

Photar

CHINA PHOTAR ELECTRONICS GROUP LIMITED

中國豐達電子集團有限公司

(Incorporated in the Cayman Islands with limited liability)



Interim Report
2005

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.

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of 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 condensed unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the three and six months ended 30 September 2005 ("Condensed Financial Statements"), together with the unaudited comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Six months ended 30 September		Three months ended 30 September	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Turnover	2	37,234	18,810	30,005	4,859
Cost of sales		(33,226)	(18,034)	(26,284)	(4,746)
Gross profit		4,008	776	3,721	113
Other revenues	2	1,811	2	1,211	2
Selling and distribution expenses		(1)	(13)	(1)	(5)
Administrative expenses		(4,287)	(1,922)	(3,260)	(1,613)
Other operating expenses		(72)	(180)	-	(36)
Operating profit/(loss)		1,459	(1,337)	1,671	(1,539)
Finance costs		-	-	-	-
Profit/(Loss) before taxation	3	1,459	(1,337)	1,671	(1,539)
Taxation	4	-	-	-	22
Net profit/(loss) attributable to shareholders		1,459	(1,337)	1,671	(1,517)
Dividend	5	-	-	-	-
Earnings/(Loss) per share	6				
- Basic (cent)		0.27	(0.26)	0.31	(0.29)
- Diluted (cent)		N/A	N/A	N/A	N/A

CONDENSED BALANCE SHEET

	Notes	As at 30 September 2005 (Unaudited) HK\$'000	As at 31 March 2005 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		8,572	7,342
CURRENT ASSETS			
Investment securities		–	1,000
Inventory – at cost		5,618	–
Work in progress		1,030	–
Trade receivables	7	21,205	4,164
Prepayments, deposits and other receivables		9,573	2,013
Tax refundable		16	16
Cash and bank balances		1,793	4,538
		39,235	11,731
CURRENT LIABILITIES			
Trade payables	8	12,488	3,711
Accrued liabilities and other payables		8,849	465
		21,337	4,176
NET CURRENT ASSETS			
		17,898	7,555
TOTAL ASSETS LESS CURRENT LIABILITIES			
		26,470	14,897
NON-CURRENT LIABILITIES			
Deferred taxation		1,259	1,259
NET ASSETS			
		25,211	13,638
CAPITAL AND RESERVES			
Share capital		5,706	5,200
Reserves		19,505	8,438
SHAREHOLDERS FUNDS			
	9	25,211	13,638

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September 2005 (Unaudited) HK\$'000	Six months ended 30 September 2004 (Unaudited) HK\$'000
Net cash (outflow)/ inflow from operating activities	(11,629)	1,331
Net cash outflow from investing activities	(1,230)	—
Net cash from financing activities	10,114	—
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,745)	1,331
Cash and cash equivalents at beginning of period	4,538	3,854
CASH AND CASH EQUIVALENTS AT END OF PERIOD	1,793	5,185
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	1,793	5,185

CONSOLIDATED STATEMENT OF CHANGE OF EQUITY

	Share Capital (unaudited) HK\$'000	Share premium (unaudited) HK\$'000	Investment revaluation reserve (unaudited) HK\$'000	Retained earnings (unaudited) HK\$'000	Total (unaudited) HK\$'000
At 1 April 2004	5,200	17,816	1,400	2,239	26,655
Deficit on revaluation of non-trading securities			(1,400)		(1,400)
Net loss for the period	–	–	–	(1,337)	(1,337)
At 30 September 2004	5,200	17,816	–	902	23,918
At 1 April 2005	5,200	17,816	–	(9,378)	13,638
Newly shares issued in the placement completed on 23 August 2005	506	9,608	–	–	10,114
Net profit for the period	–	–	–	1,459	1,459
At 30 September 2005	5,706	27,424	–	(7,919)	25,211

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 September 2005

1. Basis of presentation

The Condensed 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 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 financial statements for the period under review are consistent with those followed in the Company's 2005 annual report.

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 adoption of the new HKFRSs had no material impact on the Group's results of operations and financial position.

The Condensed Financial Statements are unaudited but have been reviewed by the audit committee of the Company.

2. Turnover and segment information

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

The Group is currently organised into the following business segments – thermal sensitive telefacsimile machines ("Fax Machines") product segment, 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 other products segment. These divisions are the basis on which the Group reports its primary segment information.

