Orsus Xelent Technologies Inc
Form 10-Q
May 23, 2011

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2011

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______.

Commission file number: 001-33456

ORSUS XELENT TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-1198142
(State of incorporation)	(I.R.S. Employer Identification No.)

29th Floor, Tower B, Chaowai MEN Office Building
26 Chaowai Street, Chaoyang Disc.
Beijing, People's Republic Of China 100020
(Address of principal executive offices, including zip code)

86-10-85653777
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨ Accelerated filer ¨

Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company x

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12-b2 of the Exchange Act).

Yes ¨ No x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12-b2 of the Exchange Act).

Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at May 17, 2011
Common Stock, US$.001 par value per share	2,521,341 shares

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Orsus Xelent Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets (Unaudited)

(US Dollars in thousands except share data and per share amounts)

(Unaudited)

	March 31,2011	December 31,2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 4	$ 5
Restricted cash	4	4
Accounts receivable, net	94,125	60,046
Advances to suppliers, net	10,226	10,161
Other current assets	19	19
Pledged deposit	1,342	1,334
Total current assets	105,720	71,569
Property, plant and equipment, net	153	156
Total Assets	$ 105,873	$ 71,725
LIABILITIES AND STOCKHOLDERS’ EQUITY/(DEFICIT)		
Current liabilities		
Short-term bank loans	$ 9,772	$ 9,710
Short-term loan payable	320	318
Accounts payable	10,306	10,923
Accrued expenses and other accrued liabilities	5,216	5,030
Trade deposits received	4,869	4,846
Due to shareholders	678	676
Income taxes payable	6,106	6,068
Other taxes payable	26,930	26,097
Accrued penalties	14,132	12,601
Total current liabilities	78,329	76,269
Non-current liabilities	-	-
Total liabilities	78,329	76,269
Stockholders’ equity/(deficit)		
Preferred stock, par value US$0.001; authorized 100,000,000 shares; none issued	-	-
Common stock, par value US$0.001; authorized 100,000,000 shares; Issued and outstanding 2,521,341 shares at both periods	3	3
Additional paid-in capital	3,306	3,306
Statutory reserve	1,042	1,042

Retained earnings/(accumulated deficit)		8,965		(15,029	)
Accumulated other comprehensive income		14,228		6,134	
Total stockholders’ equity/(deficit)		27,544		(4,544	)
Total liabilities and Stockholders’ equity/(deficit)	$	105,873	$	71,725	

The accompanying notes are an integral part of these consolidated financial statements.

Orsus Xelent Technologies, Inc. and Subsidiaries

Consolidated Statements of Income and Comprehensive Income
(In thousands, except number of shares and per share data)
(Unaudited)

	Three months ended March 31 2011	2010
Net sales	$ 3,914	$ 7,591
Cost of sales	3,537	6,995
Gross profit	377	596
Operating expenses:		
Selling expenses	6	41
General and administrative expenses	24	27
Research and development expenses	-	5
Depreciation and amortization	5	8
Allowance for doubtful accounts	-	(251)
Income from operations	342	766
Other income/(expenses)		
Interest expense	(333)	(213)
Reversal of allowance for bad debt/other income	32,022	(1,252)
Income before income tax expense	32,031	(699)
Income tax expense	-	-
Deferred tax benefit	-	245
Net (loss)/income	32,031	(454)
Other comprehensive income		
Foreign currency translation adjustment	63	8
Comprehensive (loss)/income	$ 32,094	$ (446)
Basic and diluted	$ 12.73	$ (0.18)
Weighted average number of common shares outstanding – basic and diluted	2,521,341	2,479,667

The accompanying notes are an integral part of these consolidated financial statements.

Orsus Xelent Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands, except number of shares and per share data)

(Unaudited)

	Three months ended March 31 2011	2010
Cash flows from operating activities		
Net (loss)/income	$ 32,031	$ (454)
Adjustments to reconcile net (loss)/income to net cash used by operating activities:		
Deferred tax	0	(245)
Depreciation	5	8
Bad debt expenses	(33,469)	-
Loss due to liability for possible settlement to accounts payable	1,447	1,253
Accounts receivable	(130)	(4,227)
Note receivable	-	2,779
Customer deposits	-	(783)
Accounts payables	(679)	17
Accrued expenses, other accrued liabilities and other tax payable	794	1,287
Net cash flows used in operating activities	(1)	(365)
Net change in cash and cash equivalents	(1)	(365)
Effect of foreign exchange rate changes on cash and cash equivalent	-	1
Cash and cash equivalent - beginning of period	5	374
Cash and cash equivalent - end of period	$ 4	$ 10
Supplemental disclosure for cash flow information		
Interest paid	$ -	$ -
Income taxes paid	$ -	$ -

The accompanying notes are an integral part of these consolidated financial statements.

ORSUS XELENT TECHNOLOGIES, INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except number of shares and per share data)

1. ORGANIZATION

Orsus Xelent Technologies, Inc. (“ORS” or the “Company”), formerly known as Universal Flirts Corp., was organized under the laws of the State of Delaware on May 25, 2004.

Prior to reorganization with United First International Limited (“UFI”) on March 31, 2005, a company incorporated in the Hong Kong Special Administrative Region (“HK”) of the People’s Republic of China (the “PRC” or “China”), ORS was a development stage company which had no operations or revenues. ORS exited the development stage after the recapitalization.

Upon the completion of the reorganization, ORS assumed the business operations of UFI as primarily undertaken by its subsidiary, Beijing Orsus Xelent Technologies & Trading Co., Limited (“BOXT”) (English translation for identification purposes only), an enterprise incorporated in Beijing, PRC on November 10, 2004 which is engaged in the business of design, retail and wholesale distribution of cellular phones.

On July 14, 2005, Orsus Xelent Holdings (BVI) Limited (“OXHBVI”) was incorporated by ORS in the British Virgin Islands (“BVI”) with issued capital of US$2.00. OXHBVI is a wholly-owned subsidiary of ORS; OXHBVI’s principal activity is investment holding. On July 22, 2005, Orsus Xelent Trading (HK) Company Limited (“OXTHK”) was incorporated by OXHBVI in HK with issued capital of HK$100.00 (equivalent to US$13.00); OXTHK is a company engaged in trading cellular phones and accessories, and is wholly-owned by OXHBVI.

2. DESCRIPTION OF BUSINESS

The Company is principally engaged in the business of designing and distributing economically priced cellular phones for retail and wholesale distribution. The Company currently outsources its manufacturing to third party factories. In February 2004, the Company registered “ORSUS” with the State Administration for Industry and Commerce in the PRC as its trademark, which is also known as “Orsus Cellular” within the industry.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and include the financial statements of the Company and its subsidiaries.

