b)	Available-for-sale, at fair value	FVPL
Unlisted equity securities not held for trading		Available-for-sale, at cost	FVPL
Loans receivable	(c)	Amortised cost	Amortised cost
Trade and other receivables	(c)	Amortised cost	Amortised cost
Cash and cash equivalents	(c)	Amortised cost	Amortised cost
<b>Financial liabilities</b>			
Derivative financial instruments:			
Early redemption option		FVPL	FVPL

*Notes:*

- (a) The accumulated investment revaluation reserves of HK\$139,722,000 at 1st January 2018 relevant to these investments has been reclassified to retained profits.
- (b) The accumulated investment revaluation reserves of HK\$137,126,000 at 1st January 2018 relevant to these investments has been reclassified to retained profits.
- (c) Impairment based on expected credit loss model on these financial assets has no significant financial impact.

## 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 (loss)/income**

	For the nine months ended 30th September		For the three months ended 30th September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Other revenue</b>				
Dividend income from listed securities	9,289	5,916	6,181	5,916
Interest income from bank deposits	5,391	4,355	1,517	1,515
Interest income from loans receivable	9,373	6,419	2,515	2,392
Interest income from debt investments at amortised cost	1,550	–	505	–
Imputed interest income from investment in an insurance contract	–	128	–	43
Rental income from investment properties	27,258	6,888	8,579	4,007
	<u>52,861</u>	<u>23,706</u>	<u>19,297</u>	<u>13,873</u>
<b>Other net (loss)/income</b>				
Foreign exchange gain/(loss), net	10,951	18,228	(278)	6,156
Fair value losses on financial assets at fair value through profit or loss	(274,347)	–	(43,656)	–
Fair value gains/(losses) on financial liabilities at fair value through profit or loss	4,567	(22,861)	–	(22,083)
Net unrealised gains on financial assets at fair value through profit or loss				
– held for trading	–	23,371	–	5,493
– designated upon initial recognition	–	93	–	65
Net gains on disposal of financial assets at fair value through profit or loss				
– held for trading	–	17,835	–	1,120
– designated upon initial recognition	–	1,302	–	281
Gain on derecognition of financial liabilities	45,490	–	–	–
Gain on disposal of available-for-sale financial assets	–	72,015	–	72,015
Compensation income	3,089	–	–	–
Reversal of impairment loss on trade and other receivables	–	12	–	2
Sundry income	2,592	2,799	525	404
	<u>(207,658)</u>	<u>112,794</u>	<u>(43,409)</u>	<u>63,453</u>
	<u><u>(154,797)</u></u>	<u><u>136,500</u></u>	<u><u>(24,112)</u></u>	<u><u>77,326</u></u>



4 **Income tax expenses**

The taxation charged to profit or loss represents:

	<b>For the nine months ended 30th September</b>		<b>For the three months ended 30th September</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
PRC enterprise income tax	<b><u>162</u></b>	<b><u>187</u></b>	<b><u>2</u></b>	<b><u>174</u></b>

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 2018 and 2017 based on existing legislation, interpretations and practices in respect thereof. An operating subsidiary of the Company has been officially designated by the local tax authority as “New and High Technology Enterprise” which is eligible to enjoy the preferential tax rate of 15% for the nine months and three months ended 30th September 2018 (nine months and three months ended 30th September 2017: 15%). Another operating subsidiary 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. As a result, the effective tax rate for the subsidiary is 9% for the nine months and three months ended 30th September 2018 (nine months and three months ended 30th September 2017: 9%).

No Hong Kong Profits Tax has been provided for the nine months and three months ended 30th September 2018 and 2017 as the Group did not have any assessable profit from Hong Kong for both periods.

