Yuxing InfoTech Holdings Limited

裕興科技控股有限公司*

(incorporated in Bermuda with limited liability)

Stock Code : 8005

Interim Report 2006

* for identification purposes only

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HIGHLIGHTS FOR THE SIX-MONTH PERIOD

For the six months ended 30th June 2006, turnover of the Group increased by 8.0% to approximately HK$400.3 million as compared to the corresponding period last year.

For the six months ended 30th June 2006, gross profit of the Group significantly increased by 52.2% to approximately HK$38.9 million as compared to the corresponding period last year.

Profit attributable to equity holders of the parent for the six months ended 30th June 2006 amounted to approximately HK$11.7 million, a significant improvement as compared to a loss attributable to equity holders of the parent of approximately HK$6.5 million in the corresponding period last year.

Earnings per share for the six months and three months ended 30th June 2006 was HK2.92 cents and HK1.14 cents respectively.

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30th June 2006.

INTERIM RESULTS (UNAUDITED)

The board of directors (the "Board") of Yuxing InfoTech Holdings Limited (the "Company") announces the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months and three months ended 30th June 2006 together with the comparative unaudited figures for the corresponding periods in 2005, which statements have been prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months and three months ended 30th June 2006

		For the six months ended 30th June		For the three months ended 30th June	
		2006	2005	**2006**	2005
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*2*	**400,331**	370,739	**179,912**	206,599
Cost of sales		**(361,436)**	(345,191)	**(166,079)**	(189,933)
Gross profit		**38,895**	25,548	**13,833**	16,666
Other operating income		**14,906**	9,230	**10,622**	8,316
Selling expenses		**(5,344)**	(10,961)	**(42)**	(4,719)
General and administrative expenses		**(34,392)**	(22,685)	**(22,533)**	(11,542)
Other operating expenses		**(1,139)**	(427)	**(450)**	(138)
Profit from operations		**12,926**	705	**1,430**	8,583
Finance costs		**(2,675)**	(4,312)	**(1,394)**	(1,506)
Share of results of associates		**–**	(147)	**–**	(26)
Profit/(loss) before taxation	*3*	**10,251**	(3,754)	**36**	7,051
Taxation	*4*	**(901)**	(941)	**641**	(615)
Profit/(loss) for the period		**9,350**	(4,695)	**677**	6,436
Attributable to:					
Equity holders of the parent		**11,691**	(6,503)	**4,551**	5,236
Minority interests		**(2,341)**	1,808	**(3,874)**	1,200
		9,350	(4,695)	**677**	6,436
Earnings/(loss) per share attributable to equity holders of the parent					
– Basic	*5*	**2.92 cents**	(1.63) cents	**1.14 cents**	1.31 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2006

	Notes	(Unaudited) 30th June 2006 HK$'000	(Audited) 31st December 2005 HK$'000
NON-CURRENT ASSETS			
Investment properties		**21,800**	21,800
Property, plant and equipment	*6*	**113,603**	114,896
Prepaid lease payments		**12,295**	12,315
Intangible assets		**1,362**	1,646
Available-for-sale financial assets		**6,166**	6,366
		155,226	157,023
CURRENT ASSETS			
Inventories		**248,022**	72,467
Trade and other receivables	*8*	**123,856**	164,788
Prepaid lease payments		**301**	297
Financial assets at fair value through profit or loss	*7*	**216,265**	211,905
Pledged bank deposits	*10*	**10,000**	35,225
Bank balances and cash		**59,246**	100,220
		657,690	584,902
CURRENT LIABILITIES			
Trade and other payables	*9*	**315,775**	239,105
Taxation payable		**3,069**	2,175
Obligations under finance leases – due within one year		**–**	1,471
Bank and other loans – due within one year		**60,240**	77,080
		379,084	319,831
NET CURRENT ASSETS		**278,606**	265,071
TOTAL ASSETS LESS CURRENT LIABILITIES		**433,832**	422,094
NON-CURRENT LIABILITIES			
Obligations under finance leases – due after one year		**–**	912
Bank and other loans – due after one year		**5,423**	5,516
		5,423	6,428
		428,409	415,666
CAPITAL AND RESERVES			
Share capital		**40,000**	40,000
Reserves		**370,824**	355,740
TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**410,824**	395,740
MINORITY INTERESTS		**17,585**	19,926
		428,409	415,666

