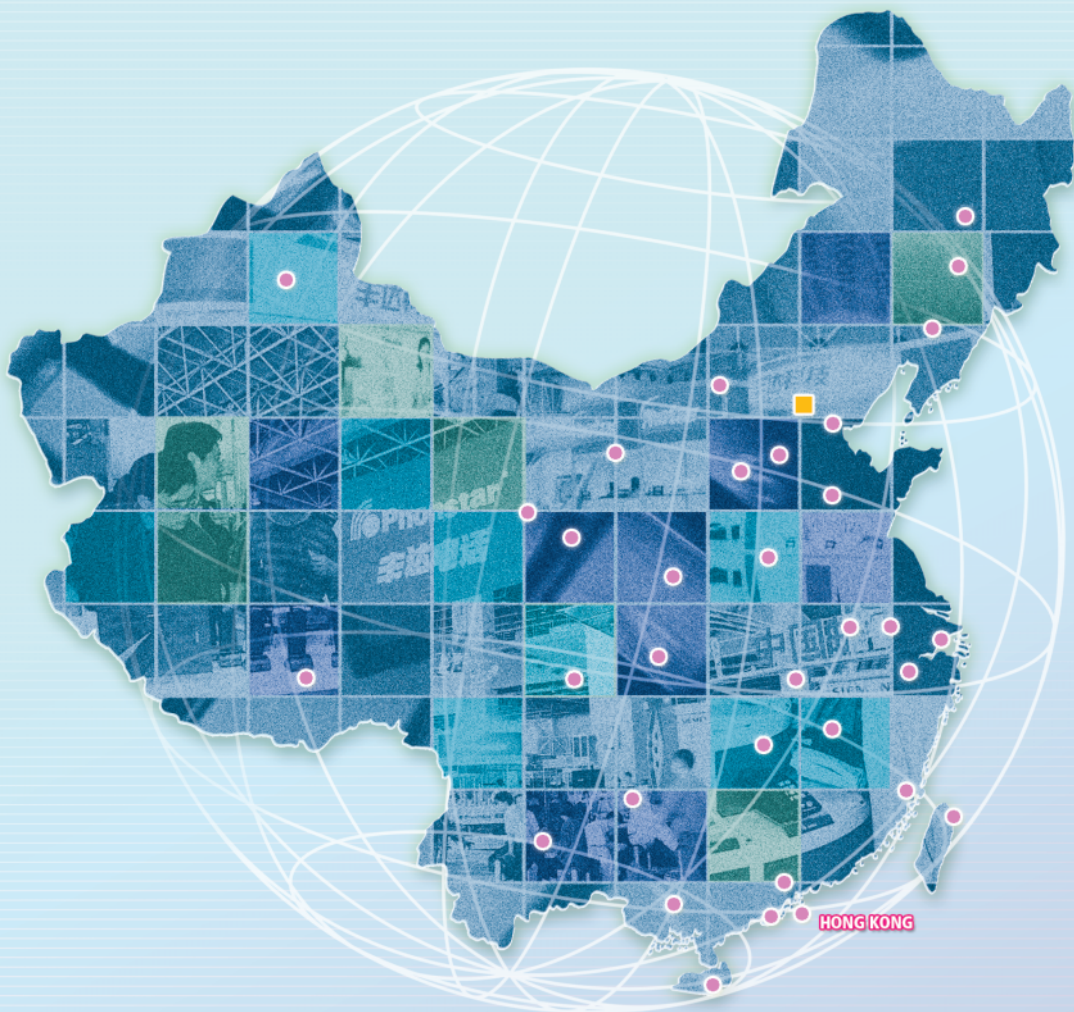


Photar

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)



3rd Quarterly 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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies on GEM are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

This report, for which the directors of 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 condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the three and nine months ended 31 December 2005, together with the unaudited comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Nine months ended		Three months ended	
		31 December		31 December	
		2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Turnover	2	57,413	29,088	20,179	10,278
Cost of sales		(51,759)	(31,342)	(18,533)	(13,307)
Gross profit		5,654	(2,254)	1,646	(3,029)
Other revenues		2,240	1	429	(1)
Selling and distribution expenses		(1)	(14)	–	(1)
Administrative expenses		(11,423)	(2,632)	(7,136)	(711)
Other operating expenses		(72)	(216)	–	(36)
Operating loss		(3,602)	(5,115)	(5,061)	(3,778)
Finance costs		–	–	–	–
Loss before taxation		(3,602)	(5,115)	(5,061)	(3,778)
Taxation	3	(560)	–	(560)	–
Net loss attributable to shareholders		(4,162)	(5,115)	(5,621)	(3,778)
Dividend	4	–	–	–	–
Losses per share	5				
– Basic (cent)		(0.76)	(0.98)	(0.96)	(0.73)
– Diluted (cent)		N/A	N/A	N/A	N/A

Notes:

1. Basis of presentation

The unaudited condensed consolidated results 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.

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

2. 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 is as follows:

	Nine months ended 31 December		Three months ended 31 December	
	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000
Turnover				
Thermal sensitive telefacsimile machines ("Fax machines")	43,006	–	16,410	–
Integrated circuit recorders ("IC recorders")	728	3,815	–	1,140
Mpeg-1 audio layer-3 players ("MP3 players")	2,020	5,176	1,395	2,176
Digital versatile disc players ("DVD players")	10,127	16,169	2,374	6,080
Others	1,532	3,928	–	882
	57,413	29,088	20,179	10,278

3. Taxation

No provision for Hong Kong Profit Tax has been provided as the Group had no estimated assessable profit for the three months and nine months ended 31 December 2005 (three months and nine months ended 31 December 2004: Nil). Taxation for the Group for the three months and nine months ended 31 December 2005 represents China taxation (China tax for the Group for three months and nine months ended 31 December 2004: Nil).

