

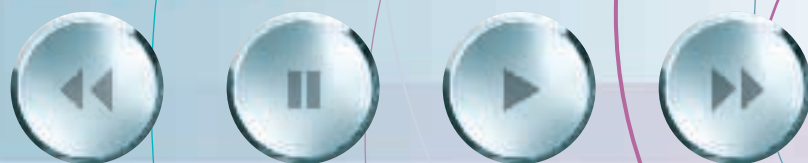
# Photar

**CHINA PHOTAR ELECTRONICS GROUP LIMITED**

**中國豐達電子集團有限公司**

*(formerly known as Vaso Digital International Holdings Limited (華索國際控股有限公司))*

*(incorporated in the Cayman Islands with limited liability)*



**2004-05**  
**ANNUAL REPORT**

## **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 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.

## Contents

<b>Corporate Information</b>	<b>2</b>
<b>Executive Director's Statement</b>	<b>3</b>
<b>Management Discussion and Analysis</b>	<b>5</b>
<b>Comparison of Business Objectives with Actual Business Progress</b>	<b>9</b>
<b>Use of Proceeds</b>	<b>10</b>
<b>Directors and Senior Management</b>	<b>11</b>
<b>Report of the Directors</b>	<b>13</b>
<b>Auditors' Report</b>	<b>20</b>
<b>Audited Financial Statements:</b>	
<i>Consolidated Income Statement</i>	<b>21</b>
<i>Consolidated Balance Sheet</i>	<b>22</b>
<i>Balance Sheet</i>	<b>23</b>
<i>Consolidated Statement of Changes in Equity</i>	<b>24</b>
<i>Consolidated Cash Flow Statement</i>	<b>25</b>
<i>Notes to the Financial Statements</i>	<b>26</b>
<i>Financial Summary</i>	<b>50</b>

## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Yasukawa Yoshihiro  
(resigned on 20 May 2005)  
Lee Chun Piu  
Wang Li Hua  
(resigned on 14 June 2005)  
Zhong Ming Ying  
(resigned on 31 January 2005)  
Chen Jijin  
(appointed on 14 June 2005)  
Huang Menghuai  
(appointed on 16 June 2005)

#### Independent Non-executive Directors

Christopher Leu  
(resigned on 3 August 2004)  
Guo Qing  
Liu Feng  
(appointed on 3 August 2004)  
Guo Wen Hong  
(appointed on 3 August 2004)

#### COMPANY SECRETARY

Wong Chi Ling, ACCA, CPA  
(resigned on 20 May 2005)  
Hung Lap Kay, FCCA, CPA  
(appointed on 20 May 2005)

#### QUALIFIED ACCOUNTANT

Wong Chi Ling, ACCA, CPA  
(resigned on 20 May 2005)  
Hung Lap Kay, FCCA, CPA  
(appointed on 20 May 2005)

#### COMPLIANCE OFFICER

Yasukawa Yoshihiro  
(resigned on 20 May 2005)  
Chen Jijin  
(appointed on 16 June 2005)

#### AUTHORISED REPRESENTATIVES

Yasukawa Yoshihiro  
(resigned on 20 May 2005)  
Lee Chun Piu  
Chen Jijin  
(appointed on 16 June 2005)  
Hung Lap Kay  
(appointed on 16 June 2005)

#### AUDIT COMMITTEE

Guo Qing  
Liu Feng  
Guo Wen Hong

#### AUDITORS

HLB Hodgson Impey Cheng  
*Chartered Accountants*  
*Certified Public Accountants*

#### PRINCIPAL BANKERS

DBS Bank (Hong Kong) Ltd  
Standard Chartered Bank (Hong Kong) Ltd

#### REGISTERED OFFICE

Century Yard, Cricket Square  
Hutchins Drive, P.O. Box 2681GT  
George Town, Grand Cayman  
Cayman Islands, British West Indies

#### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 5601, The Center  
99 Queen's Road Central  
Hong Kong

#### SHARE REGISTRARS AND TRANSFER OFFICES

##### Principal registrar

Bank of Bermuda (Cayman) Limited  
P.O. Box 513 GT, Strathvale House  
North Church Street, George Town  
Grand Cayman, Cayman Islands  
British West Indies

##### Branch registrar

Tengis Limited  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai, Hong Kong

#### LEGAL ADVISERS TO THE COMPANY

Vincent T.K. Cheung, Yap & Co.  
Michael Li & Co.

#### STOCK CODE

8220

## Executive Director's Statement

On behalf of the Board of Directors (the "Board"), I hereby present the annual report of China Photar Electronics Group Limited (formerly known as Vaso Digital International Holdings Limited) (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 March 2005 to our shareholders.

### BUSINESS REVIEW AND OUTLOOK

The turnover of the Group for the year ended 31 March 2005 decreased from approximately HK\$78,470,000 in the previous year to approximately HK\$34,526,000 in the current year, representing a decrease of approximately 56%. Gross loss of approximately HK\$477,000 was recorded in the current year due to sale discounts offered as compensation owing to some quality problems in the products sold, compared with a gross profit of approximately HK\$6,858,000 in the previous year. In addition, the Group faced fierce price competition in the consumer electronics industry during the year, resulted in the decrease in selling prices and quantity sales of the Group's DVD players and IC recorders. The administrative expenses of the Group for the year ended 31 March 2005 increased by 203% from approximately HK\$3,813,000 in the previous year to approximately HK\$11,572,000 in the current year. This was mainly attributed to the provision for diminution in value of investment securities of HK\$3,000,000 and write-off of bad debts of approximately HK\$4,101,000. As a result, the Group recorded a net loss attributable to shareholders of approximately HK\$11,617,000 in the current year compared to a net profit attributable to shareholders of approximately HK\$1,987,000 in the previous year.

The Board envisages that the competition in the consumer electronics industry to remain fierce and the operating environment of the Group will continue to be very tough. Without dramatic improvement in the price and quality competitiveness of its products through further integration in its manufacturing process, which would require substantial capital investment, the Board is uncertain that the Group can turn around its loss making operations in the foreseeable future.

Following the completion of the acquisition of shares in the Company on 17 March 2005 (the "Acquisition") by Modern China Holdings Limited, which is now the controlling shareholder of the Company (the "Controlling Shareholder") and the changes of board composition of the Company as disclosed in the announcements of the Company dated 20 May 2005, 14 June 2005 and 16 June 2005, although the Controlling Shareholder does not have any concrete plan on the future development of the business of the Group at present, the management experience and business network of the Controlling Shareholder and the new directors of the Company would lead the Group to explore further business opportunities. The Controlling Shareholder has expressed its intention to conduct a review of the Group's existing position with a view to broaden and expand the scope of business of the Group. Besides, the Group will implement a tight control on costs and adopt various measures such as monitoring the quality of the Group's products from purchasing to manufacturing to bring about more efficiency to the business.

## Executive Director's Statement

Furthermore, in order to reflect the change in control and management of the Company after completion of the Acquisition, the Company's name was changed from "Vaso Digital International Holdings Limited" to "China Photar Electronics Group Limited 中國豐達電子集團有限公司" with effect from 30 May 2005 and its stock short name was changed from "Vaso Digital" to "China Photar" in English and "華索國際" to "中國豐達" in Chinese with effect from 17 June 2005.

Finally I would like to take this opportunity to thank our staff for their dedication and loyalty, and our valued shareholders for their strong support.