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30th June 2006

	Attributable to equity holders of the parent							
	Share capital HK$'000	Share premium HK$'000	Statutory reserves HK$'000	Translation reserves HK$'000	Retained profits/ (Accumulated loss) HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
At 1st January 2005	40,000	381,713	11,767	732	(111,866)	322,346	13,526	335,872
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong and gain not recognised in the condensed consolidated income statement	–	–	–	77	–	77	–	77
Loss for the period	–	–	–	–	(11,739)	(11,739)	608	(11,131)
At 31st March 2005	40,000	381,713	11,767	809	(123,605)	310,684	14,134	324,818
Transfer	–	–	4,947	–	(4,947)	–	–	–
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong and loss not recognised in the condensed consolidated income statement	–	–	–	(233)	–	(233)	–	(233)
Profit for the period	–	–	–	–	5,236	5,236	1,200	6,436
At 30th June 2005	40,000	381,713	16,714	576	(123,316)	315,687	15,334	331,021
Realised on disposal of a subsidiary	–	–	–	–	(49)	(49)	(582)	(631)
Transfer	–	–	160	(160)	–	–	–	–
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong and gain not recognised in the condensed consolidated income statement	–	–	–	5,279	–	5,279	–	5,279
Profit for the period	–	–	–	–	74,823	74,823	5,174	79,997
At 31st December 2005	40,000	381,713	16,874	5,695	(48,542)	395,740	19,926	415,666

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED) *(Continued)*

For the six months ended 30th June 2006

	Attributable to equity holders of the parent							
	Share capital	Share premium	Statutory reserves	Translation reserves	Retained profits/ (Accumulated loss)	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1st January 2006	40,000	381,713	16,874	5,695	(48,542)	395,740	19,926	415,666
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong and gain not recognised in the condensed consolidated income statement	–	–	–	2,307	–	2,307	–	2,307
Profit for the period	–	–	–	–	7,140	7,140	1,533	8,673
At 31st March 2006	40,000	381,713	16,874	8,002	(41,402)	405,187	21,459	426,646
Transfer	–	–	3,316	–	(3,316)	–	–	–
Exchange adjustments arising from translation of financial statements of subsidiaries outside Hong Kong and gain not recognised in the condensed consolidated income statement	–	–	–	1,086	–	1,086	–	1,086
Profit for the period	–	–	–	–	4,551	4,551	(3,874)	677
At 30th June 2006	**40,000**	**381,713**	**20,190**	**9,088**	**(40,167)**	**410,824**	**17,585**	**428,409**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30th June 2006

	For the six months ended 30th June	
	2006	2005
	HK$'000	*HK$'000*
Net cash (used in) operating activities	**(40,810)**	(35,418)
Net cash (used in)/generated from investing activities	**(5,345)**	91,750
Net cash generated from/(used in) financing activities	**1,788**	(103,599)
Net decrease in cash and cash equivalents	**(44,367)**	(47,267)
Net cash and cash equivalents as at 1st January	**100,220**	127,849
Effect of foreign exchange rate changes	**3,393**	(154)
Cash and cash equivalents as at 30th June	**59,246**	80,428
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	**59,246**	80,428

NOTES TO THE ACCOUNTS

1 Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants 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. They have been prepared on the historical cost basis except for financial instruments, which are measured at fair values or revalued amounts, as appropriate. The interim results have been reviewed by the Company's Audit Committee.

The accounting policies and methods of computation adopted in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2005.

2 Turnover and segment information

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.

An analysis of the Group's turnover and operating results for the periods by business and geographical segments is as follows:

Business segments

	For the six months ended 30th June 2006				
	Information home appliances *HK$'000*	Electronic components *HK$'000*	Other operations *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
TURNOVER					
External sales	78,076	320,676	1,579	–	400,331
Inter-segment sales*	98,453	47,044	2,633	(148,130)	–
Total	176,529	367,720	4,212	(148,130)	400,331
RESULTS					
Segment results	11,806	(5,744)	(1,125)	–	4,937
Unallocated income					14,906
Unallocated expenses					(6,917)
Profit from operations					12,926
Finance costs					(2,675)
Profit before taxation					10,251
Taxation					(901)
Profit for the period					9,350