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(a) Business segments

The following tables present turnover, results and certain assets, liabilities and capital expenditure information for the Group's business segment.

For the six months ended 30 September

	Fax Machines		IC Recorders		MP3 players		DVD players		Others		Consolidated	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Turnover:												
External sales	26,596	-	728	2,675	625	3,000	7,753	10,089	1,532	3046	37,234	18,810
Segment results	2,985	-	7	161	25	240	1,108	42	67	320	4,192	763
Other income											610	-
Net unallocated expenses											(3,343)	(2,100)
Profit/(Loss) from operations											1,459	(1,337)
Finance costs											-	-
Profit/(Loss) before taxations											1,459	(1,337)
Taxation											-	-
Profit/(Loss) attributable to shareholders											1,459	(1,337)
As at 30 September												
ASSETS												
Segment assets	25,602	-	500	502	1,125	1,000	10,922	17,723	-	105	38,149	19,330
Unallocated assets											9,658	8,557
Total assets											47,807	27,887
LIABILITIES												
Segment liabilities	12,357	-	-	181	-	190	131	2,282	-	-	12,488	2,653
Unallocated liabilities											10,109	1,316
Total liabilities											22,597	3,969
Other segment information:												
Unallocated depreciation											21	75

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(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 segments based on the location of the assets.

The following table presents revenue, certain assets and capital expenditure information for the Group's geographical segments.

For the six months ended 30 September

	The People's Republic of China ("PRC") (including Hong Kong)	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
TURNOVER		
External sales	37,234	18,810
OTHER SEGMENT INFORMATION		
Segment assets	47,791	27,621

3. Profit/(Loss) before taxation

The Group's profit/(loss) before taxation is arrived at after charging the following:

	For the six months ended 30 September		For the three months ended 30 September	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Depreciation	444	75	221	37

4. Taxation

No provision for Hong Kong Profit Tax has been made in the Condensed Financial Statements as the Company and its subsidiaries had no estimated assessable profit for the three months and six months ended 30 September 2005 (three months and six months ended 30 September 2004: tax rate 17.5%).

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

5. Dividends

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2005 (six months ended 30 September 2004: Nil).

6. Earnings/(Losses) per share

The calculations of basic earnings per share for the three months and six months ended 30 September 2005 are based on the consolidated net profit attributable to shareholders for the three months and six months ended 30 September 2005 of approximately HK\$1,671,000 and HK\$1,459,000 respectively (unaudited consolidated net loss attributable to shareholders for three months and six months ended 30 September 2004: HK\$1,517,000 and HK\$1,337,000 respectively) and on the weighted average number of 541,436,435 ordinary shares and 530,776,787 ordinary shares in issue during the three months and six months ended 30 September 2005 respectively, (three months and six months ended 30 September 2004: 520,000,000 ordinary shares in issue).

Dilutive earnings per share amounts have not been presented as the Company did not have any dilutive potential ordinary shares during the periods.

7. Trade receivables

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

An aged analysis of trade receivables is as follows:

	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
Within 30 days	18,846	2,148
31-60 days	1,333	1,120
61-90 days	1,026	896
	21,205	4,164

8. Trade payables

An aged analysis of trade payables is as follows:

	30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited) HK\$'000
Within 30 days	12,243	2,327
31-60 days	134	889
61-90 days	-	-
over 90 days	111	495
	12,488	3,711

9. Share Capital

	As at 30 September 2005 (Unaudited)		As at 31 March 2005 (Audited)	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
<i>Authorised:</i> Shares of HK\$0.01 each	10,000,000,000	100,000	10,000,000,000	100,000
<i>Issued and fully paid:</i> Shares of HK\$0.01 each	570,568,000	5,706	520,000,000	5,200

MANAGEMENT DISCUSSION AND ANALYSIS

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 and major developer, producer and distributor in world-wide by development, production and distribution of high quality all kinds of electronic tele-communication, office automation and network products adapted to the needs of the market in combing the marketing experience and well-developed network in China of the Group and cooperation with international enterprises which are independent third parties.

Financial review

During the six months ended 30 September 2005, the Group recorded a turnover of approximately HK\$37,234,000, an increase of approximately 61.4% as compared to the corresponding period in previous year.

The Group's overall gross profit margin for the six months ended 30 September 2005 was approximately 11% as compared to approximately 4% in the corresponding period in previous year.

The other revenue for the six months ended 30 September 2005 represented other income from machine rentals, subcontracting fees and design fees.

