



**VASO DIGITAL INTERNATIONAL HOLDINGS LIMITED**

**華 索 國 際 控 股 有 限 公 司\***

(Incorporated in the Cayman Islands with limited liability)

First Quarterly  
Report 2003

## **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.**

*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 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 (the “GEM Listing Rules”) 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 consolidated/combined results of the Company and its subsidiaries (the "Group") for the three months ended 30th June 2003 together with the comparative figures for the corresponding period in 2002 as follows:

		<b>Three months ended</b>	
		<b>30th June</b>	
		<b>2003</b>	2002
		<b>(Unaudited)</b>	(Unaudited)
	<i>Note</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	2	<b>24,228</b>	4,182
Cost of sales		<b>(21,908)</b>	(3,224)
Gross profit		<b>2,320</b>	958
Other revenue		<b>9</b>	–
Distribution expenses		<b>(40)</b>	(20)
Administrative expenses		<b>(592)</b>	(477)
Other operating expenses		<b>(437)</b>	(74)
Profit from operations		<b>1,260</b>	387
Finance costs		<b>(44)</b>	–
Profit before taxation		<b>1,216</b>	387
Taxation	3	<b>(213)</b>	–
Profit attributable to shareholders		<b>1,003</b>	387
Dividend	5	–	–
Earnings per share	4		
– Basic (cent)		<b>0.19</b>	0.09
– Diluted (cent)		<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 (Revised) of the Cayman Islands. Pursuant to a group 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 became the holding company of 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 were listed on GEM on 12th November 2002.

The unaudited consolidated results for the three months ended 30th June 2003 include the results of the Company and all of its subsidiaries for the three months ended 30th June 2003.

The unaudited comparative 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 combined results of the Group for the three months ended 30th June 2002 have been prepared on the basis that the current Group structure has been in place throughout the three months ended 30th June 2002.

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.

	Three months ended 30th June	
	2003 HK\$'000	2002 HK\$'000
Turnover		
Integrated circuit recorders ("IC recorders")	1,800	1,996
Mpeg-1 audio layer-3 players ("MP3 players")	1,253	1,686
Digital versatile disc players ("DVD players")	21,175	500
	<b>24,228</b>	<b>4,182</b>

### 3. Taxation

Hong Kong profits tax for the three months ended 30th June 2003 has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the period (three months ended 30th June 2002: Nil).

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

#### 4. Earnings per share

The calculation of basic earnings per share is based on the unaudited profit attributable to shareholders for the three months ended 30th June 2003 of approximately HK\$1,003,000 (three months ended 30th June 2002: approximately HK\$387,000) and 520,000,000 shares in issue during the three months ended 30th June 2003 (pro forma number of shares in issue for the three months ended 30th June 2002: 440,000,000 shares).

No diluted earnings per share has been presented as no dilutive events existed during the three months ended 30th June 2003 and the corresponding period in 2002.

#### 5. Dividend

The Board does not recommend the payment of any dividend for the three months ended 30th June 2003 (three months ended 30th June 2002: Nil).

#### 6. Reserves

	Share premium <i>HK\$'000</i>	(Accumulated losses)/ Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st April 2002	3,930	(2,634)	1,296
Net profit for the period	—	387	387
At 30th June 2002	<u>3,930</u>	<u>(2,247)</u>	<u>1,683</u>
At 1st April 2003	17,816	252	18,068
Net profit for the period	—	1,003	1,003
<b>At 30th June 2003</b>	<b><u>17,816</u></b>	<b><u>1,255</u></b>	<b><u>19,071</u></b>

## REVIEW AND PROSPECTS

### General

The Group is principally engaged in the development, design and sale of digital audio and visual ("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.

### Financial review

During the three months ended 30th June 2003, the Group recorded a turnover of approximately HK\$24,228,000, an increase of approximately 4.8 times compared to the corresponding period in previous year. The turnover for the three months ended 30th June 2003, comprised sales of IC recorders, MP3 players and DVD players which accounted for approximately 8%, 5% and 87% of the total turnover respectively as compared to approximately 48%, 40% and 12% of the total turnover in the corresponding period in previous year. The increase in turnover was mainly due to increase in sales of DVD players from approximately HK\$500,000 in the three months ended 30th June 2002 to approximately HK\$21,175,000 in the three months ended 30th June 2003. The increase was mainly attributed to an increase in sales to new and existing customers.