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

2 Turnover and segment information *(Continued)*

***Business segments** (Continued)*

	For the six months ended 30th June 2005				
	Information home appliances *HK$'000*	Electronic components *HK$'000*	Other operations *HK$'000*	Elimination *HK$'000*	Consolidated *HK$'000*
TURNOVER					
External sales	70,257	295,244	5,238	–	370,739
Inter-segment sales*	60,925	62,238	4,922	(128,085)	–
Total	131,182	357,482	10,160	(128,085)	370,739
RESULTS					
Segment results	(1,137)	1,504	(1,048)	–	(681)
Unallocated income					9,230
Unallocated expenses					(7,844)
Profit from operations					705
Finance costs					(4,312)
Share of results of associates					(147)
Loss before taxation					(3,754)
Taxation					(941)
Loss for the period					(4,695)

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

Geographical segments

	Turnover For the six months ended 30th June	
	2006 ***HK$'000***	2005 *HK$'000*
The People's Republic of China, other than Hong Kong (the "PRC")	**274,641**	205,441
Hong Kong	**84,566**	143,772
Other countries	**41,124**	21,526
	400,331	370,739

3 Profit/(loss) before taxation

Profit/(loss) before taxation has been arrived at after crediting and charging the following items:

	For the six months ended 30th June		For the three months ended 30th June	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Crediting:				
Net realised gains on disposal of financial assets at fair value through profit or loss	**1,111**	166	**1,107**	112
Net unrealised holding gains on financial assets at fair value through profit or loss	**664**	–	**664**	–
Charging:				
Amortisation of intangible assets	**287**	644	**144**	322
Amortisation of prepaid lease payments	**149**	146	**74**	73
Depreciation of property, plant and equipment	**3,997**	3,645	**2,011**	1,844
Total depreciation and amortisation	**4,433**	4,435	**2,229**	2,239

4 Taxation

The charge for the six months and three months ended 30th June 2006 represents the PRC income tax calculated at 7.5% (six months and three months ended 30th June 2005: Nil) of the estimated assessable income.

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group had no estimated assessable profit subject to Hong Kong Profits Tax for the six months and three months ended 30th June 2006 (the charge for the six months and three months ended 30th June 2005: Hong Kong Profits Tax calculated at 17.5%).

4 Taxation *(Continued)*

Taxation in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions. Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from the PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next 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 Company had no significant unprovided deferred taxation for the period or at the balance sheet date.

5 Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share attributable to the ordinary equity holders of the parent is based on the following data:

	For the six months ended 30th June		For the three months ended 30th June	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Earnings/(loss) for the purpose of basic earnings/(loss) per share	**11,691**	(6,503)	**4,551**	5,236
	Number of ordinary shares			
	'000	*'000*	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	**400,000**	400,000	**400,000**	400,000

No diluted earning per share has been presented for either period because the exercise price of the Company's share options was higher than the average market price for the share for either period.

No diluted loss per share has been presented for either period as the assumed exercise of the Company's share options would result in a decrease in loss per share.

6 Property, plant and equipment

During the period, the Group expended approximately HK$1,508,000 on the acquisition of plant and equipment for the expansion of the Group's operation.

7 Financial assets at fair value through profit or loss

Pursuant to an agreement dated 10th August 2004, the Group through its wholly owned subsidiary, Beijing Golden Yuxing Electronics and Technology Co., Ltd. ("Golden Yuxing") acquired 10.435% equity interest in Shenzhen Jiangnan Industrial Development Co., Ltd. ("JI"), a company which holds, among others, domestic institutional shares of Ping An Insurance (Group) Company of China Limited ("Ping An Insurance"), at a consideration of RMB217,000,000 (equivalent to approximately HK$210,802,000) from Shanshui Jianlibao Health Industry Investment Co., Ltd. ("SJHII"), a company in which Mr. Zhu Wei Sha, a director of the Company, had an effective 8.1% equity interest. Mr. Zhu Wei Sha ceased to have any equity interests in SJHII after November 2004. The H shares of Ping An Insurance are listed on the Stock Exchange. The said consideration was determined with reference to the value of 51,000,000 domestic institutional shares of Ping An Insurance held directly by JI and indirectly invested therein by Golden Yuxing through its acquisition of the 10.435% equity interest in JI.

The purpose of the transaction was to enable the Group to acquire economic benefits in respect of 51,000,000 domestic institutional shares of Ping An Insurance through the share management agreement entered into amongst Golden Yuxing, JI and other shareholders of JI at the time, specifically to receive dividends attributable to the 51,000,000 domestic institutional shares of Ping An Insurance and to enable the Group to use such shares as security to support its own borrowings. Subsequently, the Group came to know about certain deficiencies in the share management agreement which, in turn, gave rise to uncertainties over the enforceability of the agreement under the PRC laws.