Net profit attributable to shareholders of the Group for the six months ended 30 September 2005 was approximately HK\$1,459,000 while net loss attributable to shareholders of the corresponding period in 2004 was approximately HK\$1,337,000.

Liquidity, financial resources and capital structure

As at 30 September 2005, the Group had total assets of approximately HK\$47,807,000 (31 March 2005: approximately HK\$19,073,000), including cash and bank balances of approximately HK\$1,793,000 (31 March 2005: approximately HK\$4,538,000). There was no pledged bank deposit as at 30 September 2005 (31 March 2005: Nil).

During the six months ended 30 September 2005, the Group financed its operations mainly with its own working capital and proceeds from placement of newly issued shares of the Company in August 2005. As at 30 September 2005, there was no bank overdraft (31 March 2005: Nil) and there was no charge on the Group's assets (31 March 2005: Nil).

As at 30 September 2005, the debt ratio (defined as the ratio between total liabilities over total assets) was approximately 0.47 (31 March 2005: approximately 0.28).

The shares of the Company were listed on GEM on 12 November 2002. During the six months ended 30 September 2005, the Company had issued 50,568,000 newly shares in the placement completed on 23 August 2005. As such, the number of shares in issued and fully-paid of the Company increased to 570,568,000 ordinary shares as at 30 September 2005.

The Group's transactions during the six months ended 30 September 2005 were mainly denominated in Renminbi, HK Dollars and US Dollars. The Renminbi income received from sales in PRC was fully applied to working capital need of the Group in PRC.

Segment information

Sales of the Group comprise mainly sales of four major product lines of the Group, which are Fax Machines, IC Recorders, MP3 players and DVD players. Production of the Fax Machine product line commenced on 1 July 2005. During the six months ended 30 September 2005, sales of Fax Machines, IC Recorders, MP3 players, DVD players and other IC components represent approximately 71%, 2%, 2%, 21% and 4% respectively of the Group's turnover (for the six months ended 30 September 2004: Fax Machines: N/A, IC Recorders: 14%, MP3 players: 16%, DVD players: 54% and other IC components: 16%).

During the six months ended 30 September 2005, all of the Group's products were sold to the PRC market. During the corresponding period in previous year, all of the Group's products were also sold to the PRC market.

Details of the business and geographical segments are disclosed in Note 2 "Turnover and segment information" under the section headed "Financial Results" of this report.

Significant Investments

As at 30 September 2005, there was no significant investment held by the Group. As at 31 March 2005, 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

During the six months ended 30 September 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 ("Photar Digital") was incorporated in the PRC to be a wholly-owned subsidiary of Bayton for manufacturing purpose. Faith Pro Trading Limited was also incorporated in British Virgin Islands to be the wholly-owned subsidiary of the Company for trading purposes.

Contingent liabilities

As at 30 September 2005, the Group had no contingent liabilities (31 March 2005: Nil).

Operating lease commitments

As at 30 September 2005, the commitments under non-cancellable operating lease in respect of premises are HK\$2,286,870 (31 March 2005: Nil) and represented as follows:

	30 September 2005 (Unaudited) HK\$'000	30 September 2004 (Unaudited) HK\$'000
Not later than one year	885,240	—
Later than one year and not later than five years	1,401,630	—
Total operating lease commitments	2,286,870	—

Post Balance Sheet Event

As disclosed in the announcement of the Company dated 20 October 2005, completion of the a placing of newly issued ordinary shares took place on 20 October 2005 where a total of 16,888,000 placing shares at a price of HK\$0.45 per share were placed out to not less than six independent individual(s), institutional, other professional and/or private placees (the "Placing"). The total of 16,888,000 placing shares represent approximately 2.96% of the Company's issued share capital before the Placing (570,568,000 ordinary shares) and approximately 2.87% of its enlarged issued share capital of the Company after the Placing (587,456,000 ordinary shares).

Following the completion of the Placing, the aggregate shareholding of the Company held by Modern China Holdings Limited (the substantial shareholder of the Company) will be diluted to approximately 59.02%.

Employees and remuneration policies

As at 30 September 2005, the Group had 62 (31 March 2005: 17) staff including directors. Total staff costs including directors emoluments were approximately HK\$525,000 in the six months ended 30 September 2005. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-ended bonus based on individual performance will 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.