The accompanying unaudited consolidated financial statements as of March 31, 2011, and for the three months ended March 31, 2011 and 2010 have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X applicable to smaller reporting companies. In the opinion of management, all adjustments necessary for a fair statement of the results for the interim periods have been made and all adjustments are of a normal recurring nature (or a description of the nature and amount of any adjustments other than normal recurring adjustments). The unaudited consolidated interim financial statements should be read in conjunction with the Company’s audited consolidated financial statements and notes thereto for the year ended December 31, 2010 that are included in the Company’s 2010 annual report on 10-K filed with the Securities and Exchange Commission.

Principle of consolidation

The consolidated unaudited financial statements include the accounts of Orsus Xelent Technologies, Inc. and its subsidiaries. All inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of unaudited interim Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. We evaluate our estimates on an ongoing basis, including those related to accounts receivable and sales allowances, useful lives of property and equipment, fair values of options to purchase our common stock, and income taxes, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Accounts Receivable

Accounts receivable are recognized and carried at original invoiced amount less an allowance for any potential uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. We generally do not require collateral from our customers.

Recently issued accounting pronouncements

In January 2010, the FASB issued the following ASC Updates:

ASU No. 2010-01—Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash. This Update clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). The amendments in this Update are effective for interim and annual periods ending on or after December 15, 2009 with retrospective application.

ASU No. 2010-02—Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary. This Update amends ASC 810 subtopic 10 and related guidance to clarify that the scope of the decrease in ownership provisions of the Subtopic and related guidance applies to (i) a subsidiary or group of assets that is a business or nonprofit activity; (ii) a subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture; and (iii) an exchange of a group of assets that constitutes a business or nonprofit activity for a non-controlling interest in an entity, but does not apply to (a) sales of in substance real estate or (b) conveyances of petroleum and gas mineral rights. The amendments in this Update are effective beginning in the period that an entity adopts FAS 160 (now included in ASC 810 subtopic 10).

ASU No. 2010-05—Compensation—Stock Compensation (Topic 718): Escrowed Share Arrangements and the Presumption of Compensation. This Update simply codifies EITF Topic D-110, “Escrowed Share Arrangements and the Presumption of Compensation and does not change any existing accounting standards.

ASU No. 2010-06—Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements. This Update amends ASC 820 subtopic 10 that requires new disclosures about transfers in and out of Levels 1 and 2 fair value measurements and activity in Level 3 fair value measurements. This Update also amends ASC 820 subtopic 10 to clarify certain existing disclosures. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal years beginning after December 15, 2010.

4. RESTRICTED CASH

There are three blocked bank accounts with restricted cash with the amount of US$4 as of March 31, 2011. Two bank accounts are related to the legal disputes with two suppliers of BOXT. Shenzhen Songding Industry Ltd. (“Songding”) provides the battery chargers and Beijing Baoxin Packing Materials Co., Ltd. (“Baoxin”) provides the packing materials to BOXT. The third bank account was blocked because the loan from Beijing Rural Commercial Bank has been overdue since September 27, 2009, and the Company has not repaid any principle or interest. The balance of this account on March 31, 2011 was zero. (Refer to Note 13, “Commitments And Contingencies”.)

5. ACCOUNTS RECEIVABLE

The Company's business relies on a few distributors. US$94,125 and US$60,046 of accounts receivable as of March 31, 2011 and December 31, 2010, respectively, mainly consisted of a balance of US$93,476 and US$92,867 due from Beijing Xingwang Shidai Commerce Co., Ltd. ("Xingwang"), the major distributor of the Company. The reason for the large accounts receivable balance as of March 31, 2011 and December 31, 2010 is due to longer turnover days than before. The main reasons for longer turnover days are: since profits industry-wide have decreased, the middle level distributors are removed and the national level distributor, Xingwang, has to sell the products to direct customers (the retailers) and the turn-over rate of the retailers is always slower than middle level distributors.

However, the long aged account receivable to Xingwang is guaranteed by a third guarantee company, Zhong Hui Guarantee Corporation ("Zhonghui"). On December 25, 2008, Xingwang entered into an irrevocable Credit Guarantee Contract (the "Guarantee Contract") with Zhong Hui Guarantee Corporation ("Zhonghui"), a third-party guarantee company licensed by the PRC government, and BOXT under which Zhonghui agreed to guarantee up to Renminbi ("RMB") 300 million (equivalent to US$44,256), for the principal debt, fine, damages arising out of breach of contract, and costs incurred for realizing those legal rights including but not limited to legal proceeding fees, attorney fees and travel expenses arising out of the distributor agreement entered into by BOXT and Xingwang. The Guarantee Contract was effective as of December 25, 2008 and provided a guarantee for all of the accounts receivable that are or may become outstanding from Xingwang to BOXT from January 1, 2008 through December 31, 2008. At December 31 2009, the guarantee contract expired. A new guarantee contract was signed between BOXT, Xingwang Shidai and Zhonghui Guarantee on January 1, 2010 and provides a guarantee for all the accounts receivable that are or may become outstanding from Xingwang to BOXT from January 1, 2008 through December 31, 2010. The agreement was renewed on March 30, 2011 among the Company, Zhonghui and Xingwang. Under this new contract, Zhonghui renewed its guarantee amount to the Company for any receivables to Xingwang from RMB300 million to not more than RMB500 million. The agreement covers the period from January 1, 2011 to December 31, 2011.

6. ADVANCES TO SUPPLIERS, NET

US$10,226 and US$10,161 of trade deposits paid to suppliers on March 31, 2011 and December 31, 2010, is payment in advance to suppliers, which consisted of the following:

	March 31, 2011 (US$'000)	December 31, 2010 (US$'000)
Trade deposit paid	$ 24,670	$ 24,514
Less: allowance for doubtful accounts	(14,444)	(14,353)
Total	$ 10,226	$ 10,161

7. OTHER CURRENT ASSETS

As of March 31, 2011 and December 31, 2010, the other current assets of US$19 and US$19, respectively, are mainly composed of the advanced payment of employee travel expenses and the components and parts for post-sales maintenance of products stored with maintenance vendors.

8. PLEDGED DEPOSIT

US$1,342 of pledged deposits as of March 31, 2011 and US$1,334 of pledged deposits as of December 31, 2010 were paid to Zhonghui, a guarantee company, in September 2008 as a pledge for US$6,874 (RMB47,000) of bank loans. Refer to Note 10, "Short-Term Bank Loans" for more discussion of the bank loans.

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2011 and December 31, 2010 consisted of the following:

	March 31, 2011 US$'000	December 31, 2010 US$'000
Moulds	4	4
Leasehold improvements	131	131
Office equipment	323	323
Motor vehicles	303	303
	761	761
Less: Accumulated depreciation	(608)	(605)
	153	156

The depreciation expenses were US$5 and US$8 for the three months ended March 31, 2011 and 2010 respectively.