The above transaction constituted a very substantial acquisition under the GEM Listing Rules which required shareholders' prior approval before the acquisition was completed. The acquisition referred to above transaction was completed without the prior approval of the Company's shareholders and as such, the Company breached the GEM Listing Rules.

Although no notification has been served on the Group by PRC authority up to the date of this report, the directors of the Company (the "Directors") were informed by JI that the Foshan Police Bureau had requested the Shenzhen Industrial and Commercial Administration Bureau to refuse the transfer, pledge or sale of the 10.435% equity interest in JI held by Golden Yuxing.

Given the complexities involved, the Directors are considering various alternatives to rectify the position and further development in this respect will be announced as and when appropriate.

8 Trade and other receivables

The Group generally grants a normal credit period of 60 to 90 days to its trade customers. As at 30th June 2006, included in trade and other receivables were trade receivables less allowance for bad and doubtful debts of approximately HK$87,952,000 (31st December 2005: approximately HK$125,227,000). The ageing analysis of the trade receivables was as follows:

	30th June 2006 *HK$'000*	31st December 2005 *HK$'000*
0–30 days	**40,711**	62,073
31–60 days	**22,314**	48,681
61–90 days	**10,517**	5,444
Over 90 days	**14,410**	9,029
	87,952	125,227

9 Trade and other payables

Included in trade and other payables were trade payables of approximately HK$283,195,000 (31st December 2005: approximately HK$179,447,000). As at 30th June 2006, the ageing analysis of the trade payables was as follows:

	30th June 2006 *HK$'000*	31st December 2005 *HK$'000*
0–30 days	**157,590**	102,257
31–60 days	**77,319**	61,504
61–90 days	**17,710**	3,341
Over 90 days	**30,576**	12,345
	283,195	179,447

10 Pledge of assets

At 30th June 2006, the following assets were pledged to secure banking facilities and other loan granted to the Group:

(a) Bank deposits of the Group of approximately HK$10,000,000 (31st December 2005: approximately HK$35,225,000);

(b) Available-for-sale financial assets of the Group with carrying value of approximately HK$5,900,000 (31st December 2005: approximately HK$5,900,000);

(c) Prepaid lease payments and building of the Group with carrying value of Nil (31st December 2005: approximately HK$56,532,000);

(d) Financial assets at fair value through profit or loss of the Group with carrying value of approximately HK$5,462,000 (31st December 2005: approximately HK$3,311,000);

(e) Trade receivables of the Group with carrying value of approximately HK$14,354,000 (31st December 2005: approximately HK$30,994,000); and

(f) Investment properties of the Group with carrying value of approximately HK$21,800,000 (31st December 2005: approximately HK$21,800,000).

RESERVES

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

INTERIM DIVIDENDS

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30th June 2006 (six months ended 30th June 2005: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and Gross Profit

During the period under review, the Group's overall operating performance was not as strong as the Group originally expected despite the strong economy in the People's Republic of China (other than Hong Kong) (the "PRC"). The overall turnover of the Group for the six months ended 30th June 2006 risen to approximately HK$400.3 million, a year on year growth of only 8.0%. Nevertheless, the gross profit margin continued to maintain at around 10.0%. The weakness in the turnover growth and the gross profit margin is caused by both the seasonal factors and slow market demand in various digital consumer electronics products.

Operating Results

Other Operating Income

Other operating income increased to approximately HK$14.9 million for the six months ended 30th June 2006 (six months ended 30th June 2005: approximately HK$9.2 million). This was mainly due to one of the Group's investments declaring dividends of approximately RMB10.2 million to the Group during the period under review and certain realised gains on disposal of financial assets in the first half of the fiscal year as compared to the corresponding period last year.

Operating Expenses

The Group continued to maintain an overall tight control on the selling and general and administrative expenses except a one-time provision of approximately HK$9.0 million. As a result, the selling expenses decreased by 51.2% to approximately HK$5.3 million while the general and administrative expenses increased by 51.6% to approximately HK$34.4 million for the six months ended 30th June 2006 as compared to the corresponding period last year respectively.