5 **(Loss)/Earnings per share**

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

	<b>For the nine months ended 30th September</b>		<b>For the three months ended 30th September</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
(Loss)/Profit attributable to owners of the Company	<b><u>(292,550)</u></b>	<b><u>7,612</u></b>	<b><u>(53,374)</u></b>	<b><u>18,524</u></b>

	For the nine months ended 30th September		For the three months ended 30th September	
	2018 '000	2017 '000	2018 '000	2017 '000
Issued ordinary shares at 1st January	<b>1,803,089</b>	1,803,089	–	–
Issued ordinary shares at 1st July	<u>–</u>	<u>–</u>	<u><b>1,803,089</b></u>	<u>1,803,089</u>
Weighted average number of ordinary shares for basic (loss)/earnings per share	<b>1,803,089</b>	1,803,089	<b>1,803,089</b>	1,803,089
Effects of dilutive potential ordinary shares:				
Exercise of share options	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Weighted average number of ordinary shares for diluted (loss)/earnings per share	<u><b>1,803,089</b></u>	<u>1,803,089</u>	<u><b>1,803,089</b></u>	<u>1,803,089</u>
(Loss)/Earnings per share:				
– Basic	<u><b>(16.22) cents</b></u>	<u>0.42 cent</u>	<u><b>(2.96) cents</b></u>	<u>1.03 cents</u>
– Diluted ( <i>Note</i> )	<u><b>(16.22) cents</b></u>	<u>0.42 cent</u>	<u><b>(2.96) cents</b></u>	<u>1.03 cents</u>

*Note:*

Diluted loss per share is the same as the basic loss per share for the nine months and three months ended 30th September 2018 because the potential ordinary shares arising from the outstanding share options under the Company's share option scheme have an anti-dilutive effect on the basic loss per share during the periods.

## **RESERVES**

Movements in the reserves of the Group during the nine months ended 30th September 2018 (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 2017: Nil).

## **FINANCIAL AND BUSINESS REVIEW**

After more than fifteen years of development and under the steady growth of the global Internet Protocol Television (“IPTV”) market, the Group’s Information Home Appliances (“IHA”) business has entered into a period of market maturity. With the accumulation of technological expertise over the years and the Group’s own intermediary software platform to improve and optimise products, the Group can meet the needs of different customers, finish the work of integrating with termination systems and middleware products. Products launched by the Group in the markets include high digital set-top box (“STB”), hybrid dual mode STB, Over-the-top (“OTT”)/IPTV STB, and intelligent STB equipped with Android system products, etc.. Under the intense market competition condition, the Group is facing many opportunities as well as confronting severe challenges. During the Period, the Group experienced a decrease in overall revenue to approximately HK\$211.5 million, representing a significant decrease of 37.8% as compared with the same period of last year. As the IHA business recorded significant losses for two consecutive years, the Group has been outsourcing the production line in the second half of 2018 to improve production and operating costs. As a result, the overall gross profit margin of the Group improved to 5.9% for the Period (nine months ended 30th September 2017: 4.5%).

As one of the leading suppliers of IPTV STB in Hong Kong, the Group still maintains cooperative relationships with a Hong Kong telecommunication operator in its marketing activities. In addition, the Group has also cooperated with a well-known Hong Kong TV programme operator to assist with its expansion on OTT service in the Hong Kong market. However, as the market is entering a mature period, the Group’s overall revenue in the Hong Kong market decreased significantly by 62.1% to approximately HK\$46.6 million for the Period as compared with the same period of last year.

In the overseas markets, the Group keeps on maintaining good cooperation relationships with various existing telecom operators and system integration suppliers. The Group has managed to forward continuous shipments of its products to customers in Australia, Brazil, Spain and the United States, etc.. At the same time, the Group is actively exploring new markets in Bulgaria, Denmark, Netherlands and the United Kingdom. Purchase orders from overseas customers increased for the Period. However, revenue from the Australian market decreased significantly by 25.0% to approximately HK\$124.2 million as compared with the same period of last year. Therefore, the overall revenue of the overseas markets for the Period decreased by 15.1% to approximately HK\$156.4 million as compared with the same period of last year.

