



**VASO DIGITAL INTERNATIONAL HOLDINGS LIMITED**

**華索國際控股有限公司\***

(incorporated in the Cayman Islands with limited liability)

Third Quarterly  
Report 2002

*\*For identification purposes only*

## **Characteristics of the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)**

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

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

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

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*This report, for which the directors of Vaso Digital International Holdings 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 for the purpose of giving information with regard to the Company. The directors of the Company, 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.*

## FINANCIAL RESULTS

The board of directors (the "Board") of the Company announces the unaudited condensed pro forma combined results of the Company and its subsidiaries (the "Group") for the three and nine months ended 31st December, 2002 together with the comparative figures for the corresponding periods in 2001 as follows:

		Nine months ended 31st December,		Three months ended 31st December,	
		2002	2001	2002	2001
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	<b>14,871</b>	9,749	<b>5,340</b>	2,407
Cost of sales		<b>(11,706)</b>	(7,662)	<b>(4,335)</b>	(1,929)
Gross profit		<b>3,165</b>	2,087	<b>1,005</b>	478
Other revenue		<b>8</b>	4	<b>8</b>	1
Selling and distribution costs		<b>(74)</b>	(138)	<b>(31)</b>	(46)
Administrative expenses		<b>(2,168)</b>	(1,354)	<b>(1,002)</b>	(325)
Other operating expenses		<b>(293)</b>	(390)	<b>(34)</b>	(150)
Profit/(loss) from operating activities		<b>638</b>	209	<b>(54)</b>	(42)
Finance costs		<b>(39)</b>	–	<b>(39)</b>	–
Profit/(loss) before tax		<b>599</b>	209	<b>(93)</b>	(42)
Tax	3	–	–	–	–
Net profit/(loss) from ordinary activities attributable to shareholders		<b>599</b>	209	<b>(93)</b>	(42)
Dividend	5	–	–	–	–
Earnings/(loss) per share	4				
– Basic (cent)		<b>0.15</b>	0.05	<b>(0.02)</b>	(0.01)
– Diluted (cent)		<b>N/A</b>	N/A	<b>N/A</b>	N/A

Notes:

### 1. Group reorganisation and basis of presentation

The Company was incorporated in the Cayman Islands on 27th June, 2002 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") in preparation for the listing of the Company's shares on GEM, the Company acquired the entire issued share capital of Dynamic Choice Technology Limited and became the holding company of the subsidiaries comprising the Group on 19th October, 2002. Further details of the Group Reorganisation are set out in the Company's prospectus dated 30th October, 2002. The shares of the Company (the "Shares") were listed on GEM on 12th November, 2002 (the "Listing Date").

The unaudited consolidated results for the three months and nine months ended 31st December, 2002 include the results of the Company and all of its subsidiaries for the three months and nine months ended 31st December, 2002.

The unaudited comparative pro forma combined results have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries since their respective dates of incorporation rather than from the date of their acquisition pursuant to the Group Reorganisation. Accordingly, the unaudited pro forma combined results of the Group for the three months and nine months ended 31st December, 2001 have been prepared on the basis that the current Group structure has been in place throughout the three months and nine months ended 31st December, 2001.

All significant transactions and balances among the companies comprising the Group have been eliminated on consolidation/combination.

### 2. Turnover

The Group's turnover represents the net invoiced value of goods sold, after allowance for returns and trade discount, when applicable.

	Nine months ended 31st December,		Three months ended 31st December,	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover				
IC recorders	<b>6,394</b>	4,941	<b>2,275</b>	1,100
MP3 players	<b>5,502</b>	3,719	<b>1,648</b>	1,208
DVD players	<b>2,975</b>	1,089	<b>1,417</b>	99
	<b><u>14,871</u></b>	<u>9,749</u>	<b><u>5,340</u></b>	<u>2,407</u>

### 3. Tax

Hong Kong profits tax for the three months and nine months ended 31st December, 2002 have not been provided (three months and nine months ended 31st December, 2001: Nil) as the Group had sufficient tax losses brought forward to offset against the estimated assessable profits arising during the periods. No provision for overseas profits tax has been made as the Group did not generate any assessable profits arising in the overseas countries in which the Group operates during the periods.

No deferred tax had been provided for the Group because there were no significant timing differences at the respective balance sheet dates.