Finance Costs

As the Group has repaid certain of its bank borrowings during the period under review, finance costs decreased significantly to approximately HK$2.7 million (six months ended 30th June 2005: approximately HK$4.3 million).

FINANCIAL REVIEW *(Continued)*

Profit for the period

Despite the above factors, the Group registered a profit attributable to equity holders of the parent of approximately HK$11.7 million for the six months ended 30th June 2006, indicating a significant improvement from a loss attributable to equity holders of the parent of approximately HK$6.5 million in the first half of 2005.

Liquidity, Charge on Group Assets and Financial Resources

As at 30th June 2006, the Group had net current assets of approximately HK$278.6 million. The Group had cash and bank deposits totalling approximately HK$69.2 million, of which approximately HK$10.0 million were pledged with a bank for banking facilities. The Group's financial resources were funded mainly by its shareholders' funds except for a long-term mortgage loan with a bank for an office in Hong Kong. As at 30th June 2006, the Group's current ratio was 1.7 times and the gearing ratio, as measured by total liabilities over total assets, was 47.3%. Overall, the financial and liquidity positions of the Group remain at a stable and healthy level.

Capital Structure

The shares of the Company were listed on the GEM on 31st January 2000. There has been no change in the capital structure of the Company since that date.

Significant Investments/Material Acquisitions and Disposals

During the year of 2004, the Group made an indirect investment in 51 million domestic institutional shares of Ping An Insurance (Group) Company of China Limited ("Ping An Insurance"), one of China's largest insurance companies through the acquisition of the 10.435% equity interest in Shenzhen Jiangnan Industrial Development Co., Ltd. ("JI") as referred to in an agreement dated 10th August 2004. For the financial year 2005, Ping An Insurance recorded net earnings per share of RMB0.68 and declared a special dividend of RMB0.2 per share. The directors of the Company (the "Directors") are confident that Ping An Insurance and its shareholders will continue to benefit from the robust economic development of the PRC.

For the six months ended 30th June 2006, the Group had no significant investments and no material acquisitions or disposals.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

FINANCIAL REVIEW (Continued)

Segment Information

The Group's star business segment was the information home appliances ("IHA"). In this segment, Information Appliances ("IA") division enjoyed a strong demand from its customers and business partners. During the period under review, the division continued to work closely with its various business partner to distribute its products. In addition to the established customers in Hong Kong and Japan, the division has cooperated with a renowned PRC telecom equipment provider to deploy IPTV services. As a result, the total turnover of the IHA segment increased by 11.1% to approximately HK$78.1 million as compared to the corresponding period last year. The IHA segment also recorded an operating profit of approximately HK$11.8 million. This indicated an excellent improvement in this segment comparing an operating loss of approximately HK$1.1 million in the corresponding period last year.

In the segment of electronic components ("EC"), the Integrated Circuit ("IC") division which had been the Group's second star division incurred certain operational issues during the period under review as it incurred a one-time provision of approximately HK$9.0 million. In addition, the weaker demand in consumer electronics products has affected this division the most. Thus, the turnover of this segment only grew by 8.6% while an operating loss of approximately HK$5.7 million was recorded during the period under review.

Geographical markets of the Group were mainly located in the PRC. Starting from 2006, the Group has actively explored its overseas market with turnover increased by 91.0% as compared to the corresponding period last year. On the other hand, the group's exposure to Hong Kong market has declined due to the maturity of the market.

Exposure to Fluctuations in Exchange Rates

Most of the trading transactions of the Group were denominated in US dollars and in Renminbi. While assets of the Group were mainly denominated in Renminbi and the remaining portions were denominated in Hong Kong dollars. The official rates for US dollars and Renminbi have been stable for the period under review. No hedging or other alternative measures have been implemented by the Group. As at 30th June 2006, the Group had no significant exposure under foreign exchange contracts, interest or currency swaps or other financial derivatives.

FINANCIAL REVIEW (Continued)

Human Resources

As at 30th June 2006, the Group had over 900 full time employees, of which 20 were based in Hong Kong and the rest were in the PRC. For the six months ended 30th June 2006, staff costs amounted to approximately HK$12.5 million (six months ended 30th June 2005: approximately HK$8.8 million). All employees of the Company's subsidiaries are selected and promoted based on their suitability for the position offered. The salary and benefit levels of the Group's employees are in line with the market. Employees are rewarded on a performance-related basis within the general framework of the Group's remuneration system which is reviewed annually. In addition to the basic salaries, staff benefits include medical scheme, various insurance schemes and share options.