In the PRC market, since one of the major PRC customers of the Group changed its product and only placed small orders with the Group during the Period, the overall revenue of the Group in the PRC market decreased significantly by 74.1% to approximately HK\$8.5 million as compared with the same period of last year.

With the decrease in the Group's overall revenue, the Group's distribution and selling expenses decreased to approximately HK\$11.0 million for the Period (nine months ended 30th September 2017: approximately HK\$12.1 million). In addition, the Group dismissed part of the production line staffs and related management personnel with severance payment of approximately HK\$14.3 million during the Period. This caused an increase in the Group's general and administrative expenses by 4.8% to approximately HK\$85.6 million for the Period (nine months ended 30th September 2017: approximately HK\$81.7 million). Moreover, imputed interest expenses of approximately HK\$62.8 million was recorded for the Period (nine months ended 30th September 2017: approximately HK\$33.7 million) in respect of the convertible bonds issued by the Company on 20th June 2017 and redeemed on 20th June 2018, which caused the finance costs of the Group to increase significantly to approximately HK\$69.4 million for the Period (nine months ended 30th September 2017: approximately HK\$41.3 million).

The Group's other revenue and net loss significantly increased to approximately HK\$154.8 million for the Period (nine months ended 30th September 2017: other revenue and net income of approximately HK\$136.5 million). Although overall rental income generated from leasing out of investment properties increased to approximately HK\$27.3 million (nine months ended 30th September 2017: approximately HK\$6.9 million), the unsatisfactory performance of the Group's short-term investment portfolio amid the adverse capital market conditions and the first adoption of HKFRS 9 resulted in the Group recognising fair value losses on private investment funds and unlisted equity securities not held for trading (previously classified as available-for-sale financial assets under HKAS 39) during the Period. This caused the Group to record net losses on financial assets/liabilities at fair value through profit or loss of approximately HK\$224.3 million for the Period (nine months ended 30th September 2017: net gains of approximately HK\$19.7 million) even though the Group recognised a gain on derecognition of financial liabilities upon redemption of convertible bonds on the bond maturity date of approximately HK\$45.5 million. This was one of the major reasons for the significant increase in the loss attributable to owners of the Company for the Period as compared with the same period of last year.

Other operating expenses of the Group decreased to approximately HK\$4.4 million for the Period (nine months ended 30th September 2017: approximately HK\$5.9 million). This decrease was mainly due to the decrease in miscellaneous costs.

With respect to the new business, internet data centre ("IDC"), the Group concentrates its efforts on providing renowned domestic and foreign enterprises with reliable data centre facilities services. During the Period, the Group's rental income from leasing out of IDC was approximately HK\$21.6 million (nine months ended 30th September 2017: approximately HK\$2.3 million). In addition, the Group and two United States private companies (the "Consultants") entered into design and consultancy agreements for the Period. The Consultants will provide consultancy services on the design and construction of the Group's first IDC in the United States. The establishment of a large IDC in the United States is an important step towards expanding the global IDC business of the Group and shows the determination of the Group to vigorously develop its IDC business.

With respect to investment business, the Group conducted some investments in the secondary market and private investment funds during the Period. Based on value investment, the Group only 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. During the Period, the unsatisfactory performance of the Group's short-term investment portfolio amid the adverse capital market conditions and the first adoption of HKFRS 9 resulted in the Group recognising net losses on financial assets/liabilities at fair value through profit or loss of approximately HK\$224.3 million for the Period (nine months ended 30th September 2017: net gains of approximately HK\$19.7 million) even though the Group recognised a gain on derecognition of financial liabilities upon redemption of convertible bonds on the bond maturity date of approximately HK\$45.5 million.

As a result of the foregoing, the Group recorded a loss attributable to owners of the Company of approximately HK\$292.6 million and HK\$53.4 million respectively for the Period and for the three months ended 30th September 2018, while the Group recorded a profit attributable to owners of the Company of approximately HK\$7.6 million and HK\$18.5 million respectively for the nine months and three months ended 30th September 2017.