#### 4. Earnings/(loss) per share

The calculations of basic earnings/(loss) per share are based on the unaudited net loss from ordinary activities attributable to shareholders for the three months ended 31st December, 2002 of approximately HK\$93,000 and unaudited net profit from ordinary activities attributable to shareholders for the nine months ended 31st December, 2002 of approximately HK\$599,000 (three months and nine months ended 31st December, 2001: net loss of approximately HK\$42,000 and net profit of approximately HK\$209,000, respectively) and the weighted average of approximately 458,912,000 and 407,204,000 shares in issue during the three months and nine months ended 31st December, 2002, respectively (pro forma number of shares in issue for the three months and nine months ended 31st December, 2001: 389,300,000 shares).

No diluted earnings per share has been presented as no dilutive events existed during the three months and nine months ended 31st December, 2002 and the corresponding periods in 2001.

#### 5. Dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December, 2002 (nine months ended 31st December, 2001: Nil).

#### 6. Reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Accumulated losses/ Retained earnings HK\$'000	Total HK\$'000
At 1st April, 2001	–	3,930	(3,434)	496
Net profit for the period	–	–	251	251
At 30th September, 2001	–	3,930	(3,183)	747
Net profit for the period	–	–	(42)	(42)
At 31st December, 2001	–	3,930	(3,225)	705
At 1st April, 2002	–	3,930	(2,634)	1,296
Issue of shares to public	19,200	–	–	19,200
Issue of shares to the pre-IPO Investors	5,990	–	–	5,990
Capitalisation on issue of shares	(4,312)	–	–	(4,312)
Share issue expenses	(7,053)	–	–	(7,053)
Net profit for the period	–	–	692	692
At 30th September, 2002	13,825	3,930	(1,942)	15,813
Net profit for the period	–	–	(93)	(93)
<b>At 31st December, 2002</b>	<b>13,825</b>	<b>3,930</b>	<b>(2,035)</b>	<b>15,720</b>

## REVIEW AND PROSPECTS

### General

The Group is principally engaged in the development, design and sale of digital AV products which include IC Recorders, MP3 players and DVD players for the mid-price segment of the market. It is the objective of the Group to be a leading provider and developer of digital AV products in the Asia market. The Group's products are sold to importers, exporters and distributors based in Japan, Hong Kong and Asia. During the nine months ended 31st December, 2002, the sales for IC Recorders, MP3 players and DVD players accounted for approximately 43%, 37% and 20% of the total turnover respectively.

### Financial review

During the nine months ended 31st December, 2002, the Group recorded a turnover of approximately HK\$14,871,000, an increase of approximately 52.5% compared to the corresponding period in previous year. The turnover for the nine months ended 31st December, 2002, comprised sales of IC Recorders, MP3 players and DVD players which accounted for approximately 43%, 37% and 20% of the total turnover respectively as compared to 51%, 38% and 11% of the total turnover in the corresponding period in previous year. All the products recorded growth compared to the corresponding period in previous year. The increase in turnover was mainly due to increase in quantity sold of the Group's products to new and existing customers due to more successful marketing efforts by the Group.

The gross profit margin for the nine months ended 31st December, 2002 was approximately 21% and remained fairly stable compared to the corresponding period in previous year as the prices of the products sold remained fairly stable.

During the same period, the Group's net profit from ordinary activities attributable to shareholders amounted to approximately HK\$599,000, representing an increase of approximately 187% as compared to the corresponding period in previous year. The increase was mainly attributed to the increase in turnover and gross profit. However, the administrative expenses of the Group amounted to approximately HK\$2,168,000, an increase of approximately 60% compared to the corresponding period in previous year. The increase was mainly due to increase in overheads arising from higher administrative expenses following the listing of the Company's shares.

## Operation review

The Group continued to perform research and development activities in particular developing new features for its existing AV products such as combining FM features, extended compression memory features with its products. The Group has also begun introducing such new features to its customers.

On the marketing side, the Group has started negotiating with new customers in the People's Republic of China ("PRC") to form joint marketing distribution agreements. To date, no agreement has been concluded.