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

4. Dividends

The Directors do not recommend the payment of a dividend for the nine months ended 31 December 2005 (nine months ended 31 December 2004: Nil).

5. Losses per share

The calculations of basic losses per share for the three months and nine months ended 31 December 2005 are based on the consolidated net loss attributable to shareholders for the three months and nine months ended 31 December 2005 of approximately HK\$5,621,000 and HK\$4,162,000 respectively (unaudited consolidated net loss attributable to shareholders for three months and nine months ended 31 December 2004: HK\$3,778,000 and HK\$5,115,000 respectively) and on the weighted average number of 583,968,261 ordinary shares and 548,571,753 ordinary shares in issue during the three months and nine months ended 31 December 2005 respectively, (three months and nine months ended 31 December 2004: 520,000,000 ordinary shares in issue).

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

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6. Reserves

	Share premium (unaudited) HK\$'000	Investment revaluation reserve (unaudited) HK\$'000	Retained earnings (unaudited) HK\$'000	Total (unaudited) HK\$'000
At 1 April 2004	17,816	1,400	2,239	21,455
Deficit on revaluation of non-trading securities	–	(1,400)	–	(1,400)
Net loss for the period	–	–	(5,115)	(5,115)
At 31 December 2004	<u>17,816</u>	<u>–</u>	<u>(2,876)</u>	<u>14,940</u>
At 1 April 2005	17,816	–	(9,378)	8,438
Newly shares issued in the placement completed on 23 August 2005	9,608	–	–	9,608
Newly shares issued in the placement completed on 20 October 2005	7,430	–	–	7,430
Net loss for the period	–	–	(4,162)	(4,162)
At 31 December 2005	<u>34,854</u>	<u>–</u>	<u>(13,540)</u>	<u>21,314</u>

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

Financial review

During the nine months ended 31 December 2005, the Group recorded a turnover of approximately HK\$57,413,000, an increase of approximately 97.4% as compared to the corresponding period in previous year.

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For the nine months ended 31 December 2005, the Group recorded gross profit of approximately HK\$5,654,000 and overall gross profit margin was approximately 10%. Gross loss of approximately HK\$3,029,000 was recorded in the corresponding period in previous year.

The other revenue for the nine months ended 31 December 2005 represented other income from machine rentals, subcontracting fee, design fees and bank interests.

Net loss attributable to shareholders of the Group for the nine months ended 31 December 2005 was approximately HK\$4,162,000 while net loss attributable to shareholders of the corresponding period in 2004 was approximately HK\$5,115,000. This was mainly due to increase in administrative expenses for paying the non-recurrent cost to create additional distribution and selling points over Mainland China and to strengthen and expand the existing distribution and selling network of the Group.

Operation review and prospects

During the nine months ended 31 December 2005, the Group has commenced on a full-scale the development, production and sales of high quality Fax Machines products and also promoted digital AV products of the mid-to-high price segment of the market.

On 28 December 2005, Photar Digital, a wholly-owned subsidiary of the Company, and Sagem Communication signed and entered into a formal joint venture contract to establish a joint venture company in Heyuan, Guangdong, the PRC to produce and sell all kinds of electronic telecommunication, office automation and network products (the "JV Company"). For the nine months ended 31 December 2005, the JV Company has not yet commenced operation. As such, the results of the Group for the three and nine months ended 31 December 2005 have not included the results of the JV Company.

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, has abundant resources in finance, technology, expertise and management know-how and has keen interests in the market of similar products in China. Sagem Communication will have opportunity to work with the Group to promote the development of electronic telecommunication, office automation and network products in China and aim at becoming a major manufacturer as well as leading provider and developer in the industry through the joint development, production and sales 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. Sagem Communication is always prudent in selecting its business partners. Both the Group and Sagem Communication have considerable sincerity in this cooperation and share the common goals of future development.

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The Board considers that this cooperation with Sagem Communication 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 business and assist the Group in exploring more business opportunities. The establishment of the JV Company will enable the Group to enlarge its sales force, sales and distribution network as well as customer base in PRC domestic market and global market.

Net loss attributable to shareholders of the Group for the nine months ended 31 December 2005 was approximately HK\$4,162,000. This was mainly due to increase in administrative expenses for paying the non-recurrent cost to create additional distribution and selling points over the Mainland China and to strengthen and expand the existing distribution and selling network of the Group. These newly created distribution and selling points and strengthened and expanded distribution and selling network are expected to commence operation for the remainder of the financial year and provide solid contributions to the turnover of the Group. The Board will also exercise tight control on all costs of the Group in order to get rid of the loss of the Group.

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

As at 31 December 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	59.02%

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.

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Save as disclosed above, as at 31 December 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 31 December 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	59.02%

Note:

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

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

COMPETING INTEREST

Pursuant to Rule 19.64(9) and Rule 11.04 of the GEM Listing Rules, as at 31 December 2005, the following director of the Company is 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 ("Mr. Chen") 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 is considered to have interests in businesses which compete, or might compete, either directly or indirectly, with the businesses of the Group.

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 his 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

For the period ended 31 December 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

AUDIT COMMITTEE

The Company established its 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. 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 three months and nine months ended 31 December 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 nine months ended 31 December 2005.

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

Hong Kong, 13 February 2006

As at the date of this report, Mr. Chen Jijin, Ms. Huang Meng Huai and Mr. Zhong Min are the executive Directors and Mr. Chen Weirong, Mr. Zou Haiyan and Mr. Lam Hon Kuen are the independent non-executive Directors.