10. SHORT-TERM BANK LOANS

All bank loans outstanding at March 31, 2011 and December 31, 2010 were borrowed by BOXT. Details of short-term bank loans are summarized as follows:

At March 31, 2011	Amount (RMB'000)	Annual interest rate	Term	Guarantee provided by
Loan from Beijing Rural Commercial Bank	47,000 (US$7,154)	10.08 %	From September 28, 2008 to September 27, 2009	Director Liu Yu; A guarantee company; pledged deposit of US$1,290
Loan from Huaxia Bank	17,200 (US$2,618)	6.3720 %	From February 20,2009 to February 20, 2010	Director Liu Yu; Two third party companies; Distributor Xingwang.
Total	64,200 (US$9,772)			

At December 31, 2010	Amount (RMB'000)	Annual interest rate	Term	Guarantee provided by
Loan from Beijing Rural Commercial Bank	47,000 (US$7,109)	10.08 %	From September 28, 2008 to September 27, 2009	Director Liu Yu; A guarantee company; pledged deposit of US$1,290
Loan from Huaxia Bank	17,200 (US$2,601)	6.3720 %	From February 20, 2009 to February 20, 2010	Director Liu Yu; Two third party companies; Distributor Xingwang.
Total	64,200 (US$9,710)			

US$7,154 of a loan from Beijing Rural Commercial Bank was originally due on September 27, 2009. The penalty interest rate on the principal and interest in default is 130% of the contracted interest rate and is chargeable from the due date of the principal. The Company accrued US$231 interests including penalty interest for the three months ended March 31, 2011.

US$2,618 of a loan from Huaxia bank was originally due on February 20, 2010. The Company accrued US$103 in interest including penalty interest for the three months ended March 31, 2011.

11. SHORT-TERM LOAN FROM A NON-FINANCIAL INSTITUTION

The US$320 short-term loan outstanding as of March 31, 2011 was provided by a third party company Zhonghui. It is unsecured, interest-free and repayable on September 27, 2009. The Company is currently negotiating an extension of the term with Zhonghui. No default penalty interest is chargeable according to the loan agreement.

12. AMOUNT DUE TO SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

(a) Name and relationship of shareholders

Related party	Relationship
Mr. Liu Yu	Director and shareholder of the Company
Mr. Wang Xin	Shareholder and former director of the Company (Resigned on March 27, 2009)

(b) Summary of balances due to shareholders and related party transactions

	March 31, 2011 US$'000	December 31, 2010 US$'000
Due to shareholders		
Mr. Liu Yu	467	465
Mr. Wang Xin	211	211
	678	676
Bank loans guaranteed by Mr. Liu Yu	9,780	9,780

The amounts due to shareholders are unsecured, interest-free and repayable on demand.

13. COMMITMENTS AND CONTINGENCIES

(a) Operating lease commitments

As of March 31, 2011 and December 31, 2010, the Company had non-cancelable operating leases for its office premises, under which the expected rental payment due within the next year was US$9 and US$53, respectively.

(b) Contingencies

Tax penalty

In accordance with the PRC's tax regulations, BOXT's sales are subject to a 17% value added tax ("VAT") upon the sales made to customers. BOXT follows the practice of reporting its revenue with VAT invoices issued to PRC tax authorities for VAT purposes. For the three months ended March 31, 2011 and 2010, there were sales amounting to US$3,459 and US$6,258, respectively, for which VAT invoices have not yet been issued.

The sales revenue of the three months ended March 31, 2011 and 2010 was US$3,914 and US$7,591, respectively, representing US$665 and US$1,291 output VAT, respectively. Meanwhile, the input VAT for which the invoice had been received was US$3,537 and US$214 for the three months ended March 31, 2011 and 2010, respectively. Therefore, the net VAT payable is US$0 and US$1,077 for the three months ended March 31, 2011 and 2010 respectively.

According to PRC tax law, only an input VAT supported with a sufficient invoice can be deducted from the current period's output VAT. If a purchase is made without obtaining an invoice, then the related input VAT is not allowed to be deducted.

As there is little tax payment made during the years, the accumulated VAT payable is US$26,930 and US$26,097 as of March 31, 2011 and December 31, 2010, respectively.

Furthermore, BOXT reports its revenue for PRC Enterprise Income Tax ("EIT") purposes when VAT invoices are issued rather than when goods are delivered. All unbilled revenue will become taxable when invoices are issued.

The above practice is not in strict compliance with the relevant PRC laws and regulations in respect of VAT and EIT. Despite the fact that BOXT has made full provision on VAT and EIT including any estimated surcharge in the consolidated financial statements, BOXT may be subject to a penalty for the deferred reporting of the above tax obligations. The exact amount of penalty cannot be estimated with any reasonable degree of certainty. The board of directors considers it is not probable the penalty will be imposed.

Litigation

There are two legal disputes with two suppliers of BOXT. Songding provides battery chargers and Baoxin provides packing materials to BOXT. The legal disputes with the abovementioned suppliers arose because the Company did not accept accessories and materials supplied by Songding and Baoxin due to quality issues. The management of BOXT ceased payment to Songding and Baoxin accordingly.

The dispute between Baoxin and BOXT commenced in arbitration initiated by Baoxin on October 2006, which was arbitrated by the Beijing Arbitration Commission on October 24, 2006. BOXT is obligated to pay Baoxin US$246. Currently, BOXT and Baoxin are in the process of final negotiations based on the arbitration result. As such, Baoxin applied to the court for property preservation and one of BOXT's bank accounts has been blocked accordingly. BOXT has recorded the arbitration result as an account payable to the supplier after the arbitration. The balance of account payable to Baoxin as of March 31, 2011 is US$38.

The resolution of the dispute between Songding and BOXT is still pending final arbitration. Songding has argued for BOXT to pay the amount of US$281 to Songding. Songding prepared the arbitration application on December 28, 2009 and applied to the court for property preservation to block a bank account of BOXT. The application was formally accepted by the Beijing arbitration commission on January 12, 2010. Since Songding applied for the property preservation to the court, one of BOXT's bank accounts has been blocked accordingly. The balance of accounts payable to Songding as of March 31, 2011 is US$56.

Warranty

During the three months ended March 31, 2011, we made no allowance for the warranty for product problems because, during this period, post-sale services for newly-launched products were undertaken by Original Equipment Manufacturers ("OEM") factories rather than the Company. Therefore, allowances were not made accordingly for these post-sale services.

Overdue Bank Loan

The Company currently has an overdue bank loan of US$7,154 from Beijing Rural Commercial Bank and US$2,618 from Huaxia Bank that were loaned on March 31, 2011. The Company is negotiating an extension of the terms of the loans with the banks.

