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)

(Stock Code: 8220)

annual report

2005/06

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This report, for which the directors (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 the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: (i) the information contained in this circular is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this circular misleading; and (iii) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Chen Jijin *(Chairman)*
Huang Menghuai
Zhong Min *(appointed on 4 November 2005)*
Lee Chu Piu *(resigned on 4 November 2005)*
Yasukawa Yoshihiro *(resigned on 20 May 2005)*
Wang Li Hua *(resigned on 14 June 2005)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Chen Weirong *(appointed on 3 August 2005)*
Lam Hon Kuen *(appointed on 4 November 2005)*
Law Chi Yuen *(appointed on 27 April 2006)*
Tai Yung Muk, Eric
(appointed on 3 August 2005 and resigned on 4 November 2005)
Zou Hai Yan
(appointed on 3 August 2005 and resigned on 27 April 2006)
Guo Qing *(resigned on 3 August 2005)*
Liu Feng *(resigned on 3 August 2005)*
Guo Wen Hong *(resigned on 3 August 2005)*

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Hung Lap Kay, *FCCA, CPA*

COMPLIANCE OFFICER

Chen Jijin

AUDIT COMMITTEE

Chen Weirong
Lam Hon Kuen
Law Chi Yuen

AUTHORISED REPRESENTATIVE

Chen Jijin
Hung Lap Kay, *FCCA, CPA*

AUDITORS

CCIF CPA Limited
Certified Public Accountants

PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited
Bank of China (China)

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681 GT
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 REGISTER

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

BRANCH REGISTRAR

Tengis Limited
26/F, Tesbury Center
28 Queen's Road East
Wanchai, Hong Kong

STOCK CODE

8220

On behalf of the Board of Directors (the "Board"), I hereby present the annual report of China Photar Electronics Group Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 March 2006 to our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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.

During the year, the Group has commenced on 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, Guangdong Photar Digital & Electronic Company Limited ("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"). The JV Company has commenced operation in January 2006 but still in establishment stage. Production of the JV Company is still not in full-scale. As such, the results of the Group for the year under review have only included the share of the 3-month 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 has the 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.

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 year under review was approximately HK$12,599,000. This was mainly due to bad debt written off for the impairment of other receivables and increase in administrative expenses for paying the non-recurrent cost to create additional distribution and selling points over the Mainland China in order to strengthen and expand the existing distribution and selling network of the Group. On 25 April 2006, the Company has entered into the consultancy agreements with two consultant agents, pursuant to which each of the consultant agents shall use its best endeavor to promote and market the Company's consumer electronic products in the PRC and to consolidate the distribution networks by introducing the points-of-sales in PRC. Over 2,800 points-of-sales were successfully introduced to the Company by the consultancy agents. The Board believes that the distribution network of the Company's products can be strengthened with these increases of points-of-sales in PRC. The Board also believes that this arrangement could enhance market recognition of its brand and deepen the market penetration in the PRC market for a long run and at minimal cost and provide solid contributions to the profits 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.

FINANCIAL REVIEW

RESULTS

For year under review, the Group recorded a total turnover of approximately HK$64,147,000 (2005: HK$34,526,000). Loss attributable for the year to shareholders was approximately HK$12,599,000 (2005: HK$11,617,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2006, the Group had total assets of approximately HK$56,564,000 (31 March 2005: HK$19,073,000), including cash and bank balances of approximately HK$3,346,000 (31 March 2005: HK$4,538,000). There was no pledged bank deposit as at 31 March 2006 (31 March 2005: Nil).

The Group generally financed its operations and investing activities mainly with its internally generated cash flows and net proceeds from placements of newly issued shares of the Company in August 2005 and October 2005. As at 31 March 2006, 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 31 March 2006, the debt ratio (defined as the ratio between total liabilities over total assets) was approximately 0.66 (31 March 2005: 0.28).

The shares of the Company were listed on GEM on 12 November 2002. During the year under review, the Company had issued 50,568,000 shares and 16,888,000 shares in the placements completed on 23 August 2005 and 20 October 2005 respectively. As such, the number of shares issued and fully-paid of the Company increased to 587,456,000 ordinary shares as at 31 March 2006.

EMPLOYEES

As at 31 March 2006, the Group had 61 (31 March 2005: 17) staff including directors based in PRC and Hong Kong. Total staff costs including directors emoluments were approximately HK$1,483,000 in the year under review (31 March 2005: HK$711,000).

Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance 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.

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. Business of Fax Machines commenced on 1 July 2005. During the year under review, sales of Fax Machines, IC Recorders, MP3 players, DVD players and other IC components represent approximately 78%, 1%, 3%, 16% and 2% respectively of the Group's turnover (31 March 2005: Fax Machines: N/A, IC Recorders: 13%, MP3 players: 15%, DVD players: 57% and other IC components: 15%).

During the year under review, 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 5 to the financial statement.

EXCHANGE RATIO

The Group's transactions during the year ended 31 March 2006 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.

SIGNIFICANT INVESTMENTS

As at 31 March 2006, except for the investment in a jointly controlled entity, there was no other significant investment held by the Group. As at 31 March 2005, except for the investment in equity securities listed in Hong Kong, there was also no other significant investment held by the Group.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year, Photar International Holdings Limited (formerly known as Bayton International Limited) ("Photar International") was incorporated in Hong Kong to be the wholly-owned subsidiary of the Company for trading and investment holding purposes and Photar Digital was incorporated in the PRC to be a wholly-owned subsidiary of Photar International 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 31 March 2006, the Group had no contingent liabilities (31 March 2005: Nil).

CAPITAL COMMITMENT

As at 31 March 2006, the Group did not have any capital commitment (2005: nil).