During the three months ended 31st December, 2002, the Group has started acquiring plant, machinery and related facilities to support the Group's production facilities in the PRC as planned. However, to save time and cost, the Group intends to establish such production facilities through a processing agent in the PRC instead of a Wholly Foreign Owned Enterprise ("WFOE") in the PRC. The Group intends to set up the WFOE at a later date. The location of the production facilities is at Shenzhen, in the Guangdong Province, the PRC.

## Outlook

Looking ahead, the Group expects the global economic environment to be weak. However, the Group is confident of meeting such challenges through developing new models of the Group's products, developing new and strengthening existing relationships with customers.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st December, 2002, according to the register required to be kept under Section 29 of the Securities (Disclosure of Interests) Ordinance or otherwise notified to the Company pursuant to the minimum standards of dealings by Directors as referred to in Rule 5.40 to 5.59 of the Rules Governing the Listing of Securities on GEM (the "GEM Listing Rules"), the interests of Directors and chief executive in the Company's issued share capital were as follows:

Director	Number of Shares				Total Interests
	Corporate Interests	Personal Interests	Family Interests	Other Interests	
Mr. Yasukawa Yoshihiro	364,000,000 (Note)	-	-	-	364,000,000

Note: These Shares are registered in the name of Share Able Investments Limited ("Share Able"). Share Able is beneficially owned by Upgain Ventures Group Limited ("Upgain"), Number Great Investments Limited ("Number Great") and UPB Group Inc. ("UPB") in the proportion of 45%, 27.5%, and 27.5% respectively. Upgain is 60% owned by Mr. Yasukawa Yoshihiro and 20% owned by Mr. Lee Chun Piu, another Director. UPB is 100% owned by Mr. Yasukawa Yoshihiro.

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, save for the interests of Directors and chief executive disclosed above, according to the register required to be kept by the Company under Section 16(1) of the Securities (Disclosure of Interests) Ordinance, the following person was interested in 10% or more of the Company's issued share capital:

Name	Number of Shares held	Approximate percentage of the shareholding in the Company
Share Able (Note)	364,000,000	70%

*Note:* Share Able is beneficially owned by Upgain, UPB and Number Great in the proportion of 45%, 27.5% and 27.5% respectively. Upgain is 60% owned by Mr. Yasukawa Yoshihiro and 20% owned by Mr. Lee Chun Piu, another Director. UPB is 100% owned by Mr. Yasukawa Yoshihiro. Accordingly, each of Upgain and Mr. Yasukawa Yoshihiro is deemed to be interested in the Shares held by Share Able under the SDI Ordinance.

## SHARE OPTION SCHEME

On 19th October, 2002, the Company adopted a share option scheme (the "Share Option Scheme") under which share options to subscribe for Shares may be granted under the terms and conditions stipulated therein. Since the Listing Date, no share option has been granted under the Share Option Scheme.

## DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SECURITIES

Apart from as disclosed under the heading "Directors' and chief executive's interests in securities" above, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangements to enable the Directors and chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities, including debentures, of the Company or any other body corporate and none of the Directors, chief executive or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Since the listing of the Company's shares on GEM on the Listing Date and up to 31st December, 2002, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.



## **COMPETING INTERESTS**

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

## **INTEREST OF SPONSOR**

According to a sponsorship agreement between the Company and Kingston Corporate Finance Limited (the "Sponsor"), for a fee, the Sponsor acts as the Company's continuing Sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period up to 31st March, 2005.

As notified by the Sponsor, as at 31st December, 2002, neither the Sponsor nor its directors or employees or associates, had any interests in the securities of the Company or any member of the Group, or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group.

## **COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES**

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules, since the listing of the Company's shares on GEM on the Listing Date.

## **AUDIT COMMITTEE**

The Company established an audit committee on 19th October, 2002 with written terms of reference in compliance with the requirements set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group. The audit committee comprises two independent non-executive Directors, namely, Mr. Christopher Leu and Mr. Goh Gen Cheung. The Group's unaudited results for the three months and nine months ended 31st December, 2002 have been reviewed by the audit committee who was of the opinion that the preparation of such results complied with the applicable accounting standards, the Stock Exchange and legal requirements and that adequate disclosure have been made.

By order of the Board  
**Vaso Digital International Holdings Limited**  
**Yasukawa Yoshihiro**  
*Chairman*

Hong Kong, 27th January, 2003