Review and prospects

During the six months ended 30 September 2005, the Group continued to promote to new and existing clients its 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 shareholder of the Company (the "Controlling Shareholder"), as well as the changes of the board's composition of the Company and the acquisition of the right to the manufacturing and distribution of telefacsimile machine products under the brand name of "Philips" in the People's Republic of China by entering into a licence agreement with SAGEM Communication (Tianjin) Company Limited as disclosed in the announcement of the Company dated 27 June 2005, the Group officially commenced on a full-scale from 1 July 2005 the development, production and sale of high quality Fax Machines products adapted to the needs of the market. Within the three months from 1 July 2005 to 30 September 2005, the Fax Machines business made a successful beginning, contributing substantial turnover and profit to the Group and turning the Group's results from loss to profit. Details of the Fax Machines business are set out in Note 2 on "Turnover and segmental information" under the section headed the "Financial Results" of this report.

As disclosed in the announcement dated 25 October 2005, Photar Digital, a wholly-owned subsidiary of the Company, signed a letter of initial intent with Sagem Communication, an European Enterprise, on 24 October 2005 in Vancouver, Canada, pursuant to which Photar Digital and Sagem Communication will contribute about RMB100 million to the production and sale of all kinds of electronic telecommunication, office automation and network products. Of this contribution, RMB30 million will be contributed by Photar Digital, representing 30% of the equity interest owned by Photar Digital.

Sagem Communication, as a global leading company in the field of printing terminal business and network products and one of the largest enterprises in Europe, will have an opportunity to work together with the Group to promote the development of electronic telecommunication, office automation and network products in China, and will become a global major manufacturer as well as a leading provider and developer in the industry through the joint development, production and sale of all kinds of high quality products adapted to the needs of the market by combining Photar Digital's marketing experience and well-developed sales network in China. In view of the above, the Board considers that the cooperation will be beneficial to the Company and the shareholders of the Company as a whole, and continue to contribute steady growth to the Group's businesses and assist the Group in exploring more business opportunities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 September 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 ^{Note}	Corporate	346,700,000	Long	60.77%

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 30 September 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 of the Company, as at 30 September 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	60.77%

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 30 September 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 19 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 30 September 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 30 September 2005.

COMPETING INTEREST

Pursuant to Rule 19.64(9) and Rule 11.04 of the GEM Listing Rules, as at 30 September 2005, the following directors of the Company 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 of the Company. Ms. Huang was also an executive director and vice president of Guangdong Photar but has resigned from all posts of Guangdong Photar before 30 September 2005 and fully devoted to be an executive director of the Company. In this regard, Ms. Huang Menghuai is not considered to have interests in businesses which compete, or might not 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 being its executive director. Mr. Chen hereby undertakes 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 of the Company, 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 30 September 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

CORPORATE GOVERNANCE

The Board is committed to maintaining a high standard of corporate governance. The Company has complied with the Code of Corporate Governance Practice and the Rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 and Appendix 16 throughout the six months ended 30 September 2005, with deviations from code provision A2.1 in respect of the separate roles of chairman and chief executive officer.

The Company does not have a separate Chairman and Chief Executive Officer and Mr. Chen Jijin currently holds both positions. The Board believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. In addition, through the supervision of the Board which comprised of three independent non-executive Directors, representing more than half of the Board, the interests of the shareholders are adequately and fairly represented. The independent non-executive Directors are with a wide range of experience and caliber, bring valuable judgment on issues of strategy, performance and resources.

AUDIT COMMITTEE

The Company established an audit committee (the "Committee") on 19 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. Following the resignation of Mr. Tai Yung Muk, Eric as independent non-executive director of the Company, he ceases to act as members of the Committee and in replacement Mr. Lam Hon Kuen assumes as member of the Committee with effect from 4 November 2005. The Committee comprises three independent non-executive directors, namely, Mr. Zou Hai Yan, Mr. Chen Wei Rong and Mr. Lam Hon Kuen. The Group's unaudited results for the six months ended 30 September 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.

COMPLIANCE OF CODE FOR DIRECTORS' SECURITIES TRANSACTION

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the six months ended 30 September 2005.

By Order of the Board
China Photar Electronics Group Limited
Chen Jijin
Chairman

Hong Kong, 11 November 2005

As at the date of this report, the Company's executive directors are Mr. Chen Jijin, Ms. Huang Menghuai and Mr. Zhong Min and the Company's independent non-executive directors are Mr. Chen Wei Rong, Mr. Zou Hai Yan and Mr. Lam Hon Kuen.