BUSINESS REVIEW

The Group's overall operating performance in the first half of 2006 was not as strong as the Group originally expected with consolidated turnover risen to approximately HK$400.3 million, a year on year growth of only 8.0% and this was caused by both the seasonal factors and slow market demand in various digital consumer electronics products. Nevertheless, the gross profit margin continued to maintain at near 10.0%, an improvement from around 7.0% in the first half of fiscal year 2005 but a drop from 11.4% that the Group enjoyed during the first quarter of the fiscal year. Despite the above factors, the Group continued to maintain an overall tight control on the selling and general and administrative expenses except a one-time provision of approximately HK$9.0 million. Nevertheless, the Group's consolidated operating profit recorded approximately HK$12.9 million for the first half of this fiscal year. After finance cost, taxation and minority interest, the Group registered a profit attributable to equity holders of the parent of approximately HK$11.7 million for the six months ended 30th June 2006.

The Group's star business division was the IA division which enjoyed a strong demand from its customers and business partners. During the period under review, the division continued to work closely with its various business partner to distribute its products. In addition to the established customers in Hong Kong and Japan, the division has cooperated with a renowned PRC telecom equipment provider to deploy IPTV services. The shipment has already begun in volume. Furthermore, with an increasing portion of higher value-added products which provides a superb gross margin, IA division was also the main reason that helped the Group to register an improvement in its consolidated gross profit margin. As of the first half of this fiscal year, the division's sales revenue accounted 19.1% of the Group's total turnover.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

BUSINESS REVIEW (Continued)

Group's IC division which had been the Group's second star division incurred certain operational issues during the period under review as it incurred a one-time provision of approximately HK$9.0 million. The weaker demand in consumer electronics products has affected this division the most. Thus, the turnover of the division only grew slightly by 8.6% as compared to the corresponding period last year.

OEM/Optical Components ("OEM") division, which had incurred certain issues in the past, also experienced some improvement in the first half of 2006 although the improvement might not be up to the original expectation of the Group's senior managers. Nevertheless, the division did not contribute to the Group's operating profit and net income. This still indicated an excellent improvement from a loss attributable to equity holders of the parent of approximately HK$6.5 million in the first half of fiscal year 2005.

In terms of general administration and risk management, the Group's senior management has been making great efforts in improving the Group's overall internal control and compliance procedures. Two offices under the direct reporting line to the Board of the Company were established to oversee these functions to be carried out. The Group's senior management further planned to improve these functions by actively inviting outside professionals to provide dedicated seminars and actively encouraging employees to attend courses in these areas.

BUSINESS PROSPECT

Looking into the future, with the IA division continues to experience strong demand for its products, the Group's senior management is likely to inject more resources into the division. However, given the Group's limited resources on hands, the Group's senior management is considering to dispose or to restructure one of its business, that is, the Group's 51% owned subsidiary which is in the business of IC distribution and firmware development, but the Group has not made any conclusive decision. In addition, the Group has been approached by various potential buyers who show great interest in this division. The Group's senior management is also studying carefully on various proposals and reports in relation to the restructuring or disposal of this business. It is likely that the Group will reach a decision in the second half of this fiscal year. Upon such time, the Group will, if necessary, provide an announcement detailing the specifics of any significant restructure or any transaction arising from it.

BUSINESS PROSPECT *(Continued)*

In terms of the operation, with the support of its various partners, the Group's star division, the IA division has expanded its presence outside two of Asia's most developed countries i.e. Hong Kong and Japan. Furthermore, 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 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 expand in this particular market. In addition, the IA division plans to introduce more value-added products which incorporate various latest decoding technologies. With the global industry estimated to grow at a rate of high double-digit, the IA division continues to expect another superb growth in the current fiscal year.

As the Group's two other divisions, the AV and OEM divisions, though there was some improvement in terms of profitability in the first half of this fiscal year, the Group continues to implement methods that can increase the overall efficiencies and productivities of the two operations. Although there are still many uncertainties ahead with these divisions, the Group's senior management has great confidence over the future performance of the two divisions. Currently, the AV division, which is the Group's own brand distribution arm in the PRC, is discussing various projects where the counter party will utilize the Group's brand name "Yuxing" to market various electronics and/or educational products. The OEM division is expected to improve as well by introduction of other new and higher value-added products.

