



Yuxing InfoTech Holdings Limited

裕興科技控股有限公司*

(incorporated in Bermuda with limited liability)

Stock Code : 8005

First Quarterly Report 2006



Yuxing InfoTech

* for identification purposes only

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

HIGHLIGHTS FOR THE THREE-MONTH PERIOD

For the three months ended 31st March 2006, turnover of the Group increased by 34.3% to approximately HK\$220.4 million as compared to the same period last year.

For the three months ended 31st March 2006, gross profit of the Group increased by 182.2% to approximately HK\$25.1 million as compared to the same period last year.

Net profit for the three months ended 31st March 2006 amounted to approximately HK\$7.1 million.

Earning per share for the three months ended 31st March 2006 is HK1.79 cents.

The Board of the Company does not recommend the payment of an interim dividend for the three months ended 31st March 2006.

THREE-MONTH RESULTS (UNAUDITED)

The board of directors (the "Board") of Yuxing InfoTech Holdings Ltd (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 31st March 2006, together with the comparative unaudited figures for the corresponding period in 2005, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

	Notes	Three months ended 31st March	
		2006 HK\$'000	2005 HK\$'000
Turnover	2	220,419	164,140
Cost of sales		(195,357)	(155,258)
Gross profit		25,062	8,882
Other operating income		4,284	914
Selling expenses		(5,302)	(6,242)
General and administrative expenses		(11,859)	(11,143)
Other operating expenses		(689)	(289)
Profit/(loss) from operations		11,496	(7,878)
Finance costs		(1,281)	(2,806)
Share of results of associates		–	(121)
Profit/(loss) before taxation		10,215	(10,805)
Taxation	3	(1,542)	(326)
Net profit/(loss) for the period		<u>8,673</u>	<u>(11,131)</u>
Attributable to:			
Equity holders of the parent		7,140	(11,739)
Minority interests		1,533	608
		<u>8,673</u>	<u>(11,131)</u>
Earning/(loss) per share attributable to equity holders of the parent			
– Basic	4	<u>1.79 cents</u>	<u>(2.93) cents</u>

Notes:

1. **Basis of preparation**

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

The accounting policies and methods of computation adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2005. The accounts are unaudited but have been reviewed by the Company's audit committee.

2. **Turnover**

Turnover, which is the stated net of value added tax where applicable, are recognised when goods are delivered and titles have passed.

The Group is principally engaged in the research and development, design, manufacturing, marketing, distribution and sales of audio-visual products, information home appliances and complimentary products and electronic components.

3. **Taxation**

The charge for the three months ended 31st March 2006 represents Hong Kong Profits Tax calculated at 17.5% (three months ended 31st March 2005: 17.5%) and the People's Republic of China (other than Hong Kong) (the "PRC") income tax calculated at 7.5% (three months ended 31st March 2005: Nil) of the estimated assessable profits and income respectively.

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from the PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next consecutive three years whilst a PRC subsidiary of the Group is exempted from the PRC income tax for three years starting from the year it commenced business, followed by a 50% reduction on a tax rate of 15% for the next consecutive three years on the assessable income.

The amount of taxation for the period represents:

	Three months ended	
	31st March	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong profits tax	665	326
PRC income tax	877	–
	<hr/>	<hr/>
	1,542	326
	<hr/>	<hr/>

There has no significant unprovided deferred taxation for the three months ended 31st March 2006 (three months ended 31st March 2005: Nil).

4. **Earning/(loss) per share**

The calculation of the basic earning/(loss) per share attributable to equity holders of the parent for the three months ended 31st March 2006 is based on the unaudited consolidated net profit for the period of approximately HK\$7,140,000 (three months ended 31st March 2005: consolidated net loss for the period of approximately HK\$11,739,000) and on 400,000,000 (three months ended 31st March 2005: 400,000,000) ordinary shares in issue for the period.

No diluted earning per share has been presented for the three months ended 31st March 2006 because the exercise price of the Company's share options was higher than the average market price for share for the period.