14. UNAPPROPRIATED RETAINED EARNINGS

The Company's subsidiary, BOXT, is required to allocate at least 10% of its after tax profits as determined under generally accepted accounting principle in the PRC to a statutory dedicated reserve until the reserve balance reaches 50% of its registered capital. For the three months ended March 31, 2011, BOXT made appropriations to this statutory reserve of US$0 due to little net income incurred for the period.

15. STOCK OPTIONS

On March 27, 2008, a stock option plan named the "2007 Omnibus Long-Term Incentive Plan" (the "Plan") was approved by the board of directors. The purpose of the Plan is to promote the long-term performance goals and general prosperity of the Company. The Plan, which provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, unrestricted stock and cash awards, is designed to help the Company and its subsidiaries and affiliates attract and retain senior officers for positions of substantial responsibility and to provide non-employee directors and key employees with additional motivation and an incentive to improve the business results and contribute to the success of the Company.

On April 2, 2008, stock options to a subscribed total of 614,000 shares were granted to certain directors, senior officers and other key employees of the Company at an exercise price of US$2.26 per share. The options granted are exercisable from July 2, 2008. The expiration date of the options is April 2, 2018.

In accordance with the terms of the share-based payment arrangement, the aforementioned options were vested at the date of grant. According to a valuation report, dated August 1, 2008, issued by an independent professional appraiser, the fair value of these options was US$725, which was estimated on the date of grant using the Binomial Lattice option pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of transferability, exercise restrictions and behavioral consideration. Compensation expense of US$725 is charged to income as the benefit was fully vested at the date of grant. Key assumptions included in the estimation are as follows:

Expected dividend yield	-	
Expected stock price volatility	85.07	%
Risk free interest risk	3.61	%
Expected life of share options	10 Years	

A summary of the share option plan activity during the three month period ended March 31, 2011 is presented below:

	Number of share options (Unaudited)
As of January 1, 2011	614,000
Granted	-
Exercised	-
One-for-twelve split reduced shares	562,833
As of March 31, 2011	51,167

A summary of the share option plan activity during the year ended March 31, 2011 is presented below:

	Options Outstanding	Weighted Average Exercise Price	Weighted-average remaining contractual term (Years)
Outstanding as of December 31, 2010	614,000	$ 2.26	7.67
Granted	-		-
Forfeited	-		-

Exercised	-			-
One-for-twelve reverse split reduced share	562,833			
Outstanding as of March 31, 2011	51,167	$	0.19	7.42

16. LIABILITIES FOR POSSIBLE SETTLEMENT OF ACCOUNTS PAYABLE

Liabilities for possible settlement of accounts payable of US$12,681 arose from the provision of a penalty for unpaid accounts payable to suppliers on March 31, 2011. In the purchase contracts signed between suppliers and the Company since 2006, an agreed term between BOXT and the suppliers acknowledges that any outstanding payment which exceeds the agreed payment schedule will be imposed an additional 0.3% per day delayed payment penalty based on the principle amount of contract liability. However, some of such purchase contracts were signed before 2006, and according to relevant PRC civil laws and regulations, if the creditors did not claim for the right in writing to the Company within two years since the date on which the liability was due, the periods of prescription will expire after two years from the date on which the liability was due. We note that in the meantime, no legal letters related to this liability (0.3% penalty arising from the outstanding payment) were issued from our suppliers in the past 4 years. However, from the point of prudence principle, we accrued this liability based on the terms of the contract. As of March 31, 2011, the Company has accrued a possible penalty for the purchase contracts signed after March, 2009 based on such penalty term in the amount of US$1,451. Such possible liability was accrued during the three months ended March 31, 2011.

17. PENSION COSTS

As stipulated by the PRC regulations, the Company maintains a defined contribution retirement plan for all of its employees who are residents of the PRC. All retired PRC employees of the Company are entitled to an annual pension equivalent to their basic annual salary upon retirement. The Company contributed to a state sponsored retirement plan approximately 20% of the base salary of its PRC employees and has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The state sponsored retirement plan is responsible for the entire pension obligation payable to all employees. The pension expenses were US$2 and US$0 for the three months ended March 31, 2011 and 2010 respectively.

18. INCOME TAXES

The Company and its subsidiaries file separate income tax returns.

The United States of America

Orsus Xelent Technologies, Inc. is incorporated in the State of Delaware in the United States and is subject to a gradual U.S. federal corporate income tax of 15% to 35%. The State of Delaware does not impose any corporate state income tax.

British Virgin Islands

OXHBVI is incorporated in the British Virgin Islands. Under the current laws of the British Virgin Islands, OXHBVI is not subject to tax on income or capital gains. In addition, upon payments of dividends by OXHBVI, no British Virgin Islands withholding tax is imposed.

Hong Kong

UFI and OXTHK are incorporated in Hong Kong. UFI and OXTHK did not earn any income that was derived in Hong Kong for the three months ended March 31, 2011 and 2010 and therefore was not subject to Hong Kong Profits Tax. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax.

PRC

Effective from January 1, 2008, the PRC's statutory income tax rate is 25%. According to prior Corporate Income Tax Law, BOXT is characterized as a "Manufacturing Foreign Invested Enterprise" and enjoyed a 5 year period of reduced taxes. In the first 2 years, the Corporate Income Tax was exempted and during the remaining 3 years, an incentive tax rate (12.5%) was provided to the enterprise. Fiscal year 2009 was the last year of the five year period of reduced taxes. BOXT has to declare and pay 25% tax rate from the year 2010.

The Company's effective income tax rate was 25% and 13.14% for the three-month periods ended March 31, 2011 and 2010, respectively. The difference between effective tax rate and statutory tax rate primarily represented the tax effects on the non-taxable income and non-deductible expenses.

The Company had no other temporary differences as of March 31, 2011 and December 31, 2010.

As of March 31, 2011 and the year ended December 31, 2010, the Company and its subsidiaries did not have unrecognized tax benefits and therefore no interest or penalties related to unrecognized tax benefits were accrued. The Company does not expect that the amount of unrecognized tax benefits will change significantly within the next 9 months.

The Company and its subsidiaries mainly file income tax returns in the United States and PRC. The Company is subject to U.S. federal income tax examination by tax authorities for tax years beginning in 2008. According to the PRC Tax Administration and Collection Law, the statute of limitations is three years if the underpayment of taxes is due to computational errors made by the taxpayer or the withholding agent. The statute of limitations is extended to five years under special circumstances where the underpayment of taxes is more than RMB100 (US$15). In the case of transfer pricing issues, the statute of limitations is ten years. There is no statute of limitations in the case of tax evasion. The PRC tax returns for the Company's PRC subsidiary are open to examination by the PRC state and local tax authorities for the tax years beginning in 2008.

19. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share for the periods presented:

	Three months ended March 31, 2011 (Unaudited)	2010 (Unaudited)
Numerator used in basic net income per share:		
Net (loss)/income	32,031	(446)
Shares (denominator):		
Weighted average common shares outstanding	2,521,341	2,479,667
Plus: weighted average incremental shares from assumed exercise of warrants	-	-
Weighted average common shares outstanding used in computing diluted net income per common share	2,521,341	2,479,667
Earnings per ordinary share-basic and diluted	$ 12.73	$ (0.18)

20. CONCENTRATIONS AND CREDIT RISKS

As of March 31, 2011, the Company had a credit risk exposure of uninsured cash in banks of approximately US $4. To limit exposure to credit risk relating to deposits, the Company primarily places cash deposits only with large financial institutions in the PRC with acceptable credit ratings.

During the three months ended March 31, 2011, the Company was engaged principally in the design and trading of cellular phones to two primary distributors in the PRC. The Company's policy is that the sole agent arrangement gives the dealers more incentive to promote the Company's products and reduce the Company's exposure to the distribution market.

The Company buys certain major materials from one major supplier (over 67% of materials purchased). In addition, the Company subcontracts material purchasing and assembly works of cellular phones primarily to two subcontracting factories. The diversification of suppliers will reduce the risk of increasing production cost.

(a) During the three months ended March 31, 2011 and 2010, the Company's operating revenue was mainly derived from two distributors. For the three months ended March 31, 2011 and 2010, 88.38% and 82.40%, respectively, of total revenue was derived from our largest distributor Xingwang. There were no trade deposits received from Xingwang as of March 31, 2011 and 2010. Accounts receivable from Xingwang were US$91,927 and US$92,867 as of March 31, 2011 and December 31, 2010, respectively. As mentioned in Note 5, "Accounts Receivable", in the year 2008, a guarantee company provided a guarantee of up to US$45,661 (RMB300 million) for the accounts receivable from Xingwang for two years from the date they are due. The agreement has been renewed at March 30, 2011 and the guaranteed period was extended to the year ended December 31, 2011. In the newly signed guarantee contract, Zhonghui's guarantee amount has been increased from RMB300 million to RMB500 million.

(b) Suppliers accounting for over 10% of the Company’s purchases are as follows:

	Three months ended March 31 2011 % (Unaudited)		Three months ended March 31 2010 % (Unaudited)	
Supplier A	82	%	82	%
Supplier B	18	%	18	%
Total	100		100	

Advances to the above suppliers were US$10,226 and US$10,161 as of March 31, 2011 and December 31, 2010, respectively. Accounts payable owed to the above suppliers were US$10,306 and US$10,923 as of March 31, 2011 and December 31, 2010, respectively.

(c) Geographical information of the carrying amount of long-lived assets is as follows:

	31-March-11 US$’000 (unaudited)	31-Dec-10 US$’000 (audited)
PRC	152	156
Hong Kong	1	2
Total long-lived assets	153	158

The Company’s operations are carried out in the PRC. Accordingly, the Company’s business, financial condition and results of operations may be influenced by the political, economic and legal environments in the PRC as well as by the general state of the PRC’s economy. The business may be influenced by changes in governmental policies with respect to laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation, among other things.

21. SUBSEQUENT EVENTS

On April 27, 2011, the Company filed a Certificate of Amendment of its Certificate of Incorporation to effect a one-for-twelve reverse split of the Company’s issued and outstanding shares of common stock, par value $0.001 per share. The Certificate of Amendment was effective upon filing on April 27, 2011. The Company’s stockholders, at the 2010 Annual Meeting of Stockholders, had previously authorized the Company’s Board of Directors (the “Board”) to effect a reverse stock split at a ratio of up to one-for-thirty to be determined by the Board. There was no change to the authorized shares of common stock of the Company as a result of the reverse stock split. Any fraction of a share of common stock that would otherwise have resulted from the reverse split will rounded up to the next whole share. All authorized and outstanding share amounts have been retroactively adjusted to reflect the stock split.

Item 2. Management Discussion and Analysis of Financial Conditions and Results of Operations

The following is management's discussion and analysis of certain significant factors which have affected our financial position and operating results during the periods included in the accompanying consolidated financial statements, as well as information relating to the plans of our current management. This report includes forward-looking statements. Generally, the words "believes," "anticipates," "may," "will," "should," "expect," "intend," "estimate," "continue," and similar expressions or the negative thereof or comparable terminology are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties, including the matters set forth in this report or other reports or documents we file with the Securities and Exchange Commission from time to time, which could cause actual results or outcomes to differ materially from those projected. Undue reliance should not be placed on these forward-looking statements which speak only as of the date hereof. We undertake no obligation to update these forward-looking statements.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and the related notes thereto and other financial information contained elsewhere in this Form 10-Q.

OVERVIEW

The Company was organized under the laws of the State of Delaware in May 2004 under the name “Universal Flirts Corp.” On June 1, 2004, the Company acquired all the issued and outstanding shares of Universal Flirts, Inc., a New York corporation, from its sole shareholder, Darrel Lerner, in consideration for the issuance of 8,500,000 shares of the Company’s common stock to Mr. Lerner pursuant to a stock exchange agreement between Universal Flirts Inc. and the Company. Pursuant to the stock exchange transaction, Universal Flirts Inc. became a wholly-owned subsidiary of the Company.

Pursuant to a Stock Transfer Agreement dated March 29, 2005, the Company transferred all of the common stock of Universal Flirts, Inc. to Mr. Darrell Lerner in exchange for the cancellation of 28,200,000 shares of the Company’s common stock. Immediately following the cancellation, the Company had 14,756,000 shares of its common stock outstanding.

On March 31, 2005, Universal Flirts Corp. completed a stock exchange transaction with the stockholders of United First International Limited (“UFIL”), a company incorporated under the laws of Hong Kong. The exchange was consummated under the laws of the State of Delaware and pursuant to the terms of the Securities Exchange Agreement dated as of March 31, 2005 (“Exchange Agreement”). In connection with its acquisition of UFIL, the Company authorized a 4-1 forward split of its common stock.

Pursuant to the Exchange Agreement, Universal Flirts Corp. issued 15,000,000 shares of its common stock, par value US$0.001 per share, to the stockholders of UFIL, representing approximately 50.41% of the Company’s issued and outstanding common stock, in exchange for the 20,000,000 outstanding shares of UFIL and a cash payment of US$50,000 from UFIL. Immediately after giving effect to the exchange, the Company had 29,756,000 shares of its common stock outstanding. Pursuant to this exchange, UFIL became a wholly-owned subsidiary of the Company and most of the Company’s business operations are now conducted through UFIL’s wholly-owned subsidiary, Beijing Orsus Xelent Technology & Trading Company Limited (“Xelent”).