OPERATING LEASE COMMITMENTS

As at 31 March 2006, the commitments under non-cancellable operating lease in respect of premises are HK$2,026,000 (31 March 2005: Nil) and represented as follows:

	31 March 2006 (Audited) HK$'000	31 March 2005 (Audited) HK$'000
Not later than one year	**1,033**	–
Later than one year and not later than five years	**993**	–
Total operating lease commitments	**2,026**	–

APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend my sincere gratitude to all our shareholders, investors and business partners for their continued support and confidence in the Group. I would also like to thank my fellow directors who have offered invaluable advice and leadership during such a challenging year and the management team and all staff for their dedication, loyalty and valued services.

For and on behalf of the board

Chen Jijin
Chairman

Hong Kong, 26 June 2006

EXECUTIVE DIRECTORS

Mr. Chen Jijin ("Mr. Chen"), aged 41, has been appointed as an executive Director with effect from 14 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. Mr. Chen is responsible for forming the overall strategic planning and the business development of Guangdong Photar. Mr. Chen has over 10 years of experience in the electronics industry. Mr. Chen did not hold directorship in any other listed public company during the three years preceding the date of this report. Mr. Chen is connected with the single substantial Shareholder, Modern China Holdings Limited ("Modern China"), by virtue of his being the sole director and 100% beneficial owner of it. Modern China currently holds 54.39% equity interests in the Company as at the date of this report.

Ms. Huang Menghuai ("Ms. Huang"), aged 41, has been appointed as an executive Director with effect from 16 June 2005. 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. Ms. Huang has over 15 years' experience in corporate management and sales and marketing. Ms. Huang did not hold directorship in any other listed public company during the three years preceding the date of this report. She does not have any interest in the securities of the Company within the meaning of Part XV of the SFO.

Mr. Zhong Min ("Mr. Zhong"), aged 51, has been appointed as an executive Director with effect from 4 November 2005. Mr. Zhong has over 20 years of working experience in the electronics and telecommunications industry in China. Mr. Zhong's credential includes being awarded many times and reached the level of national, provincial, and city science advance awards and outstanding contribution prize. Mr. Zhong did not hold directorship in any other listed public company during the three years preceding the date of this report. He does not have any interest in the securities of the Company within the meaning of Part XV of the SFO.

Mr. Lee Chun Piu resigned as an executive director of the Company with effect from 4 November 2005.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Weirong, aged 46, has been appointed as an independent non-executive Director with effective from 3 August 2005. Mr. Chen Weirong is currently the president of Eyang Technology Development Co., Ltd. (EYANG) (深圳宇陽科技發展有限公司) ("Eyang"). Prior to joining Eyang, Mr. Chen Weirong had held offices/positions as vice-president (operation), chief executive officer and vice-president of the board of directors of Konka Group (康佳集團). Mr. Chen Weirong was also the vice-president of China Oct Group (中國華僑城集團). Mr. Chen Weirong is a senior engineer who had graduated from South China University of Technology (中國華南理工大學) in 1982. In 1996, Mr. Chen Weirong had been awarded with "Top Ten Outstanding Young Enterpriser" ("十大傑出青年企業家") of Shenzhen and "China Master Of Operation And Management" ("中國經營管理大師"). In 1997, Mr. Chen Weirong was awarded with "National Labor Medal" ("全國五一勞動獎章") and in 1998. Mr. Chen Weirong had been elected as a representative of the Ninth National People's Congress. Mr. Chen Weirong is also an independent non-executive director of Sino Haijing Holdings Limited, a company listed on GEM. Save as disclosed above, Mr. Chen Weirong did not hold directorship in any other listed public company during the three years preceding the date of this report. Mr. Chen Weirong is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company. He does not have any interest in the securities of the Company within the meaning of Part XV of the SFO.

Mr. Lam Hon Kuen ("Mr. Lam"), aged 39, has been appointed as an independent non-executive Director with effective from 4 November 2005. Mr. Lam holds a bachelor degree in Social Sciences from the University of Hong Kong. He has over 16 years of experience in auditing, accounting and financial management. Mr. Lam did not hold directorship in any other listed public company during the three years preceding the date of this report. Mr. Lam is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company. He does not have any interest in the securities of the Company within the meaning of Part XV of the SFO.

Mr. Law Chi Yuen ("Mr. Law"), aged 48, has been appointed as an independent non-executive Director with effective from 27 April 2006. Mr. Law is a solicitor practicing in Hong Kong. He obtained a bachelor degree in science and a master's degree in philosophy from the University of Hong Kong in 1978 and 1983 respectively. Mr. Law was admitted as a solicitor in Hong Kong (1983), United Kingdom (1987), Singapore (1991) and Australia (1991). He is also a member of The Chartered Institute of Arbitrators. He is Chairman of the Appeal Board Panel under the Entertainment Special Effects Ordinance appointed by Secretary for Information Technology and Broadcasting. Apart from some social services, such as Free Legal Advice Scheme, he is also member of Solicitors Disciplinary Tribunal, Obscene Articles Tribunal, Appeal Panel (Estate Agents Ordinance), HK Film Development Fund and Market Misconduct Tribunal (Securities and Future Ordinance). Mr. Law is also an independent non-executive director of A & K Educational Software Holdings Limited, a company listed on GEM. Save as disclosed above, Mr. Law did not hold directorship in any other listed public company during the three years preceding the date of this report. Mr. Law is not connected with any directors, senior management, management shareholders, substantial shareholders or controlling shareholders of the Company. He does not have any interest in the securities of the Company within the meaning of Part XV of the SFO.

Mr. Tai Yung Muk, Eric and Mr. Zou Hai Yan appointed as independent non-executive Directors of the Company with effect from 3 August 2005 and resigned the post with effect from 4 November 2005 and 27 April 2006 respectively.