## **Funding**

### *Fundraising Activities*

#### Issue of Convertible Bonds

On 26th May 2017, the Company entered into a subscription agreement with Cloud Empire Investments Limited ("Cloud Empire") as the subscriber in relation to the issue of convertible bonds in principal amount of HK\$504.0 million (the "Convertible Bonds"). On 20th June 2017 (the "Bond Issue Date"), the Company issued the Convertible Bonds to Cloud Empire. The Convertible Bonds bore interest at the rate of 6% per annum. Such interest was accrued on the outstanding principal amount of the Convertible Bonds and would only be payable by the Company to Cloud Empire once every six months from the Bond Issue Date if the Convertible Bonds were neither converted during the conversion period nor redeemed prior to 20th June 2018 (the "Bond Maturity Date").

The Convertible Bonds could be converted into ordinary shares of the Company at an initial conversion price of HK\$1.4 per share (subject to adjustments) for a maximum number of 360,000,000 conversion shares. The market price of the shares of the Company ("Shares") was HK\$0.97 and HK\$1.02 as at 26th May 2017 and 20th June 2017 respectively. The conversion period commenced from the 180th day after the Bond Issue Date and ends on the five business days prior to the Bond Maturity Date. The net proceeds from the issue of the Convertible Bonds net of issue cost amounted to approximately HK\$500.2 million.

On Bond Maturity Date, the Company redeemed all of the 6% Convertible Bonds at the redemption price equal to the outstanding principal amount of HK\$504.0 million and settled all unpaid accrued interests thereon in the sum of approximately HK\$15.2 million. For details of the Convertible Bonds, please refer to the Company's announcements dated 26th May 2017, 2nd June 2017, 20th June 2017 and note 17 to the unaudited condensed consolidated interim financial statements of the Company's interim report 2018.

## **Significant Investments/Material Acquisitions and Disposals**

On 9th February 2018, the Group further invested HK\$20,000,000 in a private investment fund, namely iSun Global Restructuring-led Partnership Fund I LP (“iSun Fund”), as part of the Group’s commitment of investment in iSun Fund of HK\$200,000,000. Details of the iSun Fund and the Group’s commitment can be referred to the announcements of the Company dated 25th July 2017 and 9th February 2018. Except for the above investment in private investment funds and listed securities, the Group had no significant investment and no material acquisition or disposal during the Period.

## **Key Risks and Uncertainties**

During the Period, the Group endeavoured to improve the risk management system on different aspects of company strategies, businesses operation and finance. A number of risks and uncertainties may affect the financial results and business operations of the Group. For the IHA business, factors, such as fierce market competition in the PRC and overseas markets, rapid iteration of technological products, Renminbi exchange rate fluctuation, the drop in the selling price of products and the increase in production cost and labour cost, may bring uncertain impacts on the development of the IHA business of the Group. For the IDC business, whether the construction and layout of the project can be completed as scheduled and whether the leasing contracts signed by customers and rental income can meet the expectation will affect the progress of the IDC business of the Group. For the investing business, the frequent changes of market policies and regulations about 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 environmentally-friendly corporation and will always take the environmental protection issue into consideration during daily operation. The Group does not produce material waste nor emit material quantities of air pollution materials during its production and manufacturing process. The Group also strives to minimise the adverse environmental impact by encouraging the employees to recycle office supplies and other materials and to save electricity.

## **Compliance with Laws and Regulations**

The Company was listed on the Stock Exchange in 2000. The operations of the Group are mainly carried out by the Company’s subsidiaries in the PRC, Hong Kong and the United States. As such, the Group’s operations shall comply with relevant laws and regulations in the PRC, Hong Kong and the United States accordingly. During the Period, the Group has complied with all the relevant laws and regulations applicable to it in all material respects in the PRC, Hong Kong and the United States. The Group shall continue to keep itself updated with the requirements of the relevant laws and regulations in the PRC, Hong Kong and the United States and adhere to them to ensure compliance.