**Lee Chun Piu**

*Executive Director*

Hong Kong, 23 June 2005

## Management Discussion and Analysis

### OPERATIONAL REVIEW

#### General

The Group is principally engaged in the development, design and sale of digital AV products which include integrated circuit recorders ("IC recorders"), mpeg-1 audio layer-3 players ("MP3 players") and digital versatile disc players ("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 audio and visual ("AV") products in the Asia market.

During the year, the Group suffered certain quality problems in its products due to defects in certain components supplied by its suppliers. Consequently, price discounts were offered as compensation to customers which affected the operating results of the Group tremendously. Furthermore, the Group faced fierce price competition in the consumer electronics industry, resulted in the decrease in selling prices and quantity sales of the Group's DVD players and IC recorders. Hence, turnover reduced by approximately 56% from approximately HK\$78,470,000 in the previous year to approximately HK\$34,526,000 in the current year. Gross loss of approximately HK\$477,000 was recorded in the current year as compared to a gross profit of approximately HK\$6,858,000 in the previous year.

The Board envisages that the competition in the consumer electronics industry to remain fierce and the operating environment of the Group will continue to be very tough. Without dramatic improvement in the price and quality competitiveness of its products through further integration in its manufacturing process, which would require substantial capital investment, the Board is uncertain that the Group can turn around its loss making operations in the foreseeable future.

### FINANCIAL REVIEW

#### Results

During the year ended 31 March 2005, the Group recorded a turnover of approximately HK\$34,526,000, representing a decrease of approximately 56% from the previous year. The decrease was attributed to the decrease in the selling price and quantity sales of DVD players and IC recorders due to the fierce price competition encountered by the Group in the consumer electronics industry and price discount offered to customers as compensation for those products with quality problem and further price deduction in their future orders. As a results of the above, the Group incurred a gross loss of approximately HK\$477,000 in the year under review compared with a gross profit of approximately HK\$6,858,000 in the previous year.

The Group recorded loss attributable to shareholders of approximately HK\$11,617,000 in the current year, compared to profit attributable to shareholders of approximately HK\$1,987,000 in the previous year. The loss was mainly attributable to the decrease in turnover and gross profit margins of the products sold due to competitive market conditions and quality problem of some of the Group's products, the provision for diminution in value of investment securities of HK\$3,000,000 and write-off of bad debts of approximately HK\$4,101,000.

## FINANCIAL REVIEW (continued)

### Liquidity, financial resources and capital structure

As at 31 March 2005, the Group had total assets of approximately HK\$19,073,000 (31 March 2004: approximately HK\$30,203,000) of which approximately HK\$4,538,000 was cash and bank balances (31 March 2004: approximately HK\$3,854,000). There was no pledged bank deposits as at 31 March 2005 (31 March 2004: Nil).

As at 31 March 2005, the Group did not have any banking facilities (31 March 2004: Nil), had no outstanding bank overdrafts (31 March 2004: Nil) and had no borrowings stated at fixed interest rates (31 March 2004: Nil). As at 31 March 2005, none of the Group's assets were pledged (31 March 2004: Nil).

The debt ratio (defined as total liabilities over total assets) of the Group as at 31 March 2005 was approximately 0.28 (31 March 2004: approximately 0.12).

The Group's transactions during the year were denominated in Hong Kong ("HK") Dollars and United States ("US") Dollars. As the exchange rate of US Dollars to HK Dollars is fairly stable, the Board is of the view that the Group's exposure to foreign currency exchange risk is limited and hence, no hedging or other arrangements to reduce the currency risk have been implemented.

The shares of the Company were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM") on 12 November 2002. There has been no change in the capital structure of the Company since that date.

### Segment information

Sales of the Group comprise sales of the three major product lines of the Group, which are IC recorders, MP3 players and DVD players. During the year under review, the sales of IC recorders, MP3 players and DVD players accounted for approximately 13%, 15% and 57% of the Group's turnover respectively compared to approximately 11%, 7% and 65% respectively of the Group's turnover in the previous year. During the year under review, the Group recorded sales of IC components of approximately HK\$4,986,000 (31 March 2004: approximately HK\$13,849,000), which represents approximately 15% (31 March 2004: 17%) of the Group's turnover.

The principal market of the Group's products is the People's Republic of China ("PRC") (including Hong Kong). Sales to the PRC represent approximately 99.9% of the Group's turnover in the year under review as compared to approximately 85.9% in the previous year.

Details of the business and geographical segments are disclosed in note 3 to the financial statements.



### **New products/Group's order book**

The Group introduced 5 new models of digital AV products during the year.

The Group will continue to step up its efforts in developing new products and new models of existing products and to improve the quality, performance and functionality of the Group's products in order to achieve its objective of becoming a leading provider and developer of digital AV products in the Asian market.

As at 31 March 2005, the Group's orders on hand were approximately HK\$1 million on the three major product lines of the Group (31 March 2004: approximately HK\$4 million).

### **Significant investments**

As at 31 March 2005 and 31 March 2004, except for the investment in equity securities listed in Hong Kong, there was no other significant investment held by the Group.

### **Material acquisitions or disposals of subsidiaries and affiliated companies**

There were no material acquisitions or disposals of subsidiaries and affiliated companies in the course of the year.

### **Employee and remuneration policies**

As at 31 March 2005, the Group employed a total of 12 (31 March 2004: 17) employees, including directors. Total staff costs including directors' emoluments were approximately HK\$711,000 in the year under review (31 March 2004: approximately HK\$724,000).

Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance may be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees. To date, no share options have been granted to employees.

### **Future plans for material investments or capital assets and expected sources of funding**

Details of the Group's future plans for material investments or capital assets and their expected source of funding have been stated in the paragraphs headed "Statement of Business Objectives" and "Reasons for the Placing and the Use of Proceeds" respectively under the section headed "Future Plans and Prospects" in the Company's prospectus dated 30 October 2002 (the "Prospectus"). Other than those disclosed therein and under sections headed "Comparison of Business Objectives with Actual Business Progress" and "Use of Proceeds" in this annual report, the Group did not have any other plans for material investments or capital assets. Nevertheless, the Group is constantly looking for opportunities for investments or capital assets to enhance shareholders' value.

### **Contingent liabilities**

As at 31 March 2005, the Group had no contingent liabilities (31 March 2004: Nil).

### **Operating lease commitments**

As at 31 March 2005, the Group had no commitments under non-cancellable operating lease in respect of premises (31 March 2004: HK\$132,000).

## Comparison of Business Objectives with Actual Business Progress

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus for the period from 1 October 2004 to 31 March 2005 (the "Review Period").

According to the business objectives as stated in the Prospectus	Actual business progress in the Review Period
--	---

### Marketing and promotion

Launch and promote the Group's digital AV products

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>– IC recorders/MP3 players with built in digital camera features</li></ul> | The Group delayed in launching and promotion of these products owing to some difficulties in the development process. No material impact on the Group's operation is expected. |
|--|--|

### Research and product development

Upgrade features of existing digital AV products:

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>– IC recorders/MP3 players with built in slots for memory sticks/cards</li></ul> | The Group is still in the process of developing IC recorders/MP3 players with built in slots for memory sticks/cards.                  |
| <ul style="list-style-type: none"><li>– IC recorders/MP3 players with built in digital camera features</li></ul>       | The Group has suspended plans to develop IC recorders/MP3 players with built in digital camera features due to technical difficulties. |

## Use of Proceeds

The shares of the Company were listed on GEM by way of placing of 105,300,000 shares (comprising 80,000,000 new shares (the "New Shares") and 25,300,000 sale shares) on 12 November 2002. The net proceeds (after deducting listing expenses) from the issue of New Shares were approximately HK\$13,000,000.