Mr. Guo Qing, Mr. Liu Feng and Ms. Guo Wen Hong resigned as independent non-executive Directors of the Company with effect from 3 August 2005.

SENIOR MANAGEMENT

Mr. Hung Lap Kay ("Mr. Hung"), aged 36, is the qualified accountant and company secretary of the Group. Mr. Hung is responsible for the accounting and finance functions of the Group. Mr. Hung 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 Austria. 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.

The board of Directors (the "Board") of China Photar Electronics Group Limited (the "Company") presents the annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group's subsidiaries are set out in note 14 to the financial statements.

FINANCIAL STATEMENTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2006 and the state of the Company's and the Group's affairs as at 31 March 2006 are set out in the financial statements on pages 21 to 23.

The directors of the Company (the "Directors") do not recommend the payment of dividend for the year ended 31 March 2006 (2005: Nil).

SEGMENT INFORMATION

Details of segment information are set out in note 5 to the financial statement.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the five years ended 31 March 2006 and of the assets and liabilities as at 31 March 2002, 2003, 2004, 2005 and 2006 are set out on page 62.

SHARE CAPITAL

Details of the movements of the share capital of the Company are set out in note 23 to the financial statements.

RESERVES

Details of the movements of the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity and in note 25 to the financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in note 13 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SHARES

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.

DIRECTORS

The Directors during the year and up to date of this report were:

EXECUTIVE DIRECTORS

Mr. Chen Jijin	*(appointed on 14 June 2005)*
Ms. Huang Menghuai	*(appointed on 16 June 2005)*
Mr. Zhong Min	*(appointed on 4 November 2005)*
Mr. Lee Chun Piu	*(resigned on 4 November 2005)*
Ms. Wang Li Hua	*(resigned on 14 June 2005)*
Mr. Yasukawa Yoshihiro	*(resigned on 20 May 2005)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Weirong	*(appointed on 3 August 2005)*
Mr. Lam Hon Kuen	*(appointed on 4 November 2005)*
Mr. Law Chi Yuen	*(appointed on 27 April 2006)*
Mr. Tai Yung Muk, Eric	*(appointed on 3 August 2005 and resigned on 4 November 2005)*
Mr. Zou Hai Yan	*(appointed on 3 August 2005 and resigned on 27 April 2006)*
Mr. Guo Qing	*(resigned on 3 August 2005)*
Ms. Guo Wen Hong	*(resigned on 3 August 2005)*
Mr. Liu Feng	*(resigned on 3 August 2005)*

In accordance with Article 87 of the Company's Articles of Association, Mr. Chen Jijin and Ms. Huang Menghuai will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

In accordance with Article 86(3) of the Company's Article of Association, Mr. Zhong Min, Mr. Chen Weirong, Mr. Lam Hon Kuen and Mr. Law Chi Yuen 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 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") for the year ended 31 March 2006 and it still considered them to be independent as the date of this report.

DIRECTORS' SERVICE CONTRACTS

Each of Mr. Chen Jijin, Ms. Huang Menghuai and Mr. Zhong Min has entered into a service contract with the Company as executive Directors of 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, Ms. Huang's and Mr. Zhong's position as an executive Director are HK$40,000 per month, HK$15,000 per month and HK$15,000 per month respectively plus a discretionary management bonus in respect of each financial year of the Company to be determined by the Board. The emoluments for Mr. Chen, Ms. Huang and Mr. Zhong are determined on arm's length negotiation between the parties with reference to the prevailing market conditions. They 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.

Each of Mr. Chen Weirong, Mr. Lam Hon Kuen and Mr. Law Chi Yuen has entered into a service contract with the Company as independent non-executive Directors of the Company for an initial term of one year renewable by mutual agreement in writing two months in advance prior to the expiry of the initial term of appointment for successive terms of one year. The emolument in connection with Mr. Chen's, Mr. Lam's and Mr. Law's position as an independent non-executive Director are HK$5,000 per month, which is determined on arm's length negotiation between the parties with reference to prevailing market conditions. They 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.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in notes 8 and 27 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at the time during the year.

CONNECTED TRANSACTIONS

Save as disclosed in note 27 to the financial statements, no other connected transactions were entered into by the Group under the GEM Listing Rules.

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

As at 31 March 2006, 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.

Save as disclosed above, as at 31 March 2006, 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 March 2006, 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 Jijin, an executive Director.

Save as disclosed above, as at the 31 March 2006, 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.

COMPETING INTERESTS

Pursuant to Rule 19.64(9) and Rule 11.04 of the GEM Listing Rules, as at the date of this report, 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.

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, 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.

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. Up to the date of approval of these financial statements, 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 March 2006.

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 information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

		Percentage of the Group's total
Sales		
–	the largest customer	7%
–	five largest customers in aggregate	25%
Purchases		
–	the largest supplier	26%
–	five largest suppliers in aggregate	70%

At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

PRE-EMPTIVE RIGHTS

There are no provisions of pre-emptive rights under the Articles of Association of the Company, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 year under review.

POST BALANCE SHEET EVENTS

SUCCESSFUL PLACING OF NEW SHARES TO TWO CONSULTANT AGENTS FOR CREATION OF OVER 2,800 POINTS-OF-SALES

On 25 April 2006, the Company has entered into the consultancy agreements with two consultant agents, pursuant to which each of the consultant agents shall use its best endeavor to promote and market the Company's consumer electronic products in the PRC and to consolidate the distribution networks by introducing the points-of-sales in PRC. Over 2,800 points-of-sales were successfully introduced to the Company by the consultancy agents. The total remuneration of HK$19,993,800 to the consultant agents was satisfied by way of issuance and allotment of 49,976,000 new ordinary shares, representing approximately 7.4% of issued share capital of the Company as at the date of this report, at the issue price of HK$0.40 per share. The Board believes that the distribution network of the Company's products can be strengthened with these increases of points-of-sales in PRC. The Board also believes that this arrangement could enhance market recognition of its brand and deepen the market penetration in the PRC market for a long run and at minimal cost and provide solid contributions to the turnover of the Group. The new shares were issued and allotted on 16 May 2006.