On April 19, 2005, the Company, formerly known as Universal Flirts Corp., changed its list name to Orsus Xelent Technologies, Inc.

In July, 2005, a wholly owned subsidiary of Orsus Xelent Trading (HK) Company Limited (“OXHK”), was incorporated under the laws of Hong Kong. This subsidiary is engaged in the trading of cellular phones and accessories with overseas customers. In September 2005, OXHK commenced its Hong Kong operations to sell and distribute our cellular phone products and technical support services to customers outside the People's Republic of China ("PRC").

In April 2007, the Company's common shares were approved for listing on NYSE Amex (formerly known as the American Stock Exchange) and began trading on NYSE Amex on May 10, 2007 under the ticker symbol "ORS".

On April 27, 2011, the Company filed a Certificate of Amendment of its Certificate of Incorporation to effect a one-for-twelve reverse split of the Company's issued and outstanding shares of common stock, par value $0.001 per share. The Certificate of Amendment was effective upon filing on April 27, 2011. The Company's stockholders, at the 2010 Annual Meeting of Stockholders, had previously authorized the Company's Board of Directors (the "Board") to effect a reverse stock split at a ratio of up to one-for-thirty to be determined by the Board. There was no change to the authorized shares of common stock of the Company as a result of the reverse stock split. Any fraction of a share of common stock that would otherwise have resulted from the reverse split will rounded up to the next whole share. The Company's new CUSIP number following the reverse split is 68749U205.

Business Review
The business operations of UFIL are conducted through its wholly-owned subsidiary, Xelent, also known as "Orsus Cellular" within the cellular phone industry. Xelent sells its handsets and total solutions, including economically priced and fully-loaded cell phones for both Global System for Mobile communications ("GSM") and Code Division Multiple Access ("CDMA") platforms, to a diverse base of customers and dealers, such as ordinary users, tailored operators, and specialized users from all fields of business and government. Most of our mobile phone models are either designed by us for both our exclusive distribution and joint sales under established co-brands, or developed in conjunction with outside design firms. In February 2004, Xelent registered "ORSUS" with the PRC State Administration for Industry and Commerce as its product trademark.

Many of Xelent's cellular phone products are equipped with industry cutting-edge features such as 1.8 to 2.8-inch CSTN, TFT or QVGA dual-color display; capacity to record videos lasting one minute up to four hours; 300K to 3 million pixel photography; MP3, MPEG4 and U disk support; dual stereo speakers; e-mail messaging; multimedia messaging; 40 to 64 ring tone storage; slim bar-phone and flip-phone technology; and innovative ultra-thin lightweight design.

Xelent has provided its handsets to many different types of consumers in the market for GSM mobile devices. At present, the GSM mobile devices constitute a significant percentage of the sales and profit of the Company. In addition, Xelent has emphasized the development of specialized application mobile terminals in accordance with market changes and popular features. The Company has established itself in the specialized application field and made significant marketing efforts since entering the field in September 2006. Based on its evaluation of the market and the engagement proposals received from its major customers, the Company began to produce GSM model X180 in large volumes starting in April 2007, thereby taking advantage of the opportunity to establish a presence in the specialized application mobile terminal market.

The Company's cell phone products are mainly produced through OEMs and the products are delivered from OEMs to distributors directly. The Company keeps no inventory or very limited quantity.

The Company did not reach the objectives established at the beginning of 2010 for its products strategy and operation results for the first quarter of 2011. For low priced products, the cost was not low enough to obtain the incentives and support from telecom operators; while for middle and high priced products, the establishment and development of successful sales channels were not strong enough. Looking forward to the second quarter of 2011, we will focus on the R&D of products which match the requirements from telecom operators to maintain an established sales channel.

In the area of marketing development, we will focus on markets in developing regions such as Africa while maintaining our traditional domestic market and creating more commercial opportunities by focusing on the R&D of products which meet the requirements and plans of telecom operators and match market trends.

For the quarter ended March 31, 2011, we also had a going-concern issue. We realized a minor profit of US$113. However, the working capital created from daily operations is not sufficient to support the operation of the Company. We believe that the current market and sales channel will continue to reduce the Company's profit making capability and development. Therefore, the Company has plans to focus on tele-communication industry related market, and new technologies/products research and development which will be the basis and reserve for future technology transformation.

In the meantime, we are exploring, among other things, a strategic merger possibility and an offering and sale of equity. If we are able to complete a strategic merger or sale of equity, we believe our cash flow situation will be improved significantly. As a further business strategy plan, we also plan to enter into new 3G markets in emerging countries in the coming quarters of 2011.

As explained above, the Company is experiencing cash flow issue, however, we are confident our efforts and solutions will be able to reduce this issue in the coming quarters of 2011. In summary, the Company predicts it will obtain healthy development based on the strengthening of its financial position in the coming fiscal year.

CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates based on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

RESULTS OF OPERATIONS

The following table summarizes our operating results for the three months ended March 31, 2011 and 2010, respectively (in thousand USD):

	Three months ended 31-Mar-11		Three months ended 31-Mar-10		Comparison	
	US$'000	% of Revenue	US$'000	% of Revenue	US$'000	%
Net sales	3,914	100.00 %	7,591	100.00 %	(3,677)	(48.44)%
Cost of sales	3,537	90.37 %	6,995	92.15 %	(3,458)	(49.44)%
Sales expenses	6	0.15 %	41	0.54 %	(35)	(85.37)%
General & administrative expenses	24	0.61 %	27	0.36 %	(3)	(11.11)%
Research and development expenses	0	0.00 %	5	0.07 %	(5)	(100.00)%
Depreciation and amortization	5	0.13 %	8	0.11 %	(3)	(37.50)%
Allowance for doubtful accounts	0	0.00 %	(251)	(3.31)%	251	(100.00)%
Interest expenses	333	8.51 %	213	2.81 %	120	56.34 %
Other (expenses)/income, net	(32,022)	(818.14)%	1,252	16.49 %	(33,274)	(2,657.67)%
Income before income tax expense	32,031	818.37 %	(699)	(9.21)%	32,730	(4,682.40)%
Deferred taxes benefit	0	0.00 %	(245)	(3.23)%	245	(100.00)%
Foreign currency translation adjustment	63	1.61 %	8	0.11 %	55	687.50 %
Net (loss)/income	32,094	819.98 %	(446)	(5.88)%	32,540	(7,295.96)%

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

Net sales

For the three months ended March 31, 2011, the total revenues of the Company were US$3,914,000, representing a decrease of 48.44% as compared to US$7,591,000 in the same period of 2010. We have analyzed detailed reasons for the sales revenue decrease under the "Business Review" section of this Item 7.