During the period from 24 October 2002 (Latest Practicable Date as defined in the Prospectus) to 31 March 2005, the Group has applied the net proceeds as follows:

	<b>Amount extracted from the Prospectus</b>	<b>Actual usage</b>
	HK\$'000	HK\$'000
Expenditure in relation to setting up production facilities	7,000	7,000
Expenditure in relation to geographical expansion	2,000	2,000
Expenditure in relation to research and product development	2,000	2,000
Expenditure in relation to marketing and promotion	2,000	2,000
<b>Total</b>	<b>13,000</b>	<b>13,000</b>

The net proceeds from the placement of approximately HK\$13,000,000 have all been applied as at 31 March 2005.

## Directors and Senior Management

### EXECUTIVE DIRECTORS

Mr. Lee Chun Piu (李俊彪), aged 47, is the chief operation officer and co-founder of the Group. Mr. Lee is responsible for the marketing, production and management functions of the Group. Mr. Lee has over twenty years' experience in sales and marketing in the electronics industry. Mr. Lee graduated from St. Louis School in Hong Kong. Before the Group was founded in May 1999, Mr. Lee was a manager of Alabross Electronics (China) Company Limited, which was then a subsidiary of Albatronics (Far East) Company Limited. He was appointed as an executive director in June 2002.

Mr. Chen Jijin (陳集進), aged 39, was appointed as a new executive director of the Company in June 2005. Mr. Chen is currently also the chairman and president of Guangdong Photar High Technology Co., Ltd. ("Guangdong Photar"), which engages principally in the manufacture and sale of electronic communication and consumer products. He is responsible for forming the overall strategic planning and the business development of Guangdong Photar. He has over 10 years of experience in the electronics industry.

Ms. Huang Menghuai (黃夢懷), aged 40, was appointed as a new executive director of the Company in June 2005. Ms. Huang is currently also an executive director and vice-president of Guangdong Photar. Ms. Huang is responsible for introducing, implementing and marketing electronic communication products projects throughout the PRC. Ms. Huang's credential includes obtaining a certificate in public relationship in 1989 and graduating from administration studies for graduates in 2003, both from Shenzhen University. She has over 15 years' experience in corporate management and sales and marketing.

Mr. Yasukawa Yoshihiro (安川義宏), resigned as the chairman and executive director of the Company with effect from 20 May 2005.

Ms. Wang Li Hua (王麗華), resigned as an executive director of the Company with effect from 14 June 2005.

Ms. Zhong Ming Ying (鍾明英), resigned as an executive director of the Company with effect from 31 January 2005.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Guo Qing (郭慶), aged 40, was appointed as an independent non-executive director of the Company in December 2003. Mr. Guo has been working as a manager of the accounts and finance department for a private luggage manufacturing company in Shenzhen, the PRC since May 2000. Mr. Guo was awarded the graduation certificate in economic management (經濟管理專業) from The Party School of the Communist Party of China Central Committee (中共中央黨校函授學院) in December 2001. He was certified as an accountant in accounts (corporate) (會計(企業)) by the Ministry of Finance of the People's Republic of China in May 1997 and is a member of The Chinese Institute of Certified Public Accountants.

#### INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mr. Liu Feng (劉峰), aged 28, was appointed as an independent non-executive director of the Company in August 2004. Mr. Liu holds a bachelor degree in economic, major in International Accounting, from Jiangxi University of Finance and Economics in July 2000. He has been working as a manager of the Finance Department in an electrical manufacturing company in Shenzhen since August 2000. He is also an independent non-executive director and audit committee member of MP Logistics International Holdings Limited since January 2004.

Ms. Guo Wen Hong (郭文紅), aged 36, was appointed as an independent non-executive director of the Company in August 2004. Ms. Guo holds a bachelor degree in Chinese history from Wuhan University in July 1989 and completed a course in business management in November 1997. She worked in various departments of a duty free company in Shenzhen during the period from April 1991 to September 2003 including personnel, training, and merchandise management department. She then worked in the advertisement department of a newspaper publication company in Shenzhen since September 2003. She is also an independent non-executive director and audit committee member of IA International Holdings Limited since September 2004.

Mr. Christopher Leu (呂頌樂), resigned as an independent non-executive director of the Company with effect from 3 August 2004.

#### SENIOR MANAGEMENT

Mr. Hung Lap Kay (孔立基), aged 35, is the accounting manager and company secretary of the Group. Mr. Hung is responsible for the accounting and finance functions of the Group. He holds a Bachelor of Business Administration (Hons) degree in Accounting from Hong Kong Baptist University and a master degree in Accounting from Curtin University of Technology in Australia. He is also a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Hung has over ten years experience working in accounting and auditing. Prior to joining the Group in May 2005, Mr. Hung worked as an accounting officer in a department of the Hong Kong Government.

Mr. Yanashima Shinichi (築島慎一), aged 46, is the vice president for marketing of the Group. Mr. Yanashima is responsible for the sales and marketing of the Group in Hong Kong. He holds a bachelor of arts in law from the Kanagawa University in Japan. Mr. Yanashima has over ten years of experience in sales and marketing in the electronics industry. Before joining the Group in April 2002, he was the business manager of Huabao Electronics and Appliance Limited.

Mr. Fong Siang (馮湘), aged 46, is the chief technology officer of the Group. Mr. Fong is responsible for the design, research and development functions of the Group. He holds a 工學學士學位 in 計算機控制 from 北京理工大學 in the PRC and has over fifteen years experience in research and development in the electronics industry. Before joining the Group in January 2003, he was the manager of a research and development department of a private company in Shenzhen, PRC.

Ms. Wong Chi Ling (黃子玲), resigned as the accounting manager and company secretary of the Company with effect from 20 May 2005.

## Report of the Directors

The board of the directors (the "Board") of China Photar Electronics Group Limited (formerly known as Vaso Digital International Holdings Limited) (the "Company") presents the annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 March 2005.

### PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are set out in note 15 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 3 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 March 2005 and the state of the Company's and the Group's affairs at that date are set out in the financial statements on pages 21 to 49.

The directors of the Company do not recommend the payment of dividend for the year ended 31 March 2005.

### RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 22 to the financial statements.

### FIXED ASSETS

Details of the movements in the fixed assets of the Group are set out in note 14 to the financial statements.

### SHARE CAPITAL

Details of the movements of the share capital of the Company are set out in note 20 to the financial statements.

### DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 March 2005 amounted to HK\$10,715,000 (31 March 2004: HK\$15,953,000). Under Section 34 of the Companies Law (Revised) of the Cayman Islands, the share premium is available for distribution to shareholders of the Company subject to the provisions of the articles of association of the Company and no distribution shall be paid to shareholders out of the share premium unless the Company shall be able to pay its debts as they fall due in the ordinary course of business.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 50.

## PURCHASE, SALE OR REDEMPTION OF SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares during the year under review.

## SHARE OPTIONS SCHEMES

Pursuant to the written resolutions of the sole shareholder of the Company passed on 19 October 2002, the Company adopted a share option scheme (the "Scheme"). Further details of the Scheme are set out in note 21 to the financial statements. Up to the date of approval of these financial statements, no option had been granted or agreed to be granted by the Company under the Scheme.