## **BUSINESS PROSPECT**

Being one of the earliest companies researching and developing in broadband STB products in the world, the Group, based on its accumulation of technological expertise over the years and its own research and development capability, will continue to improve and upgrade its core products and performances, and actively develop new products to adapt to new market opportunities, so as to maintain strong competitive edge. The Group vigorously expanded the market of small and medium-sized overseas operators with an objective to increase its operating revenue and to boost the overall gross profit margin of the STB business of the Group. The Group expects its STB business to achieve a better performance in the near future.

The Group takes initiatives in developing businesses in relation to global IDC and cloud computing. In recent years, with economic globalisation and the implementation of China's "Belt and Road" strategy, the development of Chinese enterprises in overseas markets has accelerated significantly. The industries involved have been further expanded from traditional manufacturing industry to multimedia, games, video, mobile internet and other industries. Therefore, the overseas Chinese enterprises have strong demand for cloud computing and big data services locally. To take advantage of its business network and industry creditability in the Greater China region as well as the international market, the Group aims to provide safe and reliable data centre facilities and services for renowned domestic and overseas enterprises, and by proactively expanding internationally, the Group will develop global cloud computing data centres for large scale corporations and global cloud computing total solutions for small and medium enterprises in the Greater China region.

As for the new business, IDC, during 2017, in addition to participating in domestic IDC projects operated by independent third parties through acquisitions, the Group also purchased land and properties in the "Capital of Silicon Valley" located at San Jose, California, the United States, and has entered into design and consultancy agreements with two United States private companies in early 2018, to construct the Group's first IDC in the United States, which is expected to be officially operated by the first half of 2019. The establishment of a large IDC in the United States is an important step towards expanding the global IDC business of the Group, and shows the determination of the Group to vigorously develop its IDC business. The project will expand the IDC portfolio of the Group and explore new sources of revenue, so as to increase the Group's overall profitability in the near future. In the future, the Group will also actively cooperate with various parties in the PRC, Hong Kong and overseas markets, in order to develop the Group into an internationally renowned leading cloud computing enterprise in the era of big data.

By subscription of the iSun Fund, indirectly investing in the blockchain technology related company and subscription of the digital asset initial coin offering ("ICO"), the Group proactively made deployments in the new field of blockchain technology. After the advent of the internet era, technologies such as big data, cloud computing and artificial intelligence have significantly enhanced social productivity, while the application of blockchain represented building a new type of production relations in the internet era. There are wide and expandable applications of blockchain, and therefore it will bring tremendous changes and a bright future for the entire human society. The iSun Fund primarily targets investments in public or private companies or digital assets (such as cryptocurrencies) in the data centre, fintech or high tech (software and hardware) sectors. It is expected that this business will generate positive income for the Group in the near future.

2018 is an important year for the development of the Group. Based on the Company's confidence in its future development prospects and the recognition of its value, Mr. Li Qiang, Chairman of the Group, and Mr. Gao Fei, Chief Executive Officer, increased their shareholdings in the Company respectively at the end of 2017, and subject to their own personal decision, there are possibilities that they will further increase their shareholdings in the future. The management of the Group and all the staff will continue to work together, with their concerted efforts and by focusing on the IHA business and IDC business, the Group will forge ahead to achieve excellent performance once again.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September 2018, the interests and 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 meaning 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 to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

### (1) Long positions in the shares of the Company

Name of Director	Nature of interests	Number of ordinary shares	Capacity	Approximate percentage of the total issued share capital of the Company
Mr. Li Qiang	Personal	4,604,000	Beneficial owner	0.26%
Mr. Gao Fei	Personal	2,190,000	Beneficial owner	0.12%
Mr. Shi Guangrong	Personal	22,660,000	Beneficial owner	1.26%
Mr. Zhu Jiang	Personal	7,926,756	Beneficial owner	0.44%
Ms. Shen Yan	Personal	324,000	Beneficial owner	0.02%
Mr. Zhong Pengrong	Personal	144,000	Beneficial owner	0.01%