The gross profit margin for the three months ended 30th June 2003 was approximately 9.6% as compared to approximately 23% in the corresponding period in previous year. The decrease was due to a large increase in the sales of DVD players which commanded lower gross profit margins as compared to the sales of other digital AV products owing to the competitive environments in the digital market.

During the same period, the Group's profit attributable to shareholders amounted to approximately HK\$1,003,000, representing an increase of approximately 159% as compared to the corresponding period in previous year. The increase was mainly attributed to the increase in turnover and gross profit. However, the distribution expenses, the administrative expenses and other operating expenses of the Group increased by approximately 100%, 24% and 491% respectively compared to the corresponding period in previous year due to increase in turnover and expenses following the listing of the Company's shares in GEM.

## Operation review

The principal progress of the Group's operations during the three months ended 30th June 2003 consisted as follows:

The Group continued to promote the Group's digital AV products, namely IC recorders, MP3 players and DVD players to new and existing customers. Such efforts generated results by way of increased turnover during the three months ended 30th June 2003 compared to the corresponding period. All the products were sold under the Group's customers' brandnames as the Group is in the process of applying its registration of the Group's trademarks in Hong Kong. These applications are subjected to approval by the Trade Marks Registry in Hong Kong and barring any unforeseen circumstances, the directors of the Company expect that the Group should obtain the relevant trademark registrations before the year ending 31st March 2004.

The Group commenced to promote the Group's products in the People's Republic of China ("PRC") together with its distributor in the PRC. During the three months ended 30th June 2003, the Group's products were sold to customers based in Japan and Hong Kong.

On the research and development progress, the Group continued to develop new features for its existing digital AV products. They include IC recorders with MP3 players and FM features, IC recorders/MP3 players with extended compression memory features, IC recorders/MP3 players with built in slots for memory sticks/cards and IC recorders/MP3 players with built in digital camera features.

To cope with the expansion in the demand for its products, the Group continued to expand its production capacity of its production facilities in Shenzhen, Guangdong Province, PRC by acquiring additional plant, machinery and related production facilities.

## Outlook

Looking ahead, the Group expects the global economic environment to be recovering moderately. The Group is prepared to meet any challenges ahead. The Group will strengthen its position by developing new models of the Group's products, soliciting new customers and strengthening its existing relationships with customers.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30th June 2003, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors as referred to in Rules 5.40 to 5.58 of the GEM Listing Rules 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 Uppgain Ventures Group Limited ("Uppgain"), Number Great Investments Limited ("Number Great") and UPB Group Inc. ("UPB") in the proportion of 45%, 27.5% and 27.5% respectively. Mr. Yasukawa Yoshihiro holds 60% and 100% equity interests in Uppgain and UPB respectively. Mr. Lee Chun Piu holds 20% equity interests in Uppgain.



## SUBSTANTIAL SHAREHOLDERS

As at 30th June 2003, the interests and short positions of persons, other than a director of the Company, in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Number of shares held	Approximate percentage of the shareholding in the Company
Share Able ( <i>Note</i> )	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. UPB is 100% owned by Mr. Yasukawa Yoshihiro. Accordingly, each of Upgain and Mr. Yasukawa Yoshihiro is deemed to be interested in the shares of the Company held by Share Able under the SFO.

Save as disclosed above, as at the 30th June, 2003, the directors of the Company were not aware of any other person (other than the directors of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## 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 the shares of the Company may be granted under the terms and conditions stipulated therein. As at 30th June 2003, no share option has been granted under the Share Option Scheme.

## **DIRECTORS' RIGHTS TO ACQUIRE SECURITIES**

Apart from as disclosed under the heading "Directors' 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 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 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**

During the three months ended 30th June 2003, 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 30th June 2003, 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**

During the three months ended 30th June 2003, 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.

## AUDIT COMMITTEE

The Company established an audit committee on 19th October 2002 with written terms of reference in compliance with 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 ended 30th June 2003 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 disclosures have been made.

By order of the Board

**Vaso Digital International Holdings Limited**

**Yasukawa Yoshihiro**

*Chairman*

Hong Kong, 12th August 2003