## DIRECTORS

The directors of the Company during the financial year and up to date of this report were:

### *Executive directors*

Mr. Lee Chun Piu	
Ms. Wang Li Hua	(resigned on 14 June 2005)
Ms. Zhong Ming Ying	(resigned on 31 January 2005)
Mr. Yasukawa Yoshihiro	(resigned on 20 May 2005)
Mr. Chen Jijin	(appointed on 14 June 2005)
Ms. Huang Menghuai	(appointed on 16 June 2005)

### *Independent non-executive directors*

Mr. Guo Qing	
Ms. Guo Wen Hong	(appointed on 3 August 2004)
Mr. Liu Feng	(appointed on 3 August 2004)
Mr. Christopher Leu	(resigned on 3 August 2004)

In accordance with Article 87 of the Company's Articles of Association, Mr. Lee Chun Piu will retire by rotation at the forthcoming annual general meeting and, being eligible, offer himself for re-election.

In accordance with Article 86(3) of the Company's Articles of Association, Ms. Guo Wen Hong, Mr. Liu Feng, Mr. Chen Jijin and Ms. Huang Menghuai will hold office only until the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

The Company confirmed that it has received from each of its independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 5.09 of the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and it still considered them to be independent as at the date of this report.



## DIRECTORS' SERVICE CONTRACTS

Mr. Lee Chun Piu, has entered into a service agreement with Cyclone Technology Limited, a subsidiary of the Company, for an initial fixed period of two years commencing from 1 November 2002 and expiring on 31 October 2004 which shall thereafter automatically continue until terminated by either party giving not less than three months' prior notice in writing, as executive director of the Company's subsidiary and the Company.

Mr. Lee Chun Piu is entitled to a basic salary of HK\$360,000 per annum in aggregate which is subject to an annual review and in case of an increment then at a rate determined by the Company, provided that it shall not exceed 10% of the amount of such salary paid during the previous twelve-month period. In addition, he is also entitled to a discretionary bonus payable to all the executive directors of the Company in respect of any financial year shall not exceed 10% of the audited consolidated net profit after taxation of the Group in respect of the same financial year. Mr. Lee shall not vote and shall not be counted in the quorum in respect of any resolution of the directors regarding the amount of the increment or discretionary bonus payable to them.

Each of Mr. Chen Jijin and Ms. Huang Menghuai has entered into a service contract with the Company for an initial term of three years renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of appointment. The emolument in connection with Mr. Chen's and Ms. Huang's position as the Company's executive director are HK\$40,000 per month and HK\$15,000 per month respectively. Mr. Chen and Ms. Huang are also entitled to a discretionary management bonus in respect of each financial year of the Company to be determined by the Board. The emoluments for Mr. Chen and Ms. Huang are determined on arm's length negotiation between the parties. Mr. Chen and Ms. Huang are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service agreement with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors of the Company and the senior management of the Group are set out under the section headed "Directors and Senior Management" in the annual report.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## CONNECTED TRANSACTIONS

During the year ended 31 March 2005, no connected transactions were entered into by the Group under the GEM Listing Rules.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 March 2005, 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 of Hong Kong Limited (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 Rules 5.46 to 5.67 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. Chen Jijin (appointed on 14 June 2005)	Held by controlled corporation	414,700,000 (Note)	79.75%
Ms. Wang Li Hua (resigned on 14 June 2005)	Beneficial owner	2,400,000	0.46%

Note: These shares are registered in the name of Modern China Holdings Limited ("Modern China") and is wholly owned by Mr. Chen Jijin.

On 23 February 2005, a sale and purchase agreement (the "Sale and Purchase Agreement") was entered into between, among others, Share Able Investments Limited ("Share Able"), Basic Concept International Limited ("Basic Concept"), Manifest Power Limited ("Manifest Power") and Top Hunter Investments Limited ("Top Hunter") (all former shareholders of the Company) and Modern China (the existing controlling shareholder of the Company), pursuant to which Share Able, Basic Concept, Manifest Power and Top Hunter agreed to sell a total of 414,700,000 shares in the Company to Modern China at a consideration of approximately HK\$0.01923 per share. Completion of the Sale and Purchase Agreement took place on 17 March 2005. The 364,000,000 shares in the Company originally held by Share Able (the former controlling shareholder of the Company), in which the former director of the Company Mr. Yasukawa Yoshihiro was the beneficial owner, were sold upon the completion of the Sale and Purchase Agreement.

**DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY** (continued)

Save as disclosed above, as at the date of this report, 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 Rules 5.46 to 5.67 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**

As at 31 March 2005, other than the interests of the directors of the Company as disclosed under the section headed "Directors' interests and short positions in the shares, underlying shares and debentures of the Company" 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 shares 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**

<b>Name of directors</b>	<b>Capacity</b>	<b>Number of shares held</b>	<b>Approximate percentage of the shareholding in the Company</b>
Modern China (Note)	Beneficial owner	414,700,000	79.75%

Note: Modern China is wholly owned by Mr. Chen Jijin, who was appointed as the Company's director on 14 June 2005.

Save as disclosed above, as at the 31 March 2005, 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.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The approximate percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	71%
– five largest suppliers combined	99%
Sales	
– the largest customer	16%
– five largest customers combined	69%

None of the directors of the Company, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) had an interest in the major suppliers or customers noted above.

## SPONSOR'S INTEREST

According to a sponsorship agreement entered between the Company and Kingston Corporate Finance Limited (the "Sponsor"), for a fee, the Sponsor acted as the Company's continuing sponsor for the purpose of Chapter 6 of the GEM Listing Rules for the period from 12 November 2002 to 31 March 2005.

As notified by the Sponsor, as at 31 March 2005, 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. Kingston Corporate Finance Limited ceased to act as the Company's retained sponsor with effect from 1 April 2005 after the expiry of sponsorship agreement.

## COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company has complied with the Board's practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules during the year.

## RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits scheme of the Group are set out in note 13 to the financial statements.

## AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group. The Group's financial statements for the year ended 31 March 2005 have been reviewed by the audit committee, who is of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosures have been made.

As at 31 March 2005, the audit committee has three members, comprising the three independent non-executive directors of the Company, namely, Mr. Guo Qing, Ms. Guo Wen Hong and Mr. Liu Feng.

The audit committee held four meetings during the year and performed the functions specified in the GEM Listing Rules.

## COMPETING BUSINESS

As at 31 March 2005, 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.

## PRE-EMPTIVE RIGHTS

There is no provision of pre-emptive rights under the articles of association of the Company and there are no restrictions against such rights under the laws in the Cayman Islands.

## AUDITORS

RSM Nelson Wheeler were appointed as the auditors of the Company in succession to Ernst & Young on 2 May 2003.

HLB Hodgson Impey Cheng were appointed as the auditors of the Company in succession to RSM Nelson Wheeler who resigned from the office with effect from 28 April 2004. HLB Hodgson Impey Cheng will retire and, being eligible, offer themselves for re-appointment as auditors of the Company at the forthcoming annual general meeting.