No diluted loss per share has been presented for the three months ended 31st March 2005 as the assumed exercise of the Company's share options would result in a decrease in loss per share.

RESERVES

There were no transfers to or from reserves of the Group during the three months ended 31st March 2006 and 2005.

INTERIM DIVIDENDS

The Board of the Company does not recommend the payment of an interim dividend for the three months ended 31st March 2006 (three months ended 31st March 2005: Nil).

BUSINESS REVIEW

As the PRC economy continued with its outstanding performance in the first quarter of this fiscal year, the Group's financial performance also registered a very strong result with turnover risen to approximately HK\$220.4 million, a year on year growth of 34.3%. Meanwhile, the gross margin has also improved from only 5.4% in the first quarter of previous fiscal year to 11.4% for the period under review. With an overall tight control on the selling and administrative expenses, the Group's consolidated operating profit improved significantly to approximately HK\$11.5 million for the first quarter of this fiscal year. After finance cost and taxation, the Group registered a net profit of approximately HK\$7.1 million, a magnificent turnaround from a net loss of approximately HK\$11.7 million recorded in the first quarter of previous fiscal year. This strong profitability was the best first quarter result that the Group has recorded in 5 years. This superb performance can be contributed to three major reasons.

First of all, the Group's star division, Information Appliance ("IA") division continued to see a strong demand from its existing customers. Furthermore, with an increasing portion of higher value-added products which provides a superb gross margin, IA division was the main reason that helped the Group to register a strong improvement in its consolidated gross margin. As of the first quarter of this fiscal year, this division's sales revenue accounted close to 25.0% of the Group's total turnover.

Secondly, the Group's another star division, Integrated Circuit ("IC") division which was operated by a Group's 51% owned-subsiary, also saw a very encouraging beginning for this fiscal year with revenue and contributed net profit to the Group growing at 20.3% and 210.6% respectively. The division which focuses on provision of valued-added embedded software and semiconductor designed-in solutions is the biggest beneficiary of the strong economic growth in the PRC as the division's solution mainly targets towards Chinese electronics manufacturers.

Thirdly, the OEM/Optical Components (“OEM”) division, which had been the Group’s problem child in the past, has also seen a significant improvement in this quarter. The strenuous effort by the division’s senior managers and Group’s senior management had finally been paid off as the division eliminated certain low return product lines and focused mainly on the products which yielded reasonable return.

As for the disclaimer opinion that was provided by the Group’s auditors in the annual report of the fiscal year 2005 relating to the issue of Group’s interest in Shenzhen Jiangnan Industrial Development Co., Ltd. (“JI”) and economic benefits in the shares of Ping An Insurance (Group) of China Limited (“Ping An Insurance”), the Group’s senior management continued to maintain a close dialogue with senior executives of JI in hope to resolve and secure the Group’s interest in the economic benefit of Ping An Insurance’s shares. Furthermore, the Group continues to negotiate with the Stock Exchange through the Group’s financial adviser in order to obtain permission to resume trading of the Company’s shares on GEM as soon as practicable. Although the Group cannot be certain as to when the resumption will take place, it is expected as informed by the Group’s financial adviser that the resumption should take place in the near future.

BUSINESS PROSPECT

With the support of its various partners, the Group’s star division, the IA division has already established a strong presence in two of Asia’s most developed countries i.e. Hong Kong and Japan. Looking forward, the Group’s senior management believes that the contribution from the IA division will continue to rise. As such, the Group will try to provide more resources to the IA division to ensure the maximum profitability can be obtained. As the global demand in IPTV set-top boxes continue to increase, the IA division which is well-positioned to capture the potentials in the IPTV industry. Being one of the top players in this area, the Group believes that there lies plenty of opportunities to further explore this particular industry.

In addition, the IA division plans to introduce more value-added products which incorporates various latest decoding technologies such as MPEG-4, DIVX, Windows Media Version 9 and H.264 and this will further help to reduce the bandwidth requirement for delivering Internet-based and on-demand video services. With the global industry estimated to grow at over 58% (source: In-Stat/MDR), the IA division continues to expect another high double digit growth in the current fiscal year.