Products Segment

For the three months ended March 31, 2011, the Company's sales were primarily attributable to the following products:

Cellular phones model	Three months ended March 31, 2011	
	Amount (US$'000)	% of total revenue
F608	2,013	58 %
C3	746	22 %
YT668	700	20 %
Total		100 %

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Customer Segments

For the three months ended March 31, 2011, our sales in the aggregate amount of US$3,459,000 were derived mainly from Xingwang. Xingwang has been our most important distributor for a long period of time. It is one of the largest distributors in mainland China and has sales networks in major cities across the PRC.

	Three months ended March 31, 2011		
	Amount (US$'000)	% of total sales	
Beijing Xingwang Shidai Tech & Trading Co., Ltd.	3,459	88.38	%
Jinan Wanxiang	361	9.22	%
Shenzhen Oubei	94	2.40	%
Total	3,914	100	%

Gross Margin

For the three months ended March 31, 2011, gross profit rate was 9.63%, representing an increase of 1.78% in gross profit when compared to the same period of 2010 which was 7.85%. As one key sales strategy of the first quarter of 2011, the Company has adjusted the sales price for some of its key products, decreased the trading and selling of low price products which increased the gross profit to a reasonable level compared with the same period of last year.

For the three months ended March 31, 2011, F608 products have contributed approximately 58% of our revenue in the quarterly financial results. Marketed at a very reasonable price, these F608 products were sold in such a large quantity that they boosted the Company's overall gross margin for this quarter.

Under the guidance of its previously planned products strategy, the Company will focus on broadening its sales channels for high-profit customized products and enhancing its existing customer base and sales channel in the traditional low-priced market . To maintain a sustainable growth in gross margin, the Company is planning to extend its product development in line with telecom operators' requirements.

Selling expenses

Selling expenses mainly represent payments made to sales personnel and transportation costs.

For the three months ended March 31, 2011, selling expenses were US$6,000, or 0.15% of revenues, representing a US$35,000 decrease compared with US$41,000 for the corresponding period in 2010.

The decrease in selling expenses was due to an overall decrease in sales as compared to the same period of 2010.

Research and Development (R&D) expenses

For the three months ended March 31, 2011, R&D expenses were US$0, representing a decrease with US$5,000 compared with the same period of 2010. This is due to the fact that there were no any new R&D activities planned and performed in the first quarter of 2011 and the salary of R&D staff has been reallocated into G&A expenses.

General and administrative expenses

General and administrative expenses primarily consist of compensation for personnel, travel expenses, rental, materials expenses related to ordinary administration and fees for professional services.

For the three months ended March 31, 2011, total general and administrative expenses were US$24,000, or 0.61% of total revenues, representing a decrease of US$3,000, or 11.11% as compared to US$27,000, or 0.36%, of the total revenues for the corresponding period in 2010.

The sharp decrease in general and administrative expenses was primarily attributable to structural adjustment, internal management control and costs reduction.

Interest expenses

For the three months ended March 31, 2011, interest expenses increased by US$120,000 compared with the same period in 2010 due to the Company accrued more interests to outstanding bank loans in three months ended at March 31, 2011.

Other (expenses) income, net

For the three months ended March 31, 2011, other income were US$32,022,000, or 818.14% of total revenues, representing an increase of US$33,274,000, or 2,657.67% as compared to US$1,252,000, or 16.49%, of the total revenues for the corresponding period in 2010. The significant change is due-to the newly guarantee contract has been signed in first quarter of 2011, as such, part AR which was expensed as bad debt allowance in 2010 has been reversed back.

Provision for income taxes

For the three months ended March 31, 2011, provision for income taxes increased by US$38,000 compared with the same period in 2010 due to foreign exchange rate influence;

Net income

For the three months ended March 31, 2011, our net income was US$32,094,000 or a net profit margin of 819.98%, representing an increase of US$32,540,000, as compared to US$(446,000), or a net profit margin of -5.88% in the same period of 2010. The significant increase for the net income is due to the charge back of expensed bad debt allowance in 2010.

LIQUIDITY AND SOURCES OF CAPITAL

The Company's business relies on few distributors. In the current economic environment, turnover days of accounts receivable due from these distributors are longer. At financial year ended at December 31, 2010, per the consideration of prudence, the Company recognized US$33,836,000 of bad debt for which the aging has exceeded 360 days and the debt is not guaranteed by Zhonghui, a third party guarantee company. At March 30, 2011, the guarantee agreement has been renewed among the Company, Zhonghui and Xingwang, under this new contract, Zhonghui renewed its guarantee amount to the Company for any sales to Xingwang from RMB300 million to not more than RMB500 million. The agreement covers the period from January 1st, 2011 to December 31, 2011 As such, the Company charged back US$33,469,000 bad debt allowance expensed in 2010.
As a further strategy, the Company will continuously focus on the collection from its distributors.

The Company has limited cash and cash equivalents on hand and may obtain loans from banks to finance business operation from time to time. The Company currently has an overdue loan from Beijing Rural Commercial Bank at March 31, 2011. The Company is negotiating an extension of the term with the bank.

The Company did not pay salaries and welfare to employees in the first quarter of 2011 due to a difficulty in cash flow.

We generally finance our operations from cash flow generated internally and short-term financing from domestic banks in China.

As of March 31, 2011, we had current assets of US$105,720,000.. Current assets are mainly comprised of accounts receivable of US$94,125,000, advances to suppliers of US$10,226,000, cash and cash equivalents of US$4,000, pledged deposits of US$1,342,000, restricted cash of US$4,000 and other current assets of US$19,000.

As of March 31, 2011, our current liabilities were US$78,329,000 and included short-term bank loans of US$9,772,000, short-term loan payable of US$320,000, accounts payable of US$10,306,000, accrued expenses and other accrued liabilities of US$5,216,000, trade deposits received of US$4,869,000, amounts due to shareholders of US$678,000, income taxes payable of US$6,106,000, other taxes payable of US$26,930,000 and liabilities for possible settlement to accounts payable of US$14,132,000.

We offer two different trading terms to our customers: cash-on-delivery or credit terms of 45-120 days. As of March 31, 2011, our accounts receivable had increased by US$34,079,000 to US$94,125,000, as compared to US$60,046,000 on December 31, 2010. The increase in accounts receivables was mainly due to the Zhonghui Guarantee renews guarantee contract with the Company, guaranteed amount are increased from RMB300 million to RMB500 million, accordingly, management of the Company charged back US$33,469 accounts receivables.

As of March 31, 2011, our advances to suppliers were US$10,226,000, which represented an increase of US$65,000 as compared with US$10,161,000 as of December 31, 2010. The increase was primarily because purchases in the current quarter increased from the same period last year.