A resolution for the re-appointment of HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of the Board

**Lee Chun Piu**

*Executive Director*

Hong Kong, 23 June 2005

## Auditors' Report



Chartered Accountants  
Certified Public Accountants

31/F Gloucester Tower  
The Landmark  
11 Pedder Street  
Central  
Hong Kong

### AUDITORS' REPORT TO THE SHAREHOLDERS OF CHINA PHOTAR ELECTRONICS GROUP LIMITED

*(Formerly known as Vaso Digital International Holdings Limited)  
(incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 21 to 49 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group and the Company, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2005 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

#### HLB Hodgson Impey Cheng

Chartered Accountants  
Certified Public Accountants

Hong Kong, 23 June 2005

## Consolidated Income Statement

For the year ended 31 March 2005 (in HK Dollars)

	Note	2005 HK\$'000	2004 HK\$'000
<b>Turnover</b>	4	<b>34,526</b>	78,470
Cost of sales		<b>(35,003)</b>	(71,612)
Gross (loss)/profit		<b>(477)</b>	6,858
Other revenue	4	<b>682</b>	60
Distribution expenses		<b>(17)</b>	(118)
Administrative expenses		<b>(11,572)</b>	(3,813)
(Loss)/profit from operations	5	<b>(11,384)</b>	2,987
Finance costs	6	–	(44)
<b>(Loss)/profit before taxation</b>		<b>(11,384)</b>	2,943
Taxation	9	<b>(233)</b>	(956)
<b>(Loss)/profit attributable to shareholders</b>	10	<b>(11,617)</b>	1,987
Dividend	11	–	–
(Loss)/earnings per share – basic	12	<b>(2.23) cents</b>	0.38 cent

All of the Group's activities are classed as continuing.

The accompanying notes form an integral part of these financial statements.

## Consolidated Balance Sheet

At 31 March 2005 (in HK Dollars)

	Note	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Fixed assets	14	7,342	8,238
Investment securities	16	–	5,400
		<b>7,342</b>	13,638
<b>Current assets</b>			
Investment securities	16	1,000	–
Trade receivables	17	4,164	9,689
Prepayments, deposits and other receivables		2,013	3,022
Tax recoverable		16	–
Cash and bank balances		4,538	3,854
		<b>11,731</b>	16,565
<b>Less: Current liabilities</b>			
Trade payables	18	3,711	1,976
Accruals and other payables		465	417
Taxation		–	129
		<b>4,176</b>	2,522
<b>Net current assets</b>		<b>7,555</b>	14,043
<b>Total assets less current liabilities</b>		<b>14,897</b>	27,681
<b>Non-current liabilities</b>			
Deferred taxation	19	1,259	1,026
<b>Net assets</b>		<b>13,638</b>	26,655
Representing:			
<b>Share capital</b>	20	<b>5,200</b>	5,200
<b>Reserves</b>	22	<b>8,438</b>	21,455
<b>Shareholders' funds</b>		<b>13,638</b>	26,655

Approved by the Board of Directors on 23 June 2005

Director

Director

The accompanying notes form an integral part of these financial statements.



## Balance Sheet

At 31 March 2005 (in HK Dollars)

	Note	2005 HK\$'000	2004 HK\$'000
<b>Non-current assets</b>			
Interests in subsidiaries	15	16,001	21,322
<b>Current assets</b>			
Tax recoverable		16	–
Cash and bank balances		4	8
		20	8
<b>Less: Current liabilities</b>			
Accruals and other payables		106	171
Taxation		–	6
		106	177
<b>Net current liabilities</b>		<b>(86)</b>	<b>(169)</b>
<b>Net Assets</b>		<b>15,915</b>	<b>21,153</b>
Representing:			
<b>Share capital</b>	20	<b>5,200</b>	5,200
<b>Reserves</b>	22	<b>10,715</b>	15,953
<b>Shareholders' funds</b>		<b>15,915</b>	<b>21,153</b>

Approved by the Board of Directors on 23 June 2005

Director

Director

The accompanying notes form an integral part of these financial statements.

## Consolidated Statement of Changes in Equity

At 31 March 2005 (in HK Dollars)

	Share Capital HK\$'000	Share premium HK\$'000	Investment revaluation reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2003	5,200	17,816	–	252	23,268
Surplus on revaluation reserve of the investment securities at market value	–	–	1,400	–	1,400
Net profit for the year	–	–	–	1,987	1,987
At 31 March 2004 and 1 April 2004	5,200	17,816	1,400	2,239	26,655
Deficit on revaluation reserve on transfer of the investment securities from non-current assets to current assets at fair value	–	–	(1,400)	–	(1,400)
Net loss for the year	–	–	–	(11,617)	(11,617)
At 31 March 2005	5,200	17,816	–	(9,378)	13,638

The accompanying notes form an integral part of these financial statements.

## Consolidated Cash Flow Statement

At 31 March 2005 (in HK Dollars)

	2005 HK\$'000	2004 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
(Loss)/profit before taxation	<b>(11,384)</b>	2,943
Adjustments for:		
Depreciation	<b>896</b>	403
Interest income	–	(8)
Interest expenses	–	44
Impairment loss on transfer of non-trading securities to trading securities	<b>3,000</b>	–
Operating cash flows before movements in working capital	<b>(7,488)</b>	3,382
Decrease in trade receivables	<b>5,525</b>	12,449
Decrease in prepayments, deposits and other receivables	<b>1,009</b>	61
Increase/(decrease) in trade payables	<b>1,735</b>	(12,434)
Increase/(decrease) in accruals and other payables	<b>48</b>	(302)
Net cash generated from operations	<b>829</b>	3,156
Interest paid	–	(44)
Tax paid	<b>(145)</b>	(7)
Net cash generated from operating activities	<b>684</b>	3,105
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets	–	(7,799)
Decrease in pledged bank deposits	–	1,722
Interest received	–	8
Net cash used in investing activities	–	(6,069)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>684</b>	(2,964)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>3,854</b>	6,818
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>4,538</b>	3,854
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>4,538</b>	3,854

The accompanying notes form an integral part of these financial statements.

## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 1. CORPORATE INFORMATION

The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, Cayman Islands, British West Indies and the head office and principal place of business of the Company in Hong Kong is located at Suite 5601, The Center, 99 Queen's Road Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's principal subsidiaries are set out in Note 15 to the financial statements.

The directors regard Modern China Holdings Limited, a company incorporated in the British Virgin Islands, as being the ultimate holding company.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (collectively referred to as the "new HKFRSs") which are effective for accounting periods commencing on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The new HKFRSs may result in changes in the future as to how the Group's financial performance and financial position are prepared and presented.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). A summary of significant accounting policies followed by the Group and the Company in the preparation of the financial statements is set out below:

#### (a) Basis of preparation

The measurement basis used in the preparation of the financial statements is historical cost convention and modified by marking to market of certain of trading securities.

Certain comparative figures have been reclassified to conform with current year's presentation.

#### (b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries for the year ended 31 March 2005. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively.

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

## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (c) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

#### (d) Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investment in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

#### (e) Revenue recognition

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Interest income is accrued on a time proportion basis, taking into account the principal amounts outstanding and at the interest rates applicable.

#### (f) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (f) Fixed assets (continued)

Depreciation is provided to write off the cost of fixed assets, using the straight line method, over their estimated useful lives. The principal annual rates are as follows:

Plant and machinery	10%
Furniture, fixtures and equipment	20%
Computers	25%

The gain or loss arising from disposal of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

#### (g) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to determine whether there is any indication of impairment of assets, or whether there is any indication that an impairment loss previously recognised no longer exists or may have decreased. If any such indication exists, the recoverable amount of the asset is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the year in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant policy for that revalued asset.

##### *i. Calculation of recoverable amount*

The recoverable amount of an asset is the higher of its net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of any asset and from its disposal at the end of its useful life. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of asset that generates cash inflows independently (i.e. a cash-generating unit).

##### *ii. Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (h) Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised using the straight-line basis, over the commercial lives of the underlying products of not exceeding five years, commencing from the date when the products are put into commercial production.

During the year ended 31 March 2005, all development costs have been expensed as no expenses satisfied the criteria for capitalisation as an asset.

#### (i) Trade receivables

Trade receivables, which generally have credit terms of 60-90 days, are recognised and carried at the original invoiced amount, less provisions for doubtful debts when collection of the full amount is no longer probable. Bad debts are written off as incurred.