ISSUE OF CONVERTIBLE NOTE

On 7 June 2006, the Company entered into the subscription agreement whereby the subscriber agreed to subscribe for the convertible note in the principal amount of HK$20,000,000 at a consideration of HK$17,000,000. Assuming full conversion of the convertible note at the initial conversion price of HK$0.46 per share, the convertible note will be converted into 36,956,521 shares, representing approximately 5.8% of issued share capital of the Company as at the date of this report. The Directors consider that the issue of the convertible note provides the Company with funding without immediate dilution of the shareholding of the existing shareholders. The Directors also believe that the issue of the convertible note could provide an opportunity for the Company to enlarge its capital base (if the noteholder converts his/her rights). The net proceeds from the convertible notes of HK$16,800,000 will be used as general working capital for the Company.

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 Group's financial statements for the year ended 31 March 2006 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.

The Committee currently comprises three independent non-executive directors, namely, Mr. Chen Weirong, Mr. Lam Hon Kuen and Mr. Law Chi Yuen.

CORPORATE GOVERNANCE

Save and except the following deviations from the code provisions (except code provision C.2 on internal control and the relevant disclosure requirements of which the implementation date is for accounting period commencing on or after 1 July 2005) set out in the Code on Corporate Governance Practices as contained in Appendix 15 to the GEM Listing Rules (the "CCGP"), the Company had, during the year ended 31 March 2006, complied with the CCGP.

	Code provisions set out in the CCGP	Reasons for deviations
A.2	The Chairman and chief executive officer of the Company were performed by the same individual	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.
B.1	Remuneration committee has not yet been set up by the Company	The Company is now in the progress of forming its remuneration committee and drafting its term of reference.

The Board was also in the progress of assessing the effect of the implementation of the CCGP on the Company's operation. Save as disclosed herein, the Company has met the code provisions (except code provision C.2 on internal control and the relevant disclosure requirements of the which the implementation date is for accounting period commencing on or after 1 July 2005) set out in the CCGP throughout the year ended 31 March 2006.

AUDITORS

HLB Hodgson Impey Cheng resigned as auditors of the Company and its subsidiaries on their own accord with effect from 2 May 2006. Shareholders of the Company has passed an ordinary resolution in the extraordinary general meeting held on 26 May 2006 approving appointment of CCIF CPA Limited to fill the casual vacancy in the office as auditors of the Company.

The financial statements have been audited by CCIF CPA Limited. A resolution for their re-appointment as the Company's auditor for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Chen Jijin
Chairman

Hong Kong, 26 June 2006

CCIF

CCIF CPA LIMITED

37/F Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
CHINA PHOTAR ELECTRONICS GROUP LIMITED
(INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY)

We have audited the financial statements on pages 21 to 61 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 Hong Kong Standards on Auditing 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 Company and of the Group as at 31 March 2006 and of its loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirement of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants
Kwok Cheuk Yuen
Practising Certificate Number P02412

Hong Kong, 26 June 2006

Consolidated Income Statement

Year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Turnover	6	**64,147**	34,526
Cost of sales		**(58,717)**	(35,003)
Gross profit/(loss)		**5,430**	(477)
Other revenue	6	**2,621**	682
Distribution expenses		**(1)**	(17)
Administrative expenses		**(21,756)**	(11,572)
Loss from operations	7	**(13,706)**	(11,384)
Share of profits of jointly controlled entity		**407**	–
Loss before taxation		**(13,299)**	(11,384)
Income tax refund/(expenses)	9(A)	**700**	(233)
Loss for the year attributable to equity shareholders of the Company		**(12,599)**	(11,617)
Loss per share			
– Basic	12	**(2.26 cents)**	(2.23 cents)
– Diluted	12	**N/A**	N/A

The notes on pages 26 to 61 form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*13*	**19,992**	7,342
Interest in a jointly controlled entity	*15*	**19,339**	–
		39,331	7,342
Current assets			
Investment securities	*16*	**–**	1,000
Inventories	*17*	**296**	–
Trade receivables	*18*	**11,268**	4,164
Other receivables, deposits and prepayments		**2,307**	2,013
Tax recoverable	*9(B)*	**16**	16
Cash and cash equivalents		**3,346**	4,538
		17,233	11,731
LIABILITIES			
Current liabilities			
Trade payables	*19*	**8,001**	3,711
Other payables and accruals		**887**	465
Amount due to a jointly controlled entity	*20*	**298**	–
		9,186	4,176
Net current assets		**8,047**	7,555
Total assets less current liabilities		**47,378**	14,897
Non-current liabilities			
Deferred taxation	*21*	**–**	1,259
Amount due to a director	*22*	**28,149**	–
		28,149	1,259
NET ASSETS		**19,229**	13,638
CAPITAL AND RESERVES			
Share capital	*23*	**5,875**	5,200
Reserves	*25*	**13,354**	8,438
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**19,229**	13,638

Approved and authorised for issue by the board of directors on 26 June 2006

On behalf of the board

Director

Director

The notes on pages 26 to 61 form an integral part of these financial statements.

