



Yuxing InfoTech Holdings Limited

裕興科技控股有限公司*

(incorporated in Bermuda with limited liability)

Stock Code : 8005

Third 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.

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HIGHLIGHTS FOR THE NINE-MONTH PERIOD

- For the nine months ended 30th September 2006, turnover of the Group increased by 21.1% to approximately HK\$745.8 million as compared to the same period last year.
- For the nine months ended 30th September 2006, gross profit of the Group significantly increased by 18.4% to approximately HK\$63.1 million as compared to the corresponding period last year.
- Profit attributable to equity holders of the Company for the nine months and three months ended 30th September 2006 amounted to approximately HK\$21.1 million and HK\$9.5 million respectively.
- Earnings per share attributable to equity holders of the Company for the nine months and three months ended 30th September 2006 were HK5.29 cents and HK2.36 cents respectively.
- The Board of the Company does not recommend the payment of an interim dividend for the nine months ended 30th September 2006.

NINE-MONTH RESULTS (UNAUDITED)

The board of directors (the "Board") of Yuxing InfoTech Holdings Limited (the "Company") announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the nine months and three months ended 30th September 2006 together with the comparative unaudited figures for the corresponding periods in 2005, prepared in accordance with generally accepted accounting principles in Hong Kong, as follows:

	Notes	Nine months ended 30th September		Three months ended 30th September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	2	745,848	616,019	345,517	245,280
Cost of sales		(682,783)	(562,733)	(321,347)	(217,542)
Gross profit		63,065	53,286	24,170	27,738
Other operating income		24,035	11,118	9,129	1,888
Selling expenses		(6,152)	(15,788)	(808)	(4,827)
General and administrative expenses		(56,631)	(32,908)	(22,239)	(10,223)
Other operating expenses		(1,583)	(1,102)	(444)	(675)
Profit from operations		22,734	14,606	9,808	13,901
Finance costs		(2,964)	(5,739)	(289)	(1,427)
Share of results of associates		-	(147)	-	-
Gain on liquidation of an associate		-	1,395	-	1,395
Gain on disposal of a subsidiary		-	27	-	27
Profit before taxation		19,770	10,142	9,519	13,896
Taxation	3	(1,253)	(1,818)	(352)	(877)
Profit for the period		18,517	8,324	9,167	13,019
Profit for the period attributable to:					
Equity holders of the Company		21,144	4,592	9,453	11,095
Minority interests		(2,627)	3,732	(286)	1,924
		18,517	8,324	9,167	13,019
Earnings per share attributable to equity holders of the Company - Basic	4	5.29 cents	1.15 cents	2.36 cents	2.77 cents

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 complementary products and electronic components.

3. Taxation

The charge for the nine months and three months ended 30th September 2006 represents the PRC income tax calculated at 7.5% (nine months and three months ended 30th September 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 nine months and three months ended 30th September 2006 (the charge for the nine months and three months ended 30th September 2005: Hong Kong Profits Tax calculated at 17.5%).

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 Group had no significant unprovided deferred taxation for the period or at the balance sheet date.

4. Earnings per share

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

	For the nine months ended 30th September		For the three months ended 30th September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit for the purpose of basic earnings per share	21,144	4,592	9,453	11,095
	Number of ordinary shares			
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings 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.

RESERVES

There were no transfers to or from reserves of the Group during the nine months ended 30th September 2006 and 2005.

INTERIM DIVIDENDS

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

BUSINESS REVIEW

The Group's overall operating performance has improved significantly for the first three quarters of fiscal year 2006 with a turnover of approximately HK\$745.8 million, an increase of 21.1% comparing to the same period of last year. Furthermore, with gross profit margin remaining stable at 8.5%, the Group's gross profit also grew to approximately HK\$63.1 million, an increase by 18.4% from the same period of last year. Despite the effort in controlling operational expenses i.e. selling and general administration expenses, provisions of approximately HK\$12.0 million in trade receivables from two of Group's customers caused a large rise in the general and administrative expenses for the period under review. The effect of the provisions was mostly reduced by the large dividends that the Group received from one of its investment during the period under review. Therefore, the overall operation profit still recorded a healthy increase by 55.6% to approximately HK\$22.7 million. After deduction of finance cost, taxation and minority interest, the Group recorded a profit attributable to equity holders of the Company of approximately HK\$21.1 million for the nine months ended 30th September 2006.

The Group's 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 People's Republic of China (other than Hong Kong) ("PRC") telecom equipment provider to deploy Internet Protocol Television ("IPTV") services in a new market. The deployment has exceeded the division's original expectation as the shipment has already surpassed 10,000 units. On the other hand, one of the division's customers

BUSINESS REVIEW *(Continued)*

has slowed down in its deployment due to the customer's internal restructuring and this has affected the division's business activities to a certain extent. During the period under review, the division experienced an increase in overall demand but on the other hand, it has also experienced higher competition. However, because of the advantageous positioning of the division, it continued to maintain its leadership in the IPTV set-top box ("STB") industry.

Group's integrated circuit ("IC") division incurred certain operational issues during the period under review. As mentioned above, the one-time provision of approximately HK\$12.0 million was contributed by this particular division.

Original Equipment Manufacturing ("OEM") division, which had incurred certain issues in the past, also experienced improvement for the period under review. During the period under review, the division has introduced a variety of advanced digital products such as portable digital video broadcasting player, portable media player, advertisement kiosks, and etc. These products have been well received by some of the division's customers.

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. A compliance seminar was conducted in September 2006 when the most of the Company's directors and senior executives were trained on various laws and regulations in Hong Kong by the Company's lawyers.

BUSINESS PROSPECT

Looking forward, 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 one of its businesses, that is, the Group's 51% owned subsidiary which is in the business of IC distribution and firmware development. Furthermore, the IC division has developed into a stage which the division and other businesses of the Group had very little synergies between them and therefore, there is very little value added in maintaining the division which is expected to require large cash flow to finance its future growth. Currently, the Group is engaged in a discussion with one interested purchaser and definitive agreements are likely to be reached and entered soon.

BUSINESS PROSPECT *(Continued)*

Operation-wise, with the support of its various partners, the IA division has expanded its presence into other overseas markets, 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 is providing more resources to the IA division to ensure the maximum profitability can be obtained. As the global demand in IPTV STB 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 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.

Although there was some improvement in terms of operation in the audio-visual ("AV") and OEM divisions, the Group continues to implement measures that can increase the overall efficiencies and productivities of the two operations. There has been an improvement in the OEM division. In addition, as more advanced products are being introduced, the division is negotiating with various customers for volume shipment. Overall, the strenuous effort by the Group's senior management has begun to materialize as there is a clear trend that all of the Group's businesses are improving. The Company's Directors are confident this result will eventually be enjoyed by the Company's shareholders.

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

As at 30th September 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:

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

Save as disclosed above, none of the Directors or chief executive of the Company had, as at 30th September 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 September 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 September 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 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. Three meetings were held during the nine months ended 30th September 2006.

The Group's unaudited consolidated results for the nine months and three months ended 30th September 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 THE 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.

Except the deviations as disclosed in the Company's interim report 2006, the Company has complied with all the GEM Code during the period under review.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's shares during the nine months ended 30th September 2006.

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

Beijing, the PRC, 13th November 2006