As the Group's two other divisions, the AV and OEM divisions, though there was a significant improvement in terms of profitability in the first quarter of this fiscal year, the Group continues to implement methods that can increase the overall efficiencies of the two operations. Although there are still many uncertainties ahead with these two divisions, the Group is confident that the performance of these two divisions will improve significantly within the coming few years. Currently, the AV division is discussing various projects where the counter party will utilize the Group's brand name "Yuxing" to market various electronics and/or educational products and the AV division will retain a loyalty fee for each product sold. The OEM division is expected to improve as well by introduction of other new products with higher profit margin and streamlining some old products with lower profit margin.

As the old proverb says "a good start is half done", the strong operating performance of the first quarter definitely provided a good start for the Group in the fiscal year 2006. Carrying on with this momentum, the Group's senior management are expecting its performance to continuously prosper for the remaining of the fiscal year.

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

As at 31st March 2006, the interests or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meanings of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as required, pursuant to rule 5.46 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company

Name of Director	Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Mr. Zhu Wei Sha	Corporate (Note 1)	165,000,000	Interest of a controlled corporation	41.25%
Mr. Chen Fu Rong	Corporate (Note 1)	165,000,000	Interest of a controlled corporation	41.25%
Mr. Shi Guang Rong	Personal (Note 2)	6,000,000	Beneficial owner	1.50%
Mr. Wang An Zhong	Personal (Note 2)	1,084,189	Beneficial owner	0.27%

Notes:

1. Messrs. Zhu Wei Sha and Chen Fu Rong held these shares through Super Dragon Co., Ltd. ("Super Dragon"), a company in which Messrs. Zhu Wei Sha and Chen Fu Rong held 63.6% and 36.4% of the entire issued share capital respectively.
2. Dragon Treasure Ltd. ("Dragon Treasure") is a nominee company and acts as the trustee for holding these shares in the Company on behalf of the past and present employees of the Group, including Messrs. Shi Guang Rong and Wang An Zhong.

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 31st March 2006, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as required to be notified to the Company and the Stock Exchange pursuant to rule 5.46 to the GEM Listing Rules.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

So far as is known to any Director or chief executive of the Company, as at 31st March 2006, the following were the substantial shareholders (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the shares of the Company

Name of shareholder	Nature of interests	Number of ordinary shares	Capacity	Percentage to the issued share capital of the Company
Super Dragon (Note 1)	Corporate	165,000,000	Beneficial owner	41.25%
Dragon Treasure (Note 2)	Corporate	134,508,000	Trustee	33.63%

Notes:

1. Super Dragon is beneficially owned by Mr. Zhu Wei Sha, as at 63.6%, and Mr. Chen Fu Rong, as to 36.4% respectively.
2. Dragon Treasure is a nominee company and acts as the trustee for holding these shares in the Company on behalf of the past and present employees of the Group, including Messrs. Shi Guang Rong and Wang An Zhong, whose interests in the shares and underlying shares of the Company are disclosed in the section "Interests and short positions of Directors and chief executive in the shares, underlying shares and debentures" above.

Save as disclosed above, as at 31st March 2006, the Company has not been notified by any person (other than Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) has an interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group.

AUDIT COMMITTEE

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

The Committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. The primary duties of the Committee are to review and supervise the financial reporting process of the Group. It also reviews the effectiveness of both the external audit and of internal controls and risk evaluation. The Committee comprises three Independent Non-executive Directors, namely Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan. Ms. Shen Yan was appointed as the chairman of the Committee. One meeting was held for the three months ended 31st March 2006.

The Group's unaudited results for the three months ended 31st March 2006 have been reviewed by the Committee, who is of the opinion that such financial statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's shares during the three months ended 31st March 2006.

SECURITIES TRANSACTIONS BY THE DIRECTORS

Although the Company has not adopted any code of conduct regarding the Directors' securities transactions, it has made specific enquiry of all Directors and the Directors have confirmed that they have complied with all the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules during the three months ended 31st March 2006.

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

Shenzhen, the PRC, 12th May 2006