Balance Sheet

At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	*14*	**21,024**	16,001
Current assets			
Tax recoverable	*9(B)*	**16**	16
Other receivables, deposits and prepayments		**530**	–
Cash and cash equivalents		**–**	4
		546	20
LIABILITIES			
Current liabilities			
Other payables and accruals		**340**	106
Net current assets/(liabilities)		**206**	(86)
NET ASSETS		**21,230**	15,915
CAPITAL AND RESERVES			
Share capital	*23*	**5,875**	5,200
Reserves	*25*	**15,355**	10,715
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**21,230**	15,915

Approved and authorised for issue by the board of directors on 26 June 2006

On behalf of the board

Director　　　　　　　　　　Director

The notes on pages 26 to 61 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

Year ended 31 March 2006

	Share capital HK$'000	Share premium HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 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)
Loss for the year	–	–	–	–	(11,617)	(11,617)
At 31 March 2005 and 1 April 2005	5,200	17,816	–	–	(9,378)	13,638
Placing of new shares of HK$0.01 each completed on 23 August 2005	506	9,608	–	–	–	10,114
Placing of new shares of HK$0.01 each completed on 20 October 2005	169	7,430	–	–	–	7,599
Exchange difference arising from translation of financial statements	–	–	–	477		477
Loss for the year	–	–	–	–	(12,599)	(12,599)
At 31 March 2006	**5,875**	**34,854**	**–**	**477**	**(21,977)**	**19,229**

The notes on pages 26 to 61 form an integral part of these financial statements.

Consolidated Cash Flow Statement

Year ended 31 March 2006

	2006 HK$'000	2005 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss from operating activities before taxation	**(13,299)**	(11,384)
Adjustments for		
Depreciation of property, plant and equipment	**1,303**	896
Impairment loss on transfer of non-trading securities to trading securities	**–**	3,000
Interest income	**(21)**	–
Bad debts	**8,360**	4,101
Exchange gain	**(32)**	(2)
Loss on disposal of investment securities	**760**	–
Share of profit of a jointly controlled entity	**(407)**	–
Operating loss before working capital changes	**(3,336)**	(3,389)
Increase in inventories	**(296)**	–
(Increase)/Decrease in trade receivables	**(7,104)**	1,424
(Increase)/Decrease in other receivables, deposits and prepayments	**(8,654)**	1,009
Increase in amount due to a jointly controlled entity	**298**	–
Increase in trade payables	**4,290**	1,735
Increase in other payables and accruals	**422**	48
Net cash (used in)/generated from operations	**(14,380)**	827
Income tax paid	**(559)**	(145)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(14,939)**	682
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(13,953)**	–
Sales proceeds for disposal of investment securities	**240**	–
Investment in a jointly controlled entity	**(18,932)**	–
Interest received	**21**	–
NET CASH USED IN INVESTING ACTIVITIES	**(32,624)**	–
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from placement of new shares	**17,713**	–
Increase in amount due to a director	**28,149**	–
NET CASH GENERATED FROM FINANCING ACTIVITIES	**45,862**	–
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(1,701)**	682
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**4,538**	3,854
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**509**	2
CASH AND CASH EQUIVALENTS AT END OF YEAR	**3,346**	4,538
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash at banks and on hand	**3,346**	4,538

The notes on pages 26 to 61 form an integral part of these financial statements.

1. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

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 Company has its primary listing on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

A) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure provisions of The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") and the disclosure requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The consolidated financial statements of the Company have been prepared in accordance with HKFRSs.

The adoption of new/revised HKFRSs

In 2006, the Group adopted the new/revised standards and interpretations of HKFRSs below, which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balances sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 21	The effects of changes in foreign exchange rates

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

A) STATEMENT OF COMPLIANCE *(Continued)*

HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 31	Interests in joint ventures
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 39	Financial instruments: Recognition and measurement
HKAS – Int 15	Operating leases – Incentives
HKFRS – Int 4	Determining whether an arrangement contains a lease
HKFRS 2	Share-based payment
HKFRS 3	Business combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 24, 27, 31, 33, 36, 37, HKAS-Int 15, HKFRS-Int 4, HKFRS 2 and HKFRS 3, did not result in substantial changes to the Group's accounting policies. In summary:

– HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 27, 31, 33, 36, 37, HKAS-Int 15, HKFRS-Int 4, HKFRS 2 and HKFRS 3 had no material effect on the Group's accounting policies.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

A) STATEMENT OF COMPLIANCE *(Continued)*

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted for at fair value prospectively only to future transactions.

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations.

– HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2006.

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2006; and

– HKFRS 3 – prospectively after 1 January 2006.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

A) STATEMENT OF COMPLIANCE *(Continued)*

The following new standards or interpretations have been issued but not yet effective for the current accounting periods. The Group has already commenced an assessment of the impact of these new HKFRSs but is still not in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

		Effective for accounting period beginning on or after
HKAS 1 (Amendment)	Capital disclosure	1 January 2007
HKAS 19 (Amendment)	Actuarial gains or losses, group plans and disclosures	1 January 2006
HKAS 21 (Amendment)	Net investment in a foreign operation	1 January 2006
HKAS 39 (Amendment)	The fair value option	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
HK (IFRIC) – Int 4	Determining whether an arrangement contains a lease	1 January 2006

B) CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 March 2006. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserves which was not previously charged or recognised in the consolidated income statement.

C) SUBSIDIARIES

A subsidiary is an enterprise in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

D) JOINTLY CONTROLLED ENTITIES

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Jointly controlled entity is a contractual arrangement that involves the establishment of a corporation, partnership or other entity in which each venturer has an interest.

The Group's share of the post acquisition results and reserves of jointly controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in jointly controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value other than that considered to be temporary in nature deemed necessary by the directors.

E) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives.

