



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

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 and nine months ended 31st December, 2004 together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

	Note	Nine months ended		Three months ended	
		31st December, 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	31st December, 2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	2	29,088	63,493	10,278	18,242
Cost of sales		(31,342)	(58,290)	(13,307)	(16,909)
Gross (loss)/profit		(2,254)	5,203	(3,029)	1,333
Other revenue		1	8	(1)	–
Distribution costs		(14)	(88)	(1)	(24)
Administrative expenses		(2,632)	(1,968)	(711)	(712)
Other operating expenses		(216)	(848)	(36)	(201)
(Loss)/profit from operations		(5,115)	2,307	(3,778)	396
Finance costs		–	(44)	–	–
(Loss)/profit before taxation		(5,115)	2,263	(3,778)	396
Taxation	3	–	(417)	–	(76)
(Loss)/profit attributable to shareholders		(5,115)	1,846	(3,778)	320
Dividend	5	–	–	–	–
(Losses)/earnings per share	4				
– Basic (cent)		(0.98)	0.36	(0.73)	0.06
– Diluted (cent)		N/A	N/A	N/A	N/A

Notes:

1. Basis of presentation

The unaudited consolidated results have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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 and interpretations issued by the HKICPA.

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.

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

	Nine months ended 31st December, 2004 (Unaudited) HK\$'000		Three months ended 31st December, 2004 (Unaudited) HK\$'000	
	2003 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover				
Integrated circuit recorder ("IC recorders")	3,815	7,104	1,140	1,023
Mpeg-1 audio layer-3 players ("MP3 players")	5,176	4,541	2,176	1,594
Digital versatile disc ("DVD players")	16,169	42,304	6,080	13,285
Others	3,928	9,544	882	2,340
	29,088	63,493	10,278	18,242

3. Taxation

No Hong Kong profits tax for the three months and nine months ended 31st December, 2004 have been provided as the Group has no assessable profit for the periods. Hong Kong profits tax for the three months and nine months ended 31st December, 2003 were provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the periods.

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

4. (Losses)/earnings per share

The calculations of basic (losses)/earnings per share for the three months and nine months ended 31st December, 2004 are based on the unaudited consolidated loss attributable to shareholders of approximately HK\$3,778,000 and HK\$5,115,000 respectively (three months and nine months ended 31st December, 2003: unaudited consolidated profit attributable to shareholders of approximately HK\$320,000 and HK\$1,846,000 respectively) and 520,000,000 shares in issue during the three months and nine months ended 31st December, 2004 (three months and nine months ended 31st December, 2003: 520,000,000 shares).

No diluted (losses)/earnings per share has been presented as no dilutive events existed during the three months and nine months ended 31st December, 2004 and the corresponding periods in 2003.

5. Dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 31st December, 2004 (nine months ended 31st December, 2003: Nil).

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	–	–	1,526	1,526
At 30th September, 2003	17,816	–	1,778	19,594
Net profit for the period	–	–	320	320
At 31st December, 2003	<u>17,816</u>	<u>–</u>	<u>2,098</u>	<u>19,914</u>
At 1st April, 2004	17,816	1,400	2,239	21,455
Deficit on revaluation of non-trading securities	–	(1,400)	–	(1,400)
Net loss for the period	–	–	(1,337)	(1,337)
At 30th September, 2004	17,816	–	902	18,718
Net loss for the period	–	–	(3,778)	(3,778)
At 31st December, 2004	<u>17,816</u>	<u>–</u>	<u>(2,876)</u>	<u>14,940</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, 2004, the Group recorded a turnover of approximately HK\$29,088,000, a decrease of approximately 54% compared to the corresponding period in previous year. The decrease in turnover was mainly attributable to the decrease in the sales of DVD players due to decrease in orders and prices which decreased from approximately HK\$42,304,000 in the corresponding period in previous year to approximately HK\$16,169,000 in the nine months ended 31st December, 2004. 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.

The Group recorded gross loss in the three months ended 31st December, 2004 of approximately HK\$3,029,000. Gross profit margin of approximately 7% was recorded in the corresponding period in previous year.

Loss attributable to shareholders of approximately HK\$5,115,000 and HK\$3,778,000 were recorded for the nine months and three months ended 31st December, 2004 respectively, compared to profit attributable to shareholders of approximately HK\$1,846,000 and HK\$320,000 respectively in the corresponding periods in previous year. This was mainly due to the gross loss recorded in the three months ended 31st December, 2004 as a result of decrease in sales prices due to increased competition and quality problems. The Group has cut various expenses owing to the less than satisfactory levels of orders recorded in the nine months ended 31st December, 2004 compared to the corresponding period in previous year. The increase in administrative expenses in the nine months ended 31st December, 2004 was due to the provision of the deficit on revaluation of the non-trading securities held by the Group of HK\$1,000,000.

Operation review and prospects

The Group recorded poor results in the three months ended 31st December, 2004 as less orders were received for its digital AV products and gross loss was recorded owing to decrease in sales prices due to increased competition and quality problems.

Looking forward, the Group will focus on ways to improve on the stability in the costing of its purchases and the levels of orders received for its products. The Group still holds the view of targeting the People's Republic of China market with its expected stable and moderate economic growth and the increasing wealthy population which will lead to the increased demand for digital AV products. The Group will also continue to maintain a tight control on costs and possible cooperation with third parties in the areas of products development and marketing and promotion.

DIRECTORS' INTERESTS IN SHARES

As at 31st December, 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 (Note)	70%
Ms. Wang Li Hua	Beneficial owner	2,400,000	0.46%

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, an executive director of the Company, holds 20% equity interests in Uppgain.

Save as disclosed above, as at 31st December, 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 31st December, 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 (Note)	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 31st December, 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 31st December, 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 nine months ended 31st December, 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 31st December, 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 31st December, 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 nine months ended 31st December, 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 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 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 and nine months ended 31st December, 2004 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, 7th February, 2005

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