Despite the general weakness of the consumer electronics industry, the Group's senior management still expects that the second half of current fiscal year will improve in relation to the performance of the first half of the fiscal year. The Group's senior management will make greatest efforts to reap the greatest return for the shareholders of the Company.

SHARE OPTION SCHEME

Pursuant to the ordinary resolutions passed by the shareholders of the Company at a special general meeting held on 18th May 2003, it was approved that the previous share option scheme of the Company adopted on 18th January 2000 (the "Previous Scheme") was terminated and a new share option scheme (the "Existing Scheme") was adopted. A summary of the principal terms of the rules of the Existing Scheme can be referred to in the circular of the Company dated 24th April 2003.

No further share option will be offered under the Previous Scheme upon its termination. Nevertheless, all share options granted under the Previous Scheme (the "Previous Granted Options") prior to its termination will continue to be valid and exercisable in accordance with the provisions of the Previous Scheme. The Previous Scheme will remain in force in all other aspects and to the extent necessary to give effect to the exercise of the Previous Granted Options.

The following table discloses details of the Previous Granted Options held by the employees of the Company under the Previous Scheme and movements during the period under review:

				Number of share options				
	Date of grant	Exercisable period	Exercise price per share *HK$*	At 1st January 2006	Exercised during the period	Granted during the period	Cancelled/ lapsed during the period	At 30th June 2006
Continuous Contract Employees	9th February 2001	9th February 2002 – 8th February 2006	0.83	3,110,000	–	–	3,110,000	–
	11th April 2001	11th April 2002 – 10th April 2006	0.75	1,980,000	–	–	1,980,000	–
				5,090,000	–	–	5,090,000	–

No share options had been granted under the Existing Scheme during the period under review.

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

As at 30th June 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 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 30th June 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 30th June 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 30th June 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 management shareholders of the Company and their respective associates (as defined under the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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 of the Company, namely Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan. Ms. Shen Yan was appointed as the chairman of the Committee. Two meetings were held during the six months ended 30th June 2006.

The Group's unaudited consolidated results for the six months and three months ended 30th June 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.

SECURITIES TRANSACTIONS BY DIRECTORS

Although the Company has not adopted any code of conduct regarding Directors' securities transactions, it has made specific enquiry of all Directors (save as Mr. Zhu Wei Sha) and the Directors have confirmed that they have complied with all the required standard of dealings set out in rules 5.48 to 5.67 of the GEM Listing Rules during the period under review.

CORPORATE GOVERNANCE PRACTICES

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

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

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

(a) Under provision A.4.2 of the GEM Code, every Director should be subject to retirement by rotation at least once every three years. The existing Bye-laws of the Company provide that no Director holding office as chairman of the Board and/or managing Director shall be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. Accordingly, as at the date hereof, Mr. Zhu Wei Sha, being the chairman of the Board, is not subject to retirement by rotation.

(b) Under provision A.2.1 of the GEM Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The roles of the Group's chairman and chief executive officer have effectively been performed by Mr. Chen Fu Rong since March 2005. The deviation from this code provision can be explained by the sole suitability of Mr. Chen Fu Rong, co-founder of the Group, to take up the role of chairman of the Group with his high standing both within the Group and in the domestic electronics industry at large in light of the swift expansion of the Group. In view of the above, the Board, after due and careful consideration, is of the view that Mr. Chen is to date the single most suitable person to perform the roles of both the chairman and chief executive officer of the Group. Therefore, the roles of the chairman and chief executive officer of the Group are exercised by the same individual.

CORPORATE GOVERNANCE PRACTICES *(Continued)*

(c) Under provision E.1.2 of the GEM code, the chairman of the Board should attend the annual general meeting and arrange for the chairmen of the audit, remuneration and nomination committees (as appropriate) to be available to answer questions at the general meeting. Mr. Chen Fu Rong, the deputy chairman of the Board has been performing the above duties in lieu of Mr. Zhu Wei Sha, the chairman of the Board, who has been absent from office since 24th March 2005.

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 six months ended 30th June 2006.

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

Shenzhen, the PRC, 11th August 2006

As at the date hereof, the executive directors of the Company are Mr. Zhu Wei Sha, Mr. Chen Fu Rong, Mr. Shi Guang Rong and Mr. Wang An Zhong; the independent non-executive directors of the Company are Mr. Wu Jia Jun, Mr. Zhong Peng Rong and Ms. Shen Yan.