



寧波屹東電子股份有限公司
Ningbo Yidong Electronic Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

2003 Third Quarterly Report

* For identification purpose 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 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 GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Ningbo Yidong Electronic Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

RESULT HIGHLIGHTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2003

- Unaudited turnover was approximately RMB157 million for the nine months ended 30 September 2003, representing an increase of approximately 32% when compared with the same period in 2002.
- Unaudited profit attributable to shareholders was approximately RMB28 million for the nine months ended 30 September 2003 representing an increase of approximately 6% when compared with the same period in 2002.
- Unaudited earnings per share was approximately RMB7.62 cents for the nine months ended 30 September 2003.

RESULTS

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and nine months ended 30 September 2003 together with the unaudited comparative figures for the corresponding periods in 2002 as follows:

		Unaudited For the three months ended 30 September 2003		Unaudited For the nine months ended 30 September 2002	
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	(2)	63,851	43,114	157,111	118,746
Cost of sales		<u>(40,927)</u>	<u>(29,087)</u>	<u>(105,342)</u>	<u>(73,467)</u>
Gross profit		22,924	14,027	51,769	45,279
Other revenue		551	775	1,393	781
Selling expenses		(115)	(530)	(409)	(962)
Administrative expenses		<u>(2,913)</u>	<u>(1,328)</u>	<u>(8,635)</u>	<u>(2,631)</u>
Profit from operations		20,447	12,944	44,118	42,467
Finance cost		<u>(626)</u>	<u>(990)</u>	<u>(1,940)</u>	<u>(1,914)</u>
Profit from ordinary activities before taxation		19,821	11,954	42,178	40,553
Taxation	(3)	<u>(6,336)</u>	<u>(4,993)</u>	<u>(14,465)</u>	<u>(14,012)</u>
Profit after tax		13,485	6,961	27,713	26,541
Minority Interests		<u>224</u>	<u>0</u>	<u>494</u>	<u>0</u>
Profit attributable to shareholders		<u>13,709</u>	<u>6,961</u>	<u>28,207</u>	<u>26,541</u>
Earnings per share (cents)	(4)	<u>3.71</u>	<u>1.88</u>	<u>7.62</u>	<u>11.02</u>

Notes:

1. Basis of preparation

The principal accounting policies adopted in preparing the unaudited consolidated results are consistent with all applicable Statements of Standard Accounting Practices issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong ("HK GAAP"). The 2003 third quarterly report also complies with the disclosure provisions of the GEM Listing Rules.

All-intra-group transactions have been eliminated in preparing the unaudited consolidated results.

2. Turnover

The Group is principally engaged in the design, manufacture and sale of controller systems for consumer electrical and electronic appliances. Turnover is stated net of value added tax. Revenues recognised during the Relevant Periods are as follows:

	Unaudited For the three months ended 30 September 2003		Unaudited For the nine months ended 30 September 2002	
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover				
Sale of controller systems for consumer electrical and electronic appliances	62,996	35,128	153,130	109,451
Manufacture of mobile phone controller systems and assembly of mobile phones	855	7,986	3,981	9,295
	<u>63,851</u>	<u>43,114</u>	<u>157,111</u>	<u>118,746</u>

More than 90% of the Group's turnover and profit from operations were attributable to the design, manufacture and sale of controller systems for consumer electrical and electronic appliances in the People's Republic of China (the "PRC"). Accordingly, no analysis by business and geographical segments is presented herein.

3. Taxation

The taxation charges represent:

	For the three months ended 30 September 2003		For the nine months ended 30 September 2002	
	RMB'000	RMB'000	RMB'000	RMB'000
PRC income tax	<u>6,336</u>	<u>4,993</u>	<u>14,465</u>	<u>14,012</u>

The Group is subject to an income tax rate of 33% on its taxable profit in accordance with the income tax law in the PRC.

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable Hong Kong profits for the period.

4. Earnings per share

Basic earnings per share is calculated based on the Group's profit attributable to shareholders for the three months and nine months ended 30 September 2003 of approximately RMB13,709,000 (2002: RMB6,961,000) and approximately RMB28,207,000 (2002: RMB26,541,000) respectively and the weighted average number of 370,000,000 (2002: 370,000,000) and 370,000,000 (2002: 240,793,650) shares in issue during the respective period.

Diluted earnings per share has not been presented as the Company has no dilutive potential ordinary shares during the periods.