Subsequent expenditure relating to property, plant and equipment that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the enterprise. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

The gain or loss on disposal of property, plant and equipment other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Computers	25%
Leasehold improvement	20%
Motor vehicles	20%
Furniture, fixtures and equipment	20%
Plant and machinery	10%
Mould	50%

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

F) IMPAIRMENT OF ASSETS

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;
– investments in subsidiaries; and
– investment in a jointly controlled entity.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. 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 assets that generates cash inflows independently (i.e. a cash-generating unit).

ii) Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

iii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

G) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

H) INVESTMENTS

From 1 April 2004 to 31 March 2005:

The Group classified its investment securities, other than subsidiaries, associates and jointly controlled entities, as non-trading securities and trading securities.

a) Non-trading securities

Investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in the fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was 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, was dealt with in the income statement.

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

b) Trading securities

Trading securities were 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 were 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, were recognised in the income statement as they arose.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

H) INVESTMENTS *(Continued)*

From 1 April 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 2(J)).

c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

H) INVESTMENTS *(Continued)*

From 1 April 2005 onwards: *(Continued)*

d) Available-for-sale financial assets *(Continued)*

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gain or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss- measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement- is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

I) REVENUE RECOGNITION

i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

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

iii) Disposal of investment securities is recognised on the transaction dates.

J) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(F)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(F)).

K) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

L) FOREIGN CURRENCIES

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

L) FOREIGN CURRENCIES *(Continued)*

Group companies

The results and financial position of all the Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

M) INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on a first-in, first-out basis, comprises all costs of purchases, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Provision is made for obsolete, slow moving or defective items where appropriate.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

N) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that the repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

O) 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 differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes items of income statement that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts 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 differences 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 in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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.

P) OPERATING LEASES

Lease 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 lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessees, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Q) EMPLOYEE BENEFITS

i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employee of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

ii) The Group operates a defined contribution mandatory provident fund retirement benefits scheme (the "Hong Kong Scheme") under the Mandatory Provident Fund Scheme Ordinance, for those employees who are eligible to participate in the Hong Kong Scheme. The Hong Kong Scheme became effective on 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 Hong Kong Scheme. The assets of the Hong Kong 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 into the Hong Kong Scheme.

The Group contributes on a monthly basis to defined contribution retirement benefit plan organized by relevant municipal government in the PRC. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan. Contribution to the plan is expensed as incurred. The assets of the plan are held separately from those of the Group in independently administered funds managed by the PRC Government.

iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

R) RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

S) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

T) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

A) FOREIGN CURRENCY RISK

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Euros, United Stated dollars and Renminbi.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

B) CREDIT RISK

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 60 - 90 days from the date of billing. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

C) LIQUIDITY RISK

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board of directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

A) USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

B) ESTIMATED PROVISION FOR IMPAIRMENT OF JOINTLY CONTROLLED ENTITY

The Group assesses annually whether the investment in the jointly controlled entity has suffered any impairment in accordance with the accounting policy stated in note 2(F). The recoverable amount of the investment in the jointly controlled entity is determined using discounted cash flows calculations.

C) ESTIMATED PROVISION FOR IMPAIRMENT OF TRADE AND OTHER RECEIVABLES

The Group makes provision for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provisions are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been charged.

D) FAIR VALUES OF FINANCIAL INSTRUMENTS

Financial instruments such as interest rate, foreign exchange and equity derivative instruments are carried at the balance sheet at fair value. The best evidence of fair value is quoted prices in an active market, where quoted prices are not available for a particular financial instruments, the Group uses the market values determined by independent financial institutions or internal or external valuation model to estimate the fair value. The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgement by management, which may result in significantly different fair values and results. All significant financial valuation models are strictly controlled and regularly recalibrated and vetted.

5. 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 records ("IC recorders") product segment, mpeg-1 audio layer-3 players ("MP3 players") product segment, digital versatile disc players ("DVD players") product segment, IC components ("IC") and fax machine ("Fax machine"). These divisions are the basis on which the Group reports its primary segment information.

5. 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 2006

	Fax machine HK$'000	IC recorders HK$'000	MP3 players HK$'000	DVD players HK$'000	IC HK$'000	Consolidated HK$'000
Turnover						
External sales	49,740	728	2,020	10,127	1,532	64,147
Results						
Segment results	2,423	7	249	(201)	67	2,545
Interest income						21
Sundry income						2,418
Exchange gains						32
Share of profits of jointly controlled entity						407
Unallocated costs						(18,722)
Loss before taxation						(13,299)
Taxation						700
Net loss for the year						(12,559)
As at 31 March 2006						
Assets						
Segment assets	25,790	–	–	6,588	–	32,378
Unallocated assets						24,186
						56,564
Liabilities						
Segment liabilities	8,388	–	30	13	–	8,431
Unallocated liabilities						28,904
						37,335
Other information						
Capital expenditure	13,503	–	–	–	–	13,503
Unallocated capital expenditure						450
						13,953
Depreciation	553	–	–	633	–	1,186
Unallocated depreciation						117
						1,303

5. SEGMENT INFORMATION *(Continued)*

A) BUSINESS SEGMENTS *(Continued)*

For the year ended 31 March 2005

	Fax machine HK$'000	IC recorders HK$'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)
Sundry income						680
Exchange gains						2
Unallocated costs						(9,843)
Loss before taxation						(11,384)
Taxation						(233)
Net loss for the year						(11,617)
As at 31 March 2005						
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

5. 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 and attributable to the segments based on the location of the assets.