#### (j) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

#### (k) Current assets and current liabilities

Current assets are expected to be realised within twelve months of the balance sheet date or in the normal course of the Group's operating cycle. Current liabilities are expected to be settled within twelve months of the balance sheet date or in the normal course of the Group's operating cycle.

## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit is the profit for the year, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### (m) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, the rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.



## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

#### (o) Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme except for the Group's employer voluntary contributions, which are refunded the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

#### (p) Foreign currencies

Transactions in currencies other than Hong Kong Dollars are initially recorded at the rates of exchange ruling on dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

#### (q) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. A contingent asset is not recognised but is disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (r) Investment securities

Non-trading securities:

Investments which are held for non-trading purpose are stated at fair value at the balance sheet date. Changes in the fair value of individual securities are credited or debited to the investment revaluation reserve until the security is sold, or is determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, is dealt with in the income statement.

Where there is objective evidence that individual investments are impaired the cumulative loss recorded in the revaluation reserve is taken to the income statement.

Trading securities:

Trading securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading securities are recognised in the income statement. Profits or losses on disposal of trading securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the income statement as they arise.

The transfer of a security between categories of investments are accounted for at fair value. At the date of the transfer, the security's unrealised holding gain or loss for a security transferred into the other investment category are recognised in net profit or loss immediately.

#### (s) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

#### (t) Related party transactions

A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (u) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets and receivables, and mainly exclude non-trading securities and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

### 3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments.

For management purposes, the Group is currently organised into the following business segments – integrated circuit recorders ("IC recorders") product segment, mpeg-1 audio layer-3 players ("MP3 players") product segment, digital versatile disc players ("DVD players") product segment and IC Components ("IC"). These divisions are the basis on which the Group reports its primary segment information.

Notes to Financial Statements

31 March 2005 (in HK Dollars)

3. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present turnover, results and certain assets, liabilities and expenditure information of the Group's business segments.

For the year ended 31 March 2005

	IC recorders HK\$'000	MP3 players HK\$'000	DVD players HK\$'000	IC HK\$'000	Con- solidated HK\$'000
Turnover					
External sales	4,538	5,176	19,826	4,986	34,526
Results					
Segment results	193	327	(3,084)	341	(2,223)
Interest income					-
Sundry income					680
Finance costs					-
Exchange gains					2
Unallocated costs					(9,843)
Loss before taxation					(11,384)
Taxation					(233)
Net loss for the year					(11,617)
<b>As at 31 March 2005</b>					
Assets					
Segment assets	500	500	11,849	577	13,426
Unallocated assets					5,647
					19,073
Liabilities					
Segment liabilities	249	-	2,860	602	3,711
Unallocated liabilities					1,724
					5,435
Other information					
Capital expenditure	-	-	-	-	-
Unallocated capital expenditure					-
					-
Depreciation	-	-	845	-	845
Unallocated depreciation					51
					896

Notes to Financial Statements

31 March 2005 (in HK Dollars)

3. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

For the year ended 31 March 2004

	IC recorders HK\$'000	MP3 players HK\$'000	DVD players HK\$'000	IC HK\$'000	Con- solidated HK\$'000
Turnover					
External sales	8,337	5,214	51,070	13,849	78,470
Results					
Segment results	711	543	4,014	1,265	6,533
Interest income					8
Sundry income					18
Finance costs					(44)
Exchange gains					34
Unallocated costs					(3,606)
Profit before taxation					2,943
Taxation					(956)
Net profit for the year					1,987
As at 31 March 2004					
Assets					
Segment assets	1,099	836	18,861	–	20,796
Unallocated assets					9,407
					30,203
Liabilities					
Segment liabilities	–	82	1,894	–	1,976
Unallocated liabilities					1,572
					3,548
Other information					
Capital expenditure	–	–	7,799	–	7,799
Unallocated capital expenditure					–
					7,799
Depreciation	–	–	325	–	325
Unallocated depreciation					78
					403

Notes to Financial Statements

31 March 2005 (in HK Dollars)

3. SEGMENT INFORMATION (continued)

(b) Geographical segments

In determining the Group's geographical segments, revenue is attributable to segments based on the location of customers and assets are attributable to the segments based on the location of the assets.

For the year ended 31 March 2005

	The People's Republic of China ("PRC") (including Hong Kong) HK\$'000	Singapore HK\$'000	Japan HK\$'000	Others HK\$'000	Consolidated HK\$'000
Turnover					
External sales	34,480	10	–	36	34,526
Assets					
Segment assets	19,073	–	–	–	19,073
Other information					
Capital expenditure	–	–	–	–	–

For the year ended 31 March 2004

	PRC (including Hong Kong) HK\$'000	Singapore HK\$'000	Japan HK\$'000	Others HK\$'000	Consolidated HK\$'000
Turnover					
External sales	67,431	10,191	31	817	78,470
Assets					
Segment assets	30,203	–	–	–	30,203
Other information					
Capital expenditure	7,799	–	–	–	7,799

Notes to Financial Statements

31 March 2005 (in HK Dollars)

4. TURNOVER AND REVENUE

Turnover represents the invoiced value of goods sold, after allowance for returns and trade discount when applicable. All significant inter company transactions and balances within the Group have been eliminated on consolidation.

	2005 HK\$'000	2004 HK\$'000
Turnover		
Sale of products	34,526	78,470
Other revenue		
Exchange gains	2	34
Interest income	–	8
Sundry income	680	18
	682	60
Total revenue	35,208	78,530

5. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations has been arrived at after charging:

	2005 HK\$'000	2004 HK\$'000
Auditors' remuneration	280	280
Bad debts	4,101	–
Depreciation	896	403
Operating lease rentals in respect of rented premises	220	157
Provision for diminution in value of investment securities	3,000	–
Research and development expenditures	288	1,189
Staff costs (excluding directors' emoluments in note 7):		
Wages and salaries	378	164
Retirement benefits scheme contributions	–	8
	378	172

6. FINANCE COSTS

	2005 HK\$'000	2004 HK\$'000
Interest on bank overdrafts wholly repayable with 5 years	–	44

Notes to Financial Statements

31 March 2005 (in HK Dollars)

7. DIRECTORS' EMOLUMENTS

	2005 HK\$'000	2004 HK\$'000
Fees		
Executive directors	–	–
Independent non-executive directors	32	90
	<b>32</b>	90
Other emoluments (executive directors)		
Salaries, housing benefits and other benefits	301	438
Retirement benefits scheme contributions	–	12
	<b>301</b>	450
	<b>333</b>	540

All of the directors' emoluments fell within the nil to HK\$1,000,000 band for the two years ended 31 March 2004 and 2005.

The Company's executive directors received emoluments of approximately HK\$270,000 (2004: HK\$350,000) for the year ended 31 March 2005.

Two of the Independent non-executive directors received emoluments of HK\$32,000 (2004: HK\$90,000) for the year ended 31 March 2005. No emoluments were paid to the remaining Independent non-executive director during the current and prior years.

There were no arrangements under which a directors waived or agreed to waive any remuneration during the year ended 31 March 2005 (31 March 2004: Nil).

8. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included two (2004: three) directors of the Company, details of whose emoluments are set out in note 7 to the financial statements. The emoluments of the remaining three (2004: two) individuals were as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Salaries, housing benefits and other benefits	252	164
Retirement benefits scheme contributions	–	8
	<b>252</b>	172



Notes to Financial Statements

31 March 2005 (in HK Dollars)

8. EMPLOYEES' EMOLUMENTS (continued)

The emoluments of the three (2004: two) non-directors, highest paid individuals fell within the nil to HK\$1,000,000 band for the two years ended 31 March 2004 and 2005. No emoluments were paid by the Group to the directors and the highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office and no director waived any emoluments.

