

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)*



FIRST QUARTERLY REPORT 2005

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors of China Photar Electronics Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors of the Company (the “Directors”), having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 30th June 2005 in condensed format, together with the unaudited comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	(Unaudited) Three months ended 30th June	
		2005 HK\$'000	2004 HK\$'000
Turnover	3	7,229	13,951
Cost of sales		<u>(6,942)</u>	<u>(13,288)</u>
Gross profit		287	663
Other revenues	3	600	–
Selling and distribution expenses		–	(8)
Administrative expenses		(1,027)	(308)
Other operating expenses		<u>(72)</u>	<u>(144)</u>
Operating (loss)/profit		(212)	203
Finance costs		<u>–</u>	<u>–</u>
(Loss)/Profit before taxation		(212)	203
Taxation	4	<u>–</u>	<u>(23)</u>
Net (loss)/profit attributable to shareholders		<u>(212)</u>	<u>180</u>
Dividend	5	<u>–</u>	<u>–</u>
(Loss)/Earnings per share	6		
– Basic (cent)		<u>(0.04)</u>	<u>0.03</u>
– Diluted (cent)		<u>N/A</u>	<u>N/A</u>



NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the three months ended 30th June 2005

1. Basis of presentation

The unaudited condensed consolidated results of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (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 Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("GEM Listing Rules"). 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.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the period under review are consistent with those followed in the Company's 2005 annual report.

The condensed consolidated results are unaudited but have been reviewed by the audit committee of the Company.

2. Recently Issued Accounting Standards

In 2004, the HKICPA issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted the new HKFRSs in the preparation of accounts for the period from 1st April 2005 onwards. The adoption of the new HKFRSs had no material impact on the Group's results of operations and financial position.

3. Turnover

The Group's turnover represents the net invoiced value of goods sold, after allowance for returns and trade discount, when applicable. Analysis of turnover of the Group:

	(Unaudited)	
	Three months ended	
	30th June	
	2005	2004
	HK\$'000	HK\$'000
Turnover		
Integrated circuit recorders ("IC recorders")	1,532	1,800
Mpeg-1 audio layer-3 players ("MP3 players")	-	3,035
Digital versatile disc players ("DVD players")	4,969	7,426
IC components	728	1,690
	7,229	13,951
	7,229	13,951

4. Taxation

No provision of Hong Kong profits tax has been provided as the Company had no estimated assessable profit during the three months ended 30th June 2005 (three months ended 30th June 2004: tax rate 17.5%).

No deferred tax had been provided for the Group because there were no significant timing differences.

5. Dividends

The Directors do not recommend the payment of any dividend for the three months ended 30th June 2005 (three months ended 30th June 2004: Nil).

6. (Losses)/Earnings per share

The calculations of basic losses per share is based on the consolidated net loss attributable to shareholders of approximately HK\$212,000 (unaudited consolidated net profit attributable to shareholders for three months ended 30th June 2004: HK\$180,000) and on the weighted average number of 520,000,000 ordinary shares (three months ended 30th June 2004: 520,000,000 ordinary shares) in issue during the three months ended 30th June 2005.

Dilutive earnings per share amounts have not been presented as the Company did not have any potential dilutive ordinary shares for the three months ended 30th June 2005.

7. Reserves

	Investment			
	Share revaluation	Retained		
	premium	reserve	earnings	Total
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2004	17,816	1,400	2,239	21,455
Net profit for the period	—	—	180	180
At 30th June 2004	17,816	1,400	2,419	21,635
At 1st April 2005	17,816	—	(9,378)	8,438
Net loss for the period	—	—	(212)	(212)
At 30th June 2005	17,816	—	(9,590)	8,226

REVIEW AND PROSPECTS

General

The Group is principally engaged in, among other things, the manufacturing and sale of electronic communication and consumer products. It is the objective of the Group to be a leading provider and developer of electronic communication and consumer products and office automation equipments in the markets of Asia and Europe.

Financial review

During the three months ended 30th June 2005, the Group recorded a turnover of approximately HK\$7,229,000, a decrease of approximately 48% as compared to the corresponding period in previous year. The decrease was attributed to the decrease in the quantities of orders by existing customers and the fierce price competition encountered by the Group in the consumer electronics industry.

The Group's overall gross profit margin for the three months ended 30th June 2005 was approximately 4% as compared to approximately 4.8% in the corresponding period in previous year. The slight decrease was due to the general reduction in the selling prices as compared to corresponding period in previous year owing to the competitive environments in the digital AV market.

The other revenue for the three months ended 30th June 2005 represented other income from design fees.

Net loss attributable to shareholders of the Group for the three months ended 30th June 2005 was approximately HK\$212,000 while net profit attributable to shareholders of the corresponding period in 2004 was approximately HK\$180,000. The difference was mainly attributed to the decrease in the turnover and gross profit margin.



Operation review

During the three months ended 30th June 2005, the Group continued to promote the Group's digital AV products for the mid-to-high-price segment of the market. 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 shareholders of the Company (the "Controlling Shareholder") and the changes of board composition of the Company as disclosed in the announcement of the Company dated 20th May 2005, 14th June 2005 and 16th 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 the business network of the Controlling Shareholder and the new directors of the Company would lead the Group to explore further business opportunities.