For the year ended 31 March 2006

	The People's Republic of China ("PRC") (including Hong Kong)	**Singapore**	**Others**	**Consolidated**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Turnover				
External sales	**64,147**	**–**	**–**	**64,147**
Assets				
Segment assets	**56,564**	**–**	**–**	**56,564**
Other information				
Capital expenditure	**13,953**	**–**	**–**	**13,953**

For the year ended 31 March 2005

	PRC (including Hong Kong)	Singapore	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000
Turnover				
External sales	34,480	10	36	34,526
Assets				
Segment assets	19,073	–	–	19,073
Other information				
Capital expenditure	–	–	–	–

6. TURNOVER AND OTHER REVENUE

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts when applicable.

The Group's turnover and other revenue for the year arose from the following activities:

	Group	
	2006	2005
	HK$'000	HK$'000
Turnover		
Sale of products	**64,147**	34,526
Other revenue		
Interest income	**21**	–
Exchange gain, net	**32**	2
Sundry income	**2,568**	680
	2,621	682
Total revenue	**66,768**	35,208

7. LOSS FROM OPERATIONS

The Group's loss from operations is arrived at after charging:

	2006	2005
	HK$'000	HK$'000
Operating lease rentals in respect of rented premises	**972**	220
Depreciation	**1,303**	896
Bad debts	**8,360**	4,101
Auditors' remuneration	**200**	280
Staff costs (excluding directors' remuneration – *note 8*):		
Wages and salaries	**865**	378
Retirement benefits scheme contributions	**27**	–
	892	378
Loss on disposal of investment securities	**760**	–
Research and development costs	**107**	288
Impairment loss on transfer of non-trading securities to trading securities	**–**	3,000

8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION

i) The details of emoluments (including share option benefit) of every Director are shown below:

	Year ended 31 March 2006				
Name of Director	**Fees**	**Basic salaries, allowances and other benefits**	**Share-based payments**	**Pension scheme contribution**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Chen Jijin *(note 1)*	**280**	–	–	–	**280**
Huang Menghuai *(note 2)*	**122**	–	–	–	**122**
Chen Weirong *(note 3)*	**40**	–	–	–	**40**
Zou Hai Yan *(note 4)*	**40**	–	–	–	**40**
Lam Hon Kuen *(note 5)*	**25**	–	–	–	**25**
Tai Yung Muk, Eric *(note 6)*	**15**	–	–	–	**15**
Yasukawa Yorshihiro *(note 7)*	–	**5**	–	–	**5**
Lee Chun Piu *(note 8)*	–	**64**	–	–	**64**
	522	**69**	–	–	**591**

8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(Continued)*

i) The details of emoluments (including share option benefit) of every Director are shown below: *(Continued)*

	Year ended 31 December 2005				
Name of Director	Fees	Basic salaries, allowances and other benefits	Share-based payments	Pension scheme contribution	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Yasukawa Yorshihiro *(note 7)*	–	171	–	–	171
Wang Li Hua *(note 9)*	–	60	–	–	60
Zhong Ming Ying *(note 10)*	–	50	–	–	50
Lee Chun Piu *(note 8)*	–	20	–	–	20
Guo Wen Hong *(note 11)*	16	–	–	–	16
Liu Feng *(note 11)*	16	–	–	–	16
	32	301	–	–	333

Note:

1. Appointed on 14 June 2005
2. Appointed on 16 June 2005
3. Appointed on 3 August 2005
4. Appointed on 3 August 2005 and resigned on 27 April 2006
5. Appointed on 4 November 2005
6. Appointed on 3 August 2005 and resigned on 4 November 2005
7. Resigned on 20 May 2005
8. Resigned on 4 November 2005
9. Resigned on 14 June 2005
10. Resigned on 31 January 2005
11. Resigned on 3 August 2005

No directors waived any emoluments during the year. No incentive payment or compensation for loss of office was paid or payable to any directors for the year ended 31 March 2006 (2005: Nil).

8. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' REMUNERATION *(Continued)*

ii) Details of emoluments paid to the five highest paid individuals (including directors and other employees) were as follows:

	2006 **HK$'000**	2005 HK$'000
Basic salaries, allowances and other benefits	**837**	483
Retirement benefits scheme contributions	**11**	–
	848	483

	2006	2005
Number of directors	**3**	2
Number of employees	**2**	3
	5	5

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as inducement to join or upon joining the Group as compensation for loss of office.

The number of the five highest paid individuals whose remuneration fall within the following bands were as follows:

	2006	2005
Nil – HK$1,000,000	**5**	5

9. INCOME TAX REFUND/(EXPENSES)

A) THE TAXATION IN THE CONSOLIDATED INCOME STATEMENT REPRESENTS:

	Group	
	2006	2005
	HK$'000	HK$'000
Provision for PRC income tax		
Tax for the year	**559**	–
Deferred tax:		
Credit to income statement for the year due to reversal of provision in the previous years	**(1,259)**	–
Under provision in the previous years	**–**	233
	(1,259)	233
Tax (credit)/ charge for the year	**(700)**	233

The tax (credit)/charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2006	2005
	HK$'000	HK$'000
Loss before taxation	**(13,299)**	(11,384)
Calculated at a taxation rate of 17.5%	**(2,327)**	(1,992)
Tax losses not recognised	**20**	2,836
Income not subject to taxation	**(1,178)**	–
Expenses not deductible for taxation purposes	**4,359**	–
Utilisation of tax losses previously not recognised	**(385)**	(844)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(43)**	–
Tax effect of unrecognised temporary difference	**113**	233
Reversal of deferred tax provision for previous years	**(1,259)**	–
Tax (credit)/charge for the year	**(700)**	233

No Hong Kong profits tax has been provided for in the financial statements as the Group has sufficient tax losses brought forward to set off against the taxable profits for the year (2005: Nil).

Taxes on profits assessable other than Hong Kong have been calculated at the rates of tax prevailing in the places in which the Group operates based on existing legislation, practices and interpretations thereof.