As of March 31, 2011, our other current assets were US$19,000, which represented a decrease of US$0, as compared to US$19,000 as of December 31, 2010. There were no any significant changes between these two periods.

As of March 31, 2011, our accounts payable were US$10,306,000, which represents a decrease of US$617,000, or 5.65%, as compared to US$10,932,000 as of December 31, 2010. This decrease was mainly because we reduced our purchasing from vendors in the first quarter of 2011.

As of March 31, 2011, accrued expenses and liabilities were US$5,216,000, representing an increase of US$186,000 or 3.70%, compared to US$5,030,000 as of December 31, 2010. The increase was mainly due to accrued salary and accrued VAT during the past period.

During this quarter, we made no allowance for warranty problems because, during this period, after-sale services for newly-launched products were undertaken by OEM factories, rather than the Company. Therefore, allowances were not made accordingly for these after-sale services.

As of March 31, 2011, income tax payable was US$6,106,000, representing an increase of US$38,000 or 0.63%, compared to US$6,068,000 as of December 31, 2010. The increase was mainly due to foreign exchange rate adjustments.

As of March 31, 2011, cash and bank balances were mainly denominated in Renminbi (“RMB”). Our revenue and expenses, assets and liabilities are mainly denominated in RMB and U.S. Dollars (“USD”). The Company operations are mainly denominated in RMB.

CASH FLOWS

	Three Months Ended March, 31	
	2011	2010
	Amount in thousand US dollars	
Net cash used in operating activities	$’000(1)	$’000(365)
Net cash used in investing activities	0	0
Net cash provided by financing actives	0	0
Effect of foreign currency exchange rate changes on cash and cash equivalents	0	1
Net (decrease) / increase in cash and cash equivalents	$’000(1)	$’000(364)

Net cash used in operating activates:

The cash used in operating activities increased from US$(365,000) to US$(1,000), which was due-to a better payment collection and the direct decrease of expenses.

OFF BALANCE SHEET ARRANGEMENTS

As of March 31, 2011, we had no off-balance sheet arrangements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk is the sensitivity of income to changes in interest rates, foreign exchanges, commodity prices, equity prices and other market-driven rates or prices. The Company, in the normal course of doing business, is exposed to market risk through changes in interest rates with respect to bank loans. Aggregate bank loans as of March 31, 2011, were US$9,772,000. The interest rate for the three months ended March 31, 2011was charged at 6.372% to 10.080% per annum.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports filed by the Company under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and regulations and that such information is accumulated and communicated to our management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer evaluated, with the participation of other members of management, the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 15d-15(e)), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective.

Although the management of our Company, including the Chief Executive Officer and the Chief Financial Officer, believes that our disclosure controls and internal controls currently provide reasonable assurance that our desired control objectives have been met, management does not expect that our disclosure controls or internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Changes in Internal Controls over Financial Reporting

There were no significant changes in our internal controls over financial reporting identified in connection with this evaluation that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

We are party to certain litigation/arbitration with regards to amounts payable to suppliers for which the Company was not satisfied with the quality and timing of the goods supplied. However, the amount in question is not material to the Company and we believe that such litigation/arbitration will not have a material adverse effect on us or our business and that we will be able to resolve these issues through further business negotiations.

Item 1A. Risk Factors.

Not required.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(a) None.

(b) Not applicable.

(c) None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

(a) On March 30, 2011 the Company entered into a Credit Guarantee Contract with Beijing Xingwang Shidai Tech & Trading Co., Ltd ("Xingwang") and Zhong Hui Guarantee Corporation ("Zhonghui"), attached hereto as Exhibit 10.5, by which Zhonghui renewed its guarantee for any sales to Xingwang from RMB300 million to not more than RMB500 million. The agreement covers the period from January 1, 2011 to December 31, 2011.

(b) There were no material changes to the procedures by which security holders may recommend nominees to the registrant's board of directors during the fiscal quarter ended March 31, 2011.

Item 6. Exhibits.

The following exhibits, which are numbered in accordance with Item 601 of Regulation S-K, are filed herewith or, as noted, incorporated by reference herein:

Exhibit Number	Exhibit Description
3.1	Certificate of Incorporation of Orsus Xelent Technologies, Inc. (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on July 28, 2004 as amended by that Plan of Merger and Agreement of Merger attached as Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on April 20, 2005 and by the Certificate of Amendment attached as Exhibit 3.5 to the Current Report on Form 8-K filed with the SEC on April 28, 2011)
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference from Exhibit 3.2 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 15, 2011)
4.1	Specimen Certificate of Common Stock (incorporated by reference to Exhibit 4.1 to Amendment 2 to the Registration Statement on Form SB-2/A filed with the Securities and Exchange Commission on October 19, 2004)
10.1	2007 Omnibus Long-Term Incentive Plan (incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on January 11, 2008)
10.2	Master Distributor Agreement, dated as of August 7, 2008, by and between Beijing Orsus Xelent Technology & Trading Company Limited and Beijing Xingwang Shidai Commerce Co., Ltd. (incorporated by reference from Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 20, 2008)
10.3	Lease Contract, dated as of January 1, 2009, by and between Beijing Longyida Property Management Co. Ltd. and Orsus Xelent Technologies, Inc. (incorporated by reference from Exhibit 10.3 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 15, 2011)
10.4	Extension of Lease Contract, dated as December 31, 2009, by and between Beijing Longyida Property Management Co. Ltd. and Orsus Xelent Technologies, Inc. (incorporated by reference from Exhibit 10.4 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 15, 2011)
10.5	Credit Guarantee Contract, dated March 30, 2011, by and among Beijing Xingwang Shidai Tech & Trading Co., Ltd, Beijing Orsus Xelent Tech& Trading Company, and Zhong Hui Guarantee Corporation *
31.1	Certification of Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002 *
31.2	Certification of Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002 *
32.1	Certification of Principal Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002 *
32.2	Certification of Principal Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 *

* Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ORSUS XELENT TECHNOLOGIES, INC.

By:	/s/ Guoji Liu Guoji Liu Chief Executive Officer
By:	/s/ Hua Chen Hua Chen Chief Financial Officer

DATED: May 22, 2011

INDEX TO EXHIBITS

Exhibit Number	Exhibit Description
3.1	Certificate of Incorporation of Orsus Xelent Technologies, Inc. (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on July 28, 2004 as amended by that Plan of Merger and Agreement of Merger attached as Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on April 20, 2005 and by the Certificate of Amendment attached as Exhibit 3.5 to the Current Report on Form 8-K filed with the SEC on April 28, 2011)
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference from Exhibit 3.2 to the Annual Report on Form 10-K filed with the Securities and Exchange Commission on April 15, 2011)
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