As disclosed in the announcement of the Company dated 27th June 2005, the Company has entered into a licence agreement with SAGEM Communication (Tianjin) Company Limited ("SAGEM") and in collaboration with SAGEM and her mother company, SAGEM Communication which is one of the largest enterprises in Europe, for manufacturing and distribution of telefacsimile machine products under the brand name of "Philips" in the People's Republic of China. The Directors believe, with this collaboration, the Company will enlarge its existing customer base and will gain the capability and reputation of manufacturing and distributing world class technological products and generate revenue from the sale thereof. In addition, the Directors will continue to use their best endeavors to procure further collaboration with independent third party on international base. In this connection, the Directors are confident that with the Company's dedicated management team, the business of the Group will continue to provide solid contributions throughout the remainder of the financial year.

During the three months ended 30th June 2005, Bayton International Limited (“Bayton”) was incorporated in Hong Kong to be the wholly-owned subsidiary of the Company for trading and investment holding purposes and Guangdong Photar Digital And Electronic Company Limited was incorporated in the People’s Republic of China to be a wholly-owned subsidiary of Bayton for manufacturing purpose.

DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES

As at 30th June 2005, the following director of the Company had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or 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, 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:

(a) **Director's interests and short positions in the securities of the Company and its associated corporations**

Name of Director	Nature of interest	No. of Shares held	Position	Approximate percentage of issued share capital
Chen Jijin <i>note</i>	Corporate	346,700,000	Long	66.67%

Note: The Shares are owned by Modern China Holdings Limited, a company incorporated in the British Virgin Islands and 100% of the issued share capital of which is held by Mr. Chen Jijin.

Save as disclosed above, as at 30th June 2005, none of the directors of the Company nor the chief executive of the Company had or was deemed to have any interests or short positions in the 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 or 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, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

So far as is known to the Directors, as at 30th June 2005, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were 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 member of the Group:

Name of Shareholder	No. of Shares held	Position	Approximate percentage of issued share capital
Modern China Holdings Limited ^{Note}	346,700,000	Long	66.67%

Note: The issued share capital of Modern China Holdings Limited is 100% beneficially owned by Mr. Chen Jijin, an executive Director.

Save as disclosed above, as at the 30th June 2005, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was 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 member of the Group.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the sole shareholder of the Company passed on 19th October 2002, the Company adopted a share option scheme (the “Scheme”) under which share options to subscribe for the shares of the Company may be granted under the terms and conditions stipulated therein. As at 30th June 2005, no share option had been granted or agreed to be granted by the Company under the Scheme.

DIRECTORS’ AND EMPLOYEES’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading “DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES” above and save for the share options that may be granted under the Scheme, none of the directors of the Company or employees of the Group or their respective associates were granted by the Company or its subsidiaries the rights to acquire shares or debentures of the Company or any other body corporate, or had exercised any such rights as at 30th June 2005.

COMPETING INTEREST

Pursuant to Rule 19.64(9) and Rule 11.04 of the GEM Listing Rules, as at 30th June 2005, the following Directors are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group:

Mr. Chen Jijin is an executive director and a controlling shareholder of the Company. In addition, Mr. Chen also holds shareholdings and directorships in Guangdong Photar High Technology Co., Ltd. (“Guangdong Photar”) which engages principally in manufacturing and selling of electronic communication and consumer products. In this regard, Mr. Chen Jijin is considered to have interests in businesses which compete, or might compete, either directly or indirectly, with the businesses of the Group.

Ms. Huang Menghuai is an executive director. In addition, Ms. Huang is also an executive director and vice president of Guangdong Photar. In this regard, Ms. Huang Menghuai is considered to have interests in businesses which compete, or might compete, either directly or indirectly, with the businesses of the Group.

As Guangdong Photar is a private company which is not in any way related to the Company except that Mr. Chen holds 100% of its shares and Mr. Chen and Ms. Huang both being its executive directors, Mr. Chen and Ms. Huang hereby undertake to use their best endeavour to procure Guangdong Photar not to compete in any way with the Group in relation to the business of the Group and with effect from 20 June 2005, Guangdong Photar ceased to engage in any business in relation to telefacsimile machine products.

Save as disclosed herein, none of the Directors, the management shareholders or the substantial shareholders of the Company, or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interest with the Group.

PURCHASE, SALE OR REDEMPTION OF SHARES

As at 30th June 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

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

During the three months ended 30th June 2005, the Company has complied with the Board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee (the “Committee”) on 19th October 2002 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. Pursuant to the appointments of Mr. Chen Wei Rong, Mr. Zhou Hai Yan and Mr. Tai Yung Muk, Eric as the Committee members and resignation of Mr. Guo Qing, Mr. Liu Feng and Ms. Guo Wen Hong, the Committee comprises three independent non-executive directors, namely, Mr. Chen Wei Rong, Mr. Zhou Hai Yan and Mr. Tai Yung Muk, Eric. The Group’s unaudited results for the three months ended 30th June 2005 have been reviewed by the Committee who was of the opinion that the preparation of such results complied with the applicable accounting standards, the GEM Listing Rules and legal requirements and that adequate disclosures have been made.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 30th June 2005, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the directors of the Company.

By Order of the Board

China Photar Electronics Group Limited

Chen Jijin

Chairman

Hong Kong, 12th August 2005

As at the date of this report, the Company's executive directors are Mr. Lee Chun Piu, Mr. Chen Jijin and Ms. Huang Menghuai, and the Company's independent non-executive directors are Mr. Chen Wei Rong, Mr. Zhou Hai Yan and Mr. Tai Yung Muk, Eric.