9. TAXATION

	2005 HK\$'000	2004 HK\$'000
Hong Kong Profits Tax for the year	–	13
Over provision in prior years	–	(83)
	–	(70)
Deferred tax:		
– Charge to income statement for the year	–	1,026
– Under provision in the previous year	233	–
	233	1,026
	233	956

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

The tax charge for the year ended 31 March 2005 and 31 March 2004 can be reconciled to the (loss)/profit per the income statement as follows:

	2005		2004	
	HK\$'000	%	HK\$'000	%
(Loss)/profit before taxation	<b>(11,384)</b>		2,943	
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	<b>(1,992)</b>	<b>(17.5)</b>	515	17.5
Tax effect of utilisation of tax losses	<b>(844)</b>	<b>(7.4)</b>	(506)	(17.2)
Tax effect of unrecognised tax losses	<b>2,836</b>	<b>24.9</b>	4	0.1
Over-provision in prior years	–	–	(83)	(2.8)
Tax effect of unrecognised temporary differences	<b>233</b>	<b>2.0</b>	1,026	34.9
Tax expense and effective tax rate for the year	<b>233</b>	<b>2.0</b>	956	32.5

## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 10. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$5,238,000 (2004: profit of HK\$59,000) for the year ended 31 March 2005.

### 11. DIVIDEND

The board of directors did not recommend the payment of any dividend for the year ended 31 March 2005 (2004: Nil).

### 12. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share for the year is based on the loss for the year of HK\$11,617,000 (2004: profit of HK\$1,987,000) and on the weighted average of 520,000,000 (2004: 520,000,000) ordinary shares in issue during the year.

There is no diluted (loss)/earnings per share presented because there were no potential dilutive ordinary shares outstanding during the two years ended 31 March 2004 and 2005.

### 13. RETIREMENT BENEFITS SCHEMES

In accordance with the relevant mandatory provident fund laws and regulations of Hong Kong, the Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying Hong Kong employees. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent MPF service provider. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. The retirement benefits scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

Notes to Financial Statements

31 March 2005 (in HK Dollars)

14. FIXED ASSETS

The Group

	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Computers HK\$'000	Total HK\$'000
<b>Cost</b>				
At 1 April 2004	8,455	179	181	8,815
Additions	–	–	–	–
<b>At 31 March 2005</b>	<b>8,455</b>	<b>179</b>	<b>181</b>	<b>8,815</b>
<b>Accumulated depreciation</b>				
At 1 April 2004	347	120	110	577
Charge for the year	846	23	27	896
<b>At 31 March 2005</b>	<b>1,193</b>	<b>143</b>	<b>137</b>	<b>1,473</b>
<b>Net book value</b>				
<b>At 31 March 2005</b>	<b>7,262</b>	<b>36</b>	<b>44</b>	<b>7,342</b>
At 31 March 2004	8,108	59	71	8,238

15. INTERESTS IN SUBSIDIARIES

	The Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	2,066	2,066
Amounts due from subsidiaries	13,935	19,256
	<b>16,001</b>	21,322

The amounts due are unsecured, interest free and recoverable on demand.

Notes to Financial Statements

31 March 2005 (in HK Dollars)

15. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the Company's principal subsidiaries as at 31 March 2005 are as follows:

Name	Place of incorporation	Issued and fully paid share capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Dynamic Choice Technology Limited	The British Virgin Islands	US\$1,000	100%	–	Investment holding
Cyclone Technology Limited	Hong Kong	HK\$1,500,000	–	100%	Sales of audio and visual products
Speedweight Technology Limited	The British Virgin Islands	US\$1,000	–	100%	Sales of audio and visual products
Everyday Investments Limited	The British Virgin Islands	US\$1,000	–	100%	Investment in listed securities

The principal place of operations of all the subsidiaries were in Hong Kong.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

16. INVESTMENT SECURITIES

	The Group	
	2005 HK\$'000	2004 HK\$'000
Equity securities, at market value		
Listed in Hong Kong	3,000	5,400
Provision for diminution in value	(2,000)	–
	1,000	5,400
Reclassified as current assets	(1,000)	–
Non-current assets	–	5,400

Notes to Financial Statements

31 March 2005 (in HK Dollars)

16. INVESTMENT SECURITIES (continued)

Details of investment are listed as below:

Name	Place of incorporation	Principal activities	Particular of issued shares held	Interest held
IA International Holdings Limited	Bermuda	Research, development and provision of Information-on-demand Solution	10,000,000	3.33%

The audited net loss of IA International Holdings Limited ("IA") for the year ended 31 March 2005 was HK\$23,143,000 (2004: profit of HK\$1,532,000). The market value of the investment securities 10,000,000 ordinary shares in IA was valued at HK\$0.30 per share in total of HK\$3,000,000 as at 31 March 2005. A provision for diminution in value of investment securities of HK\$2,400,000 was therefore recognised of which HK\$1,400,000 was offset against the revaluation reserve and HK\$1,000,000 was recognised in income statement.

The directors reassessed the recoverable amount of the investment securities at 31 March 2005 and recognised a further provision for diminution in value of HK\$2,000,000.

17. TRADE RECEIVABLES

The credit period granted by the Group to its customers is normally 60 – 90 days.

The aged analysis of trade receivables is as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	2,148	3,063
31 – 60 days	1,120	3,041
61 – 90 days	896	3,585
	<b>4,164</b>	<b>9,689</b>

18. TRADE PAYABLES

The aged analysis of trade payables is as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Within 30 days	2,327	1,976
31 – 60 days	889	–
61 – 90 days	–	–
Over 90 days	495	–
	<b>3,711</b>	<b>1,976</b>

## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 19. DEFERRED TAXATION

The deferred tax liabilities in respect of accelerated tax depreciation were recognised by the Group and movements thereon during the year are as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
At 1 April 2004/2003	1,026	–
Charge to income statement for the year	–	1,026
Under provision in the previous year	233	–
<b>At 31 March 2005/2004</b>	<b>1,259</b>	<b>1,026</b>

The Group has not recognised deferred tax assets in respect of tax loss due to the unpredictability of the future profit stream.

### 20. SHARE CAPITAL

	Number of share	HK\$'000
Authorised (ordinary shares of HK\$0.01 each):		
At 1 April 2004 and 31 March 2005	10,000,000,000	100,000
Issued and fully paid (ordinary shares of HK\$0.01 each):		
At 1 April 2004 and 31 March 2005	520,000,000	5,200

### 21. SHARE OPTION SCHEME

The Company's share option scheme was adopted pursuant to written resolutions passed on 19 October 2002 (the "Scheme") for the primary purpose of providing incentives to directors, eligible employees and participants who have contributed to the Group, and will expire in 12 November 2012. Under the Scheme, the board of directors of the Company may grant options to full-time or part-time employees including directors (executive and non-executive) and any advisor, consultant, supplier, distributor, contractor, agent, business partner, promoter, service provider or customer of the Company or any of its subsidiaries, to subscribe for shares in the Company.

## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 21. SHARE OPTION SCHEME (continued)

Subject to the condition that the total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes of the Company must not exceed 30% of the shares of the Company in issue from time to time, the total number of shares in respect of which options may be granted under the Scheme when aggregated with any shares subject to any other schemes is not permitted to exceed 10% of the shares of the Company immediately upon the listing of the shares on the Stock Exchange ("Scheme Mandate Limit"), without prior approval from the Company's shareholders. Options lapsed in accordance with the terms of the share option scheme will not be counted for the purpose of calculating the Scheme Mandate Limit. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors or any of his, her or its associates in the 12-month period up to and including the date of offer of the option exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK\$5 million must be approved by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price is determined by the board of directors of the Company and will not be less than the highest of the closing price of the Company's shares on the date of grant, the average closing prices of the shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

No option has been granted by the Company since the adoption of the Scheme.

Notes to Financial Statements

31 March 2005 (in HK Dollars)

22. RESERVES

(a) The Group

	Share premium (note c) HK\$'000	Investment revaluation reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000
At 1 April 2003	17,816	–	252	18,068
Surplus on revaluation reserve of the investment securities at market value	–	1,400	–	1,400
Net profit for the year	–	–	1,987	1,987
At 31 March 2004 and 1 April 2004	17,816	1,400	2,239	21,455
Deficit on revaluation reserve on transfer of the investment securities from non-current assets to current assets at fair value	–	(1,400)	–	(1,400)
Net loss for the year	–	–	(11,617)	(11,617)
<b>At 31 March 2005</b>	<b>17,816</b>	<b>–</b>	<b>(9,378)</b>	<b>8,438</b>



Notes to Financial Statements

31 March 2005 (in HK Dollars)

22. RESERVES (continued)

(b) The Company

	Share premium (note d) HK\$'000	Retained profits/ (Accumulated loss) HK\$'000	Total HK\$'000
At 1 April 2003	15,874	20	15,894
Net profit for the year	–	59	59
At 31 March 2004	15,874	79	15,953
Net loss for the year	–	(5,238)	(5,238)
<b>At 31 March 2005</b>	<b>15,874</b>	<b>(5,159)</b>	<b>10,715</b>

- (c) The share premium account of the Group includes (i) the premium arising from the issue of shares of the Company during the year; and (ii) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the reorganisation scheme (the "Group Reorganisation") set out in the Company's prospectus dated 30 October 2002, over the nominal value of the shares of the Company issued in exchange thereof.
- (d) The share premium account of the Company includes (i) the premium arising from the issue of shares of the Company during the year; and (ii) the difference between the then combined net assets value of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in the Company's prospectus dated 30 October 2002, over the nominal value of the shares of the Company issued in exchange therefore.
- (e) The Company's reserves available for distribution to shareholders as at 31 March 2005 represent the aggregate of share premium and accumulated loss, and amount to HK\$10,715,000.

23. OPERATING LEASE COMMITMENTS

The Group leases office premises under operating lease arrangement which is negotiated for terms of two years.

At 31 March 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
Within one year	–	132

## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 24. CONTINGENT LIABILITIES

At 31 March 2005, the Group did not have any significant contingent liabilities (2004: Nil).

### 25. CAPITAL COMMITMENTS

At 31 March 2005, the Group did not have any significant commitment (2004: Nil).

### 26. SUBSEQUENT EVENTS

Following the completion of acquisition of a total of 414,700,000 shares of the Company, which represents approximately 79.75% of the Company's entire issued share capital by Modern China Holdings Limited ("Modern China") on 17 March 2005 (the "Acquisition") and the corresponding mandatory unconditional cash offer by Modern China at the offer price of HK\$0.01923 per share of the Company for all the issued shares of the Company other than those already owned by Modern China and parties acting in concert with it pursuant to the Hong Kong Code on Takeover and Mergers Rule 26.1. announced on 1 March 2005 (the "Offer") (details of the Offer are contained in the circular of the Company dated 8 April 2005), the Company has the following subsequent events as a result of the Offer:

#### (a) Change of name of the Company

In order to reflect the change in control and management of the Company as a result of the Offer, on 12 April 2005, the board of directors of the Company announced its intention of changing the name of the Company from "Vaso Digital International Holdings Limited" to "China Photar Electronics Group Limited 中國豐達電子集團有限公司" ("Change of Name") and conduct an extraordinary general meeting ("EGM") for proposing the Change of Name (the "Special Resolution") for the approval of the shareholders of the Company.

The special resolution was duly passed by the shareholders of the Company in the EGM held on 27 May 2005 and the new name of the Company became effective on 30 May 2005.

#### (b) Changes of directors and management of the Company

Following the completion of the Acquisition and the Offer, the board of directors of the Company announced that Mr. Yasukawa Yoshihiro and Ms. Wang Li Hua tendered their resignation as executive directors of the Company with effect from 20 May 2005 and 14 June 2005 respectively. Mr. Chen Jijin and Ms. Huang Menghuai were appointed as the new executive directors of the Company with effect from 14 June 2005 and 16 June 2005 respectively.

## Notes to Financial Statements

31 March 2005 (in HK Dollars)

### 26. SUBSEQUENT EVENTS (continued)

#### (b) Changes of directors and management of the Company (continued)

The board of directors also announced that Ms. Wong Chi Ling tendered her resignation as the company secretary and qualified accountant of the Company with effect from 20 May 2005. Mr. Hung Lap Kay was appointed as the new company secretary and qualified accountant of the Company with effect from 20 May 2005.

#### (c) Placing of existing shares of the Company

In view of the insufficient public float of the shares of the Company following the completion of the Acquisition and the Offer, Modern China and the Company made arrangements for the placing of existing shares of the Company to not less than six independent third party placees (the "Placing"). Upon completion of the Placing on 8 June 2005, the public float of the shares of the Company restored from 19.79% to 32.87% which fulfilled the minimum public float requirement of 25% of the public float for the shares of the Company prescribed by the GEM Listing Rules.

### 27. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 23 June 2005.

## Financial Summary

31 March 2005 (in HK Dollars)

The results and assets and liabilities of the Group for the last five financial years are as follows:

	2005 HK\$'000	For the year ended 31 March			
		2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
<b>Results</b>					
Turnover	<b>34,526</b>	78,470	42,039	15,254	13,395
(Loss)/profit before taxation	<b>(11,384)</b>	2,943	3,092	800	(1,046)
Taxation	<b>(233)</b>	(956)	(206)	–	–
(Loss)/profit attributable to shareholders	<b>(11,617)</b>	1,987	2,886	800	(1,046)
(Loss)/Earnings per share Basic	<b>(2.23) cents</b>	0.38 cent	0.61 cent	0.18 cent	(0.24) cent
<b>Assets and liabilities</b>					
	2005 HK\$'000	At at 31 March			
		2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Total assets	<b>19,073</b>	30,203	40,325	3,080	3,876
Total liabilities	<b>(5,435)</b>	(3,548)	(17,057)	(1,706)	(5,802)
Shareholders' funds/ (deficits)	<b>13,638</b>	26,655	23,268	1,374	(1,926)

Notes:

1. The results, assets and liabilities of the Group for the two years ended 31 March 2001 and 2002 were extracted from the prospectus of the Company dated 30 October 2002. The (loss)/earnings per share for the year ended 31 March 2001 and 2002 were computed on the basis that 440,000,000 shares would have been in issue throughout the year on the assumption that the Group Reorganisation has been completed as at 1 April 2000.
2. The results of the Group for the year ended 31 March 2003 and its assets and liabilities as at 31 March 2003 were extracted from the financial statements of the Company dated 25 June 2003.
3. The results of the Group for the two years ended 31 March 2004 and 2005, its assets and liabilities as at 31 March 2004 and 2005 are set out in the financial statements on pages 21 and 49 respectively.