MOVEMENT IN RESERVE

	Statutory surplus reserve	Statutory public welfare reserve	Share issuance expenses	Retained earnings/ (accumulated losses)	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2002	731	329	—	5,539	6,599
Profit attributable to shareholders	—	—	—	26,541	26,541
Transfer to share capital	(2,106)	(1,054)	—	(18,840)	(22,000)
Proposed dividend	—	—	—	(114)	(114)
As at 30 September 2002	<u>(1,375)</u>	<u>(725)</u>	<u>—</u>	<u>13,126</u>	<u>11,026</u>
As at 1st January 2003	3,080	1,386	(1,484)	16,882	19,864
Profit attributable to shareholders	—	—	—	28,207	28,207
Share issuance expenses	—	—	(2,959)	—	(2,959)
Proposed dividend	—	—	—	(400)	(400)
As at 30 September 2003	<u>3,080</u>	<u>1,386</u>	<u>(4,443)</u>	<u>44,689</u>	<u>44,712</u>

DIVIDEND

The Board does not recommend payment of interim dividend for the three months ended 30 September 2003 (three months ended 30 September 2002: approximately RMB114,000). The Board had declared, and the Company had made, payment of interim dividend of approximately RMB400,000 for the nine months ended 30 September 2003 (nine months ended 30 September 2002: approximately RMB114,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review for the nine months ended 30 September 2003

For the nine months ended 30 September 2003, the Group's turnover amounted to approximately RMB157 million, representing an increase of approximately 32%, and profit attributable to shareholders was approximately RMB28 million, representing an increase of approximately 6%, as compared to the corresponding period in 2002.

The improvement in financial results can be attributed mainly to increased sales of controller systems for air-conditioners and televisions.

Because of the lower margin pricing strategy for television controller systems, the Group's gross profit margin and the net profit margin dropped slightly to approximately 33% and 18% respectively for the nine months ended 30 September 2003.

Business Review

The Group is principally engaged in the design, manufacture and sale of intelligent controller systems, which can be used for various consumer electrical and electronic appliances, such as air-conditioners, refrigerators, smoke extractors, mobile phones and televisions.

Being the State designated unit for implementing the National Major Technological Innovation Project on the research and development (the "R&D") of environmental-friendly controller systems for air-conditioners using fuzzy variable frequency technology, the Group has developed know-how and accumulated experience in this specialized field and as a result, the turnover of air-conditioner controller systems accounted for more than 80% of the total sales for the nine months ended 30 September 2003. The Group has set up a committee for the purpose of R&D of controller systems for telecommunication devices.

Prospects

The Group's business objective is to further strengthen the Group's position in the design and manufacture of good quality intelligent controller systems for various consumer electrical and electronic appliances in the PRC.

In order to fulfil such objective, the Group will strengthen its R&D capability and development of new products, and in particular:

- continue with the research on fuzzy frequency conversion technology for controller systems in air-conditioners and refrigerators;
- R&D on fuzzy controller systems for car head lamps and automated doors; and
- R&D on controller systems for telecommunication devices and small-sized TFT-LCD devices.

The Group will continue to develop new products, and explore more products with good prospects to further expand and diversify the Group's product bases. The Group recognizes that market expansion is important, and will embark on strategic marketing steps, including setting up sales points in Hong Kong, Guangzhou and Beijing in order to broaden its revenue base.

DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISOR'S RIGHTS TO ACQUIRE SHARES

During the three months ended 30 September 2003, none of the Directors, chief executive (if any) or supervisors of the Company or their spouse or children under the age of 18 was granted any right to acquire shares of the Company or any of its associated corporation (as referred below), or had exercised any such right.

DISCLOSURE OF INTERESTS AND SHORT POSITIONS

Interests and short positions of Directors and supervisors:

Save as disclosed below, as at 30 September 2003 and assuming the listing of the Company's 130,000,000 H shares on GEM (as mentioned in the Company's prospectus dated 30 October 2003) commenced on 30 September 2003, none of the Directors, the supervisors and the chief executive (if any) of the Company had 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 Securities and Futures Ordinance, Cap. 571 of the laws of Hong Kong (the "SFO")) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or would be required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange. For the purpose of this disclosure, the relevant provisions of the SFO and the GEM Listing Rules are assumed to be applicable to supervisors of the Company in the same way as they apply to the Directors.