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

Pursuant to the Share Option Scheme adopted 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, details of which as at 30th September 2018 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 2018
				Outstanding as at 1st January 2018	Granted during the period	Exercised during the period	Lapsed during the period	
Director								
Mr. Shi Guangrong	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
Ms. Shen Yan	16th January 2015	2.2	16th January 2015 - 15th January 2020	1,000,000	-	-	-	1,000,000
Mr. Zhong Pengrong	16th January 2015	2.2	16th January 2015 - 15th January 2020	1,000,000	-	-	-	1,000,000
				<u>15,500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,500,000</u>



Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30th September 2018, 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 pursuant to section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to rules 5.46 to 5.67 of the GEM Listing Rules.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES**

So far as is known to any Director or chief executive of the Company, as at 30th September 2018, the following persons (other than Directors or chief executive of the Company) have interest or short position in the Shares or underlying Shares 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***

<b>Name of Shareholder</b>	<b>Nature of interests</b>	<b>Number of ordinary shares</b>	<b>Capacity</b>	<b>Approximate percentage of the total issued share capital of the Company</b>
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 Co., Ltd. ("Super Dragon") (Note 3)	Corporate	121,533,800	Beneficial owner	6.74%

*Notes:*

1. 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 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 2018.
2. 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 spouse.
3. Mr. Zhu Weisha, a former Director, holds these shares through Super Dragon, a company in which Mr. Zhu holds the entire issued share capital and of which he is the sole director.

Save as disclosed above, as at 30th September 2018, 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 as recorded in the register required to be kept by the Company under section 336 of the SFO.

## **CORPORATE GOVERNANCE**

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

During the Period, the Company has applied the principles and complied with the applicable code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules, except in relation to CG Code provisions A.6.7 and E.1.2, as more particularly described below.

### **CG Code Provision A.6.7**

Pursuant to code provision A.6.7 stipulates that independent non-executive Directors and other non-executive directors should attend general meeting. Due to their own other important business engagements, some independent non-executive Directors did not attend the annual general meeting held on 18th May 2018 (the "AGM").

### **CG Code Provision E.1.2**

Pursuant to code provision E.1.2 of the CG Code, the Chairman of the Board should attend the AGM and invite the chairman of the audit, remuneration and nomination committees to attend and be available to answer questions at the AGM. Mr. Shi Guangrong, an executive Director, has been performing the above duties in lieu of Mr. Li Qiang, the Chairman of the Board, who had other pre-arranged business commitments on the day of the AGM.

## **AUDIT COMMITTEE**

The Board has established an audit committee (the “Audit Committee”). It currently comprises three independent non-executive Directors, namely Ms. Shen Yan (Chairlady), Mr. Zhong Pengrong and Ms. Dong Hairong.

The primary functions of the Audit Committee are to assist the Board in reviewing the financial information, overseeing the financial reporting system, risk management, internal control systems and relationship with external auditor, and arrangements to enable employees of the Company to raise concerns under the protection of confidentiality about possible improprieties in financial reporting, internal control or other matters of the Company.

The Group’s unaudited condensed consolidated results for the Period have been reviewed by the Audit Committee pursuant to the relevant provisions contained in the CG Code and was of the opinion that the preparation of such statements complied with the applicable accounting standards and that adequate disclosure has been made in respect thereof.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

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

By order of the Board  
**Yuxing InfoTech Investment Holdings Limited**  
**Li Qiang**  
*Chairman*

Hong Kong, 8th November 2018

*\* For identification purposes only*

*As at the date hereof, the executive Directors are Mr. Li Qiang, Mr. Gao Fei, Mr. Shi Guangrong and Mr. Zhu Jiang; and the independent non-executive Directors are Ms. Shen Yan, Mr. Zhong Pengrong and Ms. Dong Hairong.*

*This announcement will remain on the “Latest Company Announcements” page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its publication and on the website of the Company at [www.yuxing.com.cn](http://www.yuxing.com.cn).*