



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

2004 / 05

**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.

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 months ended 30th June 2004 together with the comparative figures for the corresponding period in 2003 as follows:

		Three months ended 30th June	
		2004	2003
	<i>Note</i>	(Unaudited)	(Unaudited)
		HK\$'000	<i>HK\$'000</i>
Turnover	2	13,951	24,228
Cost of sales		(13,288)	(21,908)
Gross profit		663	2,320
Other revenue		–	9
Distribution expenses		(8)	(40)
Administrative expenses		(308)	(592)
Other operating expenses		(144)	(437)
Profit from operations		203	1,260
Finance costs		–	(44)
Profit before taxation		203	1,216
Taxation	3	(23)	(213)
Profit attributable to shareholders		180	1,003
Dividend	4	–	–
Earnings per share	5		
– Basic (cent)		0.03	0.19
– Diluted (cent)		N/A	N/A

Notes:

1. Basis of presentation

The accounts have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA") and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP") and interpretations issued by the HKSA.

The accounting policies adopted are consistent with those set out in the annual financial statements for the year ended 31st March 2004.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover		
Integrated circuit recorders ("IC recorders")	1,800	1,800
Mpeg-1 audio layer-3 players ("MP3 players")	3,035	1,253
Digital versatile disc players ("DVD players")	7,426	21,175
IC components	1,690	–
	<u>13,951</u>	<u>24,228</u>

3. Taxation

Hong Kong profits tax for the three months ended 30th June 2004 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 2003: 17.5%).

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

4. Dividend

The Board does not recommend the payment of any dividend for the three months ended 30th June 2004 (three months ended 30th June 2003: Nil).

5. 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 2004 of approximately HK\$180,000 (three months ended 30th June 2003: approximately HK\$1,003,000) and 520,000,000 shares in issue during the three months ended 30th June 2004 (three months ended 30th June 2003: 520,000,000 shares).

No diluted earnings per share has been presented as no dilutive events existed during the three months ended 30th June 2004 and the corresponding period in 2003.

6. Reserves

	Share premium (Unaudited) <i>HK\$'000</i>	Investment revaluation reserve (Unaudited) <i>HK\$'000</i>	Retained earnings (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
At 1st April 2003	17,816	–	252	18,068
Net profit for the period	–	–	1,003	1,003
At 30th June 2003	<u>17,816</u>	<u>–</u>	<u>1,255</u>	<u>19,071</u>
At 1st April 2004	17,816	1,400	2,239	21,455
Net profit for the period	–	–	180	180
At 30th June 2004	<u>17,816</u>	<u>1,400</u>	<u>2,419</u>	<u>21,635</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 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 Asia.

Financial review

During the three months ended 30th June 2004, the Group recorded a turnover of approximately HK\$13,951,000, a decrease of approximately 42% compared to the corresponding period in previous year. The turnover for the three months ended 30th June 2004, comprised sales of IC recorders, MP3 players and DVD players which accounted for approximately 13%, 22% and 53% of the total turnover respectively as compared to approximately 8%, 5% and 87% of the total turnover in the corresponding period in previous year. The decrease in turnover was mainly due to decrease in sales of DVD players from approximately HK\$21,175,000 in the three months ended 30th June 2003 to approximately HK\$7,426,000 in the current period due to decrease in the quantity of orders by existing customers. During the period under review, the Group recorded sales of IC components of approximately HK\$1,690,000, which represented approximately 12% of the Group's turnover. No sales of IC components were recorded in the previous corresponding period.

The gross profit margin for the three months ended 30th June 2004 was approximately 4.8% as compared to approximately 9.6% in the corresponding period in previous year. The decrease was due to the general reduction in the selling prices as compared to corresponding period in previous year owing to the competitive environments in the digital AV market.

During the same period, the Group's profit attributable to shareholders amounted to approximately HK\$180,000, representing a decrease of approximately 82% as compared to the corresponding period in previous year. The decrease was mainly attributed to the decrease in turnover and gross profit margin. Notwithstanding, the distribution expenses, the administrative expenses and other operating expenses of the Group decreased by approximately 80%, 48% and 67% respectively compared to the corresponding period in previous year due to more effective cost control by the Group.

Operation review

The Group continued to promote the Group's digital AV products, namely IC recorders, MP3 players and DVD players, to new and existing customers. However, as the number of suppliers for DVD players in the world market increased, this resulted in a decrease in the average selling price of the DVD players as compared to the corresponding period in previous year. As such, the Group has stepped up its efforts in developing other digital AV products and new models and features of its existing products to diversify its products range.

During the period under review, the Group's products were sold under the customers' brandnames. Meanwhile, the Group has also commenced to promote its trademarks, "Vaso" and "C".

During the period under review, the principal market of the Group's products was the People's Republic of China (the "PRC") (including Hong Kong).

Outlook

Looking forward, the Board is positive with the outlook of the world economy and that of the PRC and Hong Kong, the Group will continue to maintain a tight control on costs and step up its research and development ability to ensure the Group will meet the ever-changing needs of consumers and respond to the technological advances on a timely and cost-effective manner.

DIRECTORS' INTERESTS IN SHARES

As at 30th June 2004, the interests and short positions of the directors of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "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 or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required pursuant to Rule 5.46

of the GEM Listing Rules relating to securities transactions by the directors of the Company to be notified to the Company and the Stock Exchange, were as follows:

Long positions in shares of the Company – interests in the shares of the Company

Name of Directors	Capacity	Number of Shares held	Approximate percentage of the shareholding in the Company
Mr. Yasukawa Yoshihiro	Held by controlled corporation	364,000,000	70%

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.

Save as disclosed above, as at 30th June 2004, none of the directors of the Company has or was deemed to have any interests or short positions in any shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the 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 and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to Rule 5.46 of the GEM Listing Rules relating to securities transactions by directors of the Company to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS’ INTERESTS IN SHARES

As at 30th June 2004, other than the interests of the directors of the Company as disclosed under the section headed “Directors’ interests in shares” 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:

Long positions in shares of the Company – interests in the shares of the Company

Name	Capacity	Number of shares held	Approximate percentage of the shareholding in the Company
Share Able <i>(Note)</i>	Beneficial owner	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 30th June 2004, 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 2004, 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 shares" 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 2004, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

COMPETING INTERESTS

As at 30th June 2004, 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 from 12th November 2002 to 31st March 2005.

As notified by the Sponsor, as at 30th June 2004, 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 5.34 TO 5.45 OF THE GEM LISTING RULES

During the three months ended 30th June 2004, the Company has complied with the Board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 19th October 2002 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. Pursuant to the appointments of Mr. Liu Feng and Ms. Guo Wen Hong as the Committee members and the resignation of Mr. Christopher Leu, the Committee comprises three independent non-executive directors, namely, Mr. Guo Qing, Mr. Liu Feng and Ms. Guo Wen Hong. The Group's unaudited results for the three months ended 30th June 2004 have been reviewed by the Committee who was of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules 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, 10th August 2004

As at the date of this report, the Company's executive directors are Yasukawa Yoshihiro, Lee Chun Piu, Zhong Ming Ying and Wang Li Hua, and the Company's independent non-executive directors are Guo Qing, Liu Feng and Guo Wen Hong.