Name of Director/ Supervisor/chief executive	Number and class of securities in the Company held	Capacity in holding interest and nature of interests	Long/short position	Approximate % shareholding in same class of securities	Approximate % shareholding in the registered capital of the Company
Mr. Wang Ya Qun (王亞群先生)	129,500,000 domestic shares of RMB0.10 each (the "Domestic Shares")	beneficial owner	long position	35%	25.9% ⁽²⁾
Mr. Li Ming (李明先生)	129,500,000 Domestic Shares ⁽¹⁾	interest of controlled corporation	long position	35%	25.9% ⁽²⁾
Mr. Chen Zheng Tu (陳正土先生)	92,500,000 Domestic Shares	beneficial owner	long position	25%	18.5% ⁽²⁾

Notes:

1. As at 30 September 2003, these Domestic Shares were directly held by China Ruilian Holding Corp. (中國瑞聯實業集團有限公司) as a registered shareholder of the Company. As at 30 September 2003, China Ruilian Holding Corp. (中國瑞聯實業集團有限公司) was owned as to 90% directly by Shenzhen Ruilian Investment Co., Ltd. (深圳市瑞聯投資有限公司), which was in turn owned as to 42% directly by Mr. Li Ming. Therefore, Mr. Li Ming was deemed to have interest in these Domestic Shares by virtue of interests held by his controlled corporation, China Ruilian Holding Corp., (中國瑞聯實業集團有限公司), under the SFO.
2. Assuming that the said 130,000,000 H shares of the Company, which were issued on 13 November 2003, had been issued on 30 September 2003.

Interests and short positions of substantial and other shareholders:

Save as disclosed below, as at 30 September 2003 and assuming the listing of the Company's 130,000,000 H shares on GEM commenced on that date, no person (other than a Director, supervisor or chief executive (if any) of the Company) had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO or have to be entered into the register required to be kept under section 336 of the SFO.

Name of shareholders	Number and class of securities held	Capacity in holding interest and nature of interests	Long/short position	Approximate % shareholding in same class of securities	Approximate % shareholding in the registered capital
China Ruilian Holding Corp. (中國瑞聯實業集團有限公司)	129,500,000 Domestic Shares	beneficial owner	long position	35%	25.9% ⁽²⁾
Shenzhen Ruilian Investment Co., Ltd. (深圳市瑞聯投資有限公司)	129,500,000 Domestic Shares ⁽¹⁾	interest of controlled corporation	long position	35%	25.9% ⁽²⁾

Notes:

1. As at 30 September 2003, these Domestic Shares were directly held as registered shareholder of the Company by China Ruilian Holding Corp. (中國瑞聯實業集團有限公司), which was directly owned as to 90% by Shenzhen Ruilian Investment Co., Ltd. (深圳市瑞聯投資有限公司). Therefore, Shenzhen Ruilian Investment Co., Ltd. (深圳市瑞聯投資有限公司) was deemed to have interest in these Domestic Shares by virtue of interests held by its controlled corporation, China Ruilian Holding Corp. (中國瑞聯實業集團有限公司), under the SFO.
2. Assuming that the said 130,000,000 H shares of the Company, which were issued on 13 November 2003, had been issued on 30 September 2003.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the period under review, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

COMPETING INTERESTS

None of the Directors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in any business that directly or indirectly competes with the business of the Group or has any other conflicts of interest.

SPONSORS' INTERESTS

None of Guotai Junan Capital Limited ("Guotai Junan") and Barits Securities (Hong Kong) Limited, both of which were the joint sponsors of the Company in relation to its application for listing of its H shares on GEM, their respective directors, employees or associates (as defined in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any other member of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any other member of the Group.

Pursuant to a sponsor agreement dated 31 October 2003 between the Company and Guotai Junan, Guotai Junan has been appointed as the continuing sponsor of the Company as required under the GEM Listing Rules at a fee from 14 November 2003 to 31 December 2005.

OPTIONS TO SUBSCRIBE FOR SHARES IN THE COMPANY

As at the date of this report, no option has been granted or agreed to be granted to any executive Directors or full-time employees of the Company or its subsidiary or any of their respective associates.

AUDIT COMMITTEE

The Company has established an audit committee since 1 June 2003 with written terms of reference based on the guidelines recommended by the Hong Kong Society of Accountants. The audit committee comprises three independent non-executive Directors of the Company, namely Mr. Ding Gang Yi (丁剛毅先生), who is the Chairman of such committee, Mr. Tang Zhen Ming (唐振明先生) and Mr. Lam Ming Yung (林明勇先生).

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of this third quarterly report for the nine months ended 30 September 2003.

By order of the board
Ningbo Yidong Electronic Company Limited
Wang Ya Qun
Chairman

Hong Kong, 14 November 2003