



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 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 results of the Company and its subsidiaries (the "Group") for the three and nine months ended 31st December 2003 together with the comparative unaudited figures for the corresponding periods in 2002 as follows:

	Note	Nine months ended 31st December		Three months ended 31st December	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	63,493	14,871	18,242	5,340
Cost of sales		(58,290)	(11,706)	(16,909)	(4,335)
Gross profit		5,203	3,165	1,333	1,005
Other revenue		8	8	–	8
Distribution costs		(88)	(74)	(24)	(31)
Administrative expenses		(1,968)	(2,168)	(712)	(1,002)
Other operating expenses		(848)	(293)	(201)	(34)
Profit/(loss) from operations		2,307	638	396	(54)
Finance costs		(44)	(39)	–	(39)
Profit/(loss) before taxation		2,263	599	396	(93)
Taxation	3	(417)	–	(76)	–
Profit/(loss) attributable to shareholders		1,846	599	320	(93)
Dividend	5	–	–	–	–
Earnings/(loss) per share	4				
– Basic (cent)		0.36	0.15	0.06	(0.02)
– Diluted (cent)		N/A	N/A	N/A	N/A

Notes:

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 27th June 2002 as an exempted company with limited liability under the Companies Law (2001 Second Revision) 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 became the holding company of the companies now 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 were listed on GEM on 12th November 2002.

The unaudited consolidated 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.

The accounting policies and methods of computation adopted in the preparation of these unaudited consolidated results are consistent with those adopted in the annual accounts for the year ended 31st March 2003 except for the new adoption of Statement of Standard Accounting Practice No. 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants, which has no significant impact on the unaudited consolidated results for the nine months ended 31st December 2003.

2. Turnover

The Group's turnover represents the net invoiced value of goods sold, after allowance for returns and trade discount, when applicable. All significant intra-group transactions have been eliminated on consolidation.

Turnover, by the major product lines of the Group, is as follows:

	Nine months ended		Three months ended	
	31st December		31st December	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover				
Integrated circuit recorder ("IC recorders")	7,104	6,394	1,023	2,275
Mpeg-1 audio layer-3 players ("MP3 players")	4,541	5,502	1,594	1,648
Digital versatile disc ("DVD players")	42,304	2,975	13,285	1,417
Others	9,544	–	2,340	–
	63,493	14,871	18,242	5,340

3. Taxation

Hong Kong profits tax for the three months and nine months ended 31st December 2003 have been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the periods (three months and nine months ended 31st December 2002: Nil).

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

4. Earnings/(loss) per share

The calculations of basic earnings/(loss) per share for the three months and nine months ended 31st December 2003 are based on the unaudited consolidated profit attributable to shareholders of approximately HK\$320,000 and HK\$1,846,000 respectively (three months and nine months ended 31st December 2002: net loss of approximately HK\$93,000 and net profit of approximately HK\$599,000 respectively) and 520,000,000 shares in issue during the three months and nine months ended 31st December 2003 (weighted average shares in issue for the three months and nine months ended 31st December 2002: approximately 458,912,000 and 407,204,000 shares respectively).

No diluted earnings/(loss) per share has been presented as no dilutive events existed during the three months and nine months ended 31st December 2003 and the corresponding periods in 2002.

5. Dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December 2003 (nine months ended 31st December 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	<u>–</u>	<u>692</u>	<u>692</u>
At 30th September 2002	3,930	(1,942)	1,988
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	<u>–</u>	<u>(93)</u>	<u>(93)</u>
At 31st December 2002	<u>17,755</u>	<u>(2,035)</u>	<u>15,720</u>
At 1st April 2003	17,816	252	18,068
Net profit for the period	<u>–</u>	<u>1,526</u>	<u>1,526</u>
At 30th September 2003	17,816	1,778	19,594
Net profit for the period	<u>–</u>	<u>320</u>	<u>320</u>
At 31st December 2003	<u>17,816</u>	<u>2,098</u>	<u>19,914</u>

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. The objective of the Group is to be a leading provider and developer of digital AV products in the Asia market.

Financial review

During the nine months ended 31st December 2003, the Group recorded a turnover of approximately HK\$63,493,000, representing an increase of approximately 4.3 times compared to the corresponding period in previous year. The increase in turnover was mainly attributable to the increase in the sales of DVD players which increased from approximately HK\$2,975,000 in the corresponding period in previous year to approximately HK\$42,304,000 in the nine months ended 31st December 2003. Details of the turnover from the major product lines of the Group are disclosed in note 2 to the section headed "Financial Results" to this report.

Gross profit margin decreased from approximately 21% in the corresponding period in previous year to approximately 8% in the nine months ended 31st December 2003 due to reduction in margins as a result of increased competition.

Profit attributable to shareholders for the nine months ended 31st December 2003 increased to approximately HK\$1,846,000 from approximately HK\$599,000 in the corresponding period in previous year, representing an increase of approximately 208%. The increase in profit attributable to shareholders was mainly attributable to the increase in gross profit as a result of the increase in sales and decrease in administrative expenses as a result of stricter costs control.

Operation review

The Group continued to promote the Group's digital AV products to new and existing customers. Continued increase in sales were recorded in the third quarter of the financial year ending 31st March 2004 compared to the corresponding period in previous year.

The Group's trademark was successfully registered with the Trade Marks Registry in Hong Kong in December 2003 and the Group may commence to sell products under the Group's brandname.

The Group also continued to research and develop new features for its existing digital AV products.

To cope with the expansion in sales, the Group continued to expand its production capacity of its production facilities by acquiring additional plant, machinery and related production facilities.

Outlook

Looking ahead, the Group expects the global economic environment will improve in the year of 2004. However, with the bird flu outbreak in various countries in Asia and the People's Republic of China at the beginning of the year 2004, if not being controlled in the short term, the progress of recovery of the economy, both in Hong Kong and globally, will be deferred.

Nevertheless, the Group will continue to design and develop new models of its products, expand its products range, explore new markets, develop new and strengthen relationships with existing customers in order to boost sales in the coming year and maximize the interest of shareholders.

DIRECTORS' INTERESTS IN SECURITIES

As at 31st December 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 required to be 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	Corporate Interests	Number of Shares			Total 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. Mr. Yasukawa Yoshihiro holds 60% and 100% equity interests in Upgain and UPB respectively. Mr. Lee Chun Piu, an executive director of the Company, holds 20% equity interests in Upgain.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2003, other than the interests of the directors of the Company as disclosed under the headed "Directors' interests in securities" above, the interests and short positions of persons 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 (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. 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.

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 31st December 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 nine months ended 31st December 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 entered 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 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 nine months ended 31st December 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. Pursuant to the appointment of Mr. Guo Qing as an audit committee member on 1st December 2003 and the resignation of Mr. Goh Gen Cheung as an audit committee member with effect from 15th January 2004, the audit committee now comprises two independent non-executive directors, namely, Mr. Christopher Leu and Mr. Guo Qing. The Group's unaudited results for the three months and nine months ended 31st December 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

Zhong Ming Ying

Director

Hong Kong, 11 February 2004