9. INCOME TAX REFUND/(EXPENSES) *(Continued)*

B) TAXATION IN THE CONSOLIDATED BALANCE SHEET REPRESENTS:

	Group	
	2006	2005
	HK$'000	HK$'000
Provisional tax paid	–	16
Balance of provision relating to prior years	**16**	–
	16	16

10. LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The loss from ordinary activities attributable to shareholders for the year dealt with in the financial statements of the Company is net loss of HK$12,398,000 (2005: net loss of HK$5,238,000).

11. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 March 2006 (2005: Nil).

12. LOSS PER SHARE

i) The calculation of basic loss per share for the year is based on the net loss attributable to shareholders of HK$12,599,000 (2005: net loss of HK$11,617,000) and the weighted average number of 558,159,649 (2005: 520,000,000) shares in issue during the year.

ii) No diluted loss per share for the year ended 31 March 2006 has been presented because the Company's share options did not have a dilutive effect during the year.

13. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Leasehold improvement HK$'000	Mould HK$'000	Plant and machinery HK$'000	Computer HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
At 1 April 2004 and at 31 March 2005	–	–	8,455	181	179	–	8,815
Accumulated depreciation							
At 1 April 2004	–	–	347	110	120	–	577
Charge for the year	–	–	846	27	23	–	896
At 31 March 2005	–	–	1,193	137	143	–	1,473
Net book value							
At 31 March 2005	–	–	7,262	44	36	–	7,342

	Leasehold improvement HK$'000	Mould HK$'000	Plant and machinery HK$'000	Computer HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost							
At 1 April 2005	–	–	8,455	181	179	–	8,815
Additions	332	9,713	3,108	54	486	260	13,953
At 31 March 2006	332	9,713	11,563	235	665	260	22,768
Accumulated depreciation							
At 1 April 2005	–	–	1,193	137	143	–	1,473
Charge for the year	55	468	680	38	58	4	1,303
At 31 March 2006	55	468	1,873	175	201	4	2,776
Net book value							
At 31 March 2006	277	9,245	9,690	60	464	256	19,992

14. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	**2,066**	2,066
Amounts due from subsidiaries	**18,958**	13,935
	21,024	16,001

Particulars of the Company's subsidiaries as at 31 March 2006 are as follows:

Name	Place of incorporation	Issued and fully paid share capital	Attributable equity interest held by the Company Directly	Indirectly	Principal activities
Dynamic Choice Technology Limited	The British Virgin Islands	US$1,000	100%	–	Investment holding
Cyclone Technology Limited	Hong Kong	HK$1,000,000	–	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
Photar International Holdings Limited (formerly known as "Bayton International Limited")	Hong Kong	HK$1	100%	–	Investment holding
Guangdong Photar Digital & Electronic Company Limited	The PRC (wholly foreign-owned enterprise)	HK$60,000,000	–	100%	Manufacturing and sales of electronic communication and consumer products
Faith Pro Trading Limited	The British Virgin Islands	US$1	100%	–	Dormant

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

15. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group 2006 HK$'000
Share of net assets	**19,339**

Details of the Group's interest in the jointly controlled entity are as follows:

				Proportion of ownership interest			
Name	Business structure	Place of establishment and operations	Registered capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Photar Sagem Electronics Co. Ltd.	Corporate (Joint venture)	PRC	RMB100,000,000	30%	–	30%	Sales of fax machines

The jointly controlled entity was incorporated on 28 December 2005.

Summary financial information on jointly controlled entity – Group's effective interest:

	28 December 2005 to 31 March 2006 HK$'000
Non-current assets	**18,833**
Current assets	**65,516**
Current liabilities	**(19,885)**
Net assets	**64,464**
Income	**39,464**
Expenses	**(38,108)**
Profit for the period	**1,356**

16. INVESTMENT SECURITIES

	Group 2006 HK$'000	2005 HK$'000
Equity securities, at market value listed in Hong Kong	–	3,000
Impairment loss on transfer of non-trading securities to trading securities	–	(2,000)
	–	1,000
Reclassified as current assets	–	(1,000)
Non-current assets	–	–

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 2006 was HK$760,000 (2005: loss of HK$23,143,000). The investment securities in IA were sold with sales proceeds of HK$240,000 during the year.

17. INVENTORIES

	Group 2006 HK$'000	2005 HK$'000
Raw materials	**87**	–
Work-in-progress	**209**	–
	296	–

At 31 March 2005 and 31 March 2006, no inventories were carried at net realizable value.

18. TRADE RECEIVABLES

The aging of the Group's trade and bills receivables is analysed as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Outstanding balances with ages		
Within 30 days	**8,199**	2,148
31–60 days	**1,903**	1,120
61–90 days	**1,062**	896
Over 90 days	**104**	–
	11,268	4,164

19. TRADE PAYABLES

The aging of the Group's trade and bills payables is analysed as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Outstanding balances with ages		
Within 30 days	**6,603**	2,327
31–60 days	**–**	889
61–90 days	**29**	–
Over 90 days	**1,369**	495
	8,001	3,711

20. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

The amount due to a jointly controlled entity is unsecured, non-interest bearing and has no fixed terms of repayment.

21. DEFERRED TAXATION

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

	Group	
	2006	2005
	HK$'000	HK$'000
At beginning of year	**1,259**	1,026
Credit to income statement for the year due to reversal of provision in the previous years	**(1,259)**	–
Under provision in the previous year	–	233
At end of year	–	1,259

At 31 March 2006, the Group had tax losses arising in Hong Kong of approximately HK$11,838,000 (2005: HK$12,202,000). The Group has not recognized deferred tax assets in respect of tax loss due to the unpredictability of the future profit stream.

22. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, non-interest bearing and will not demand repayment within the next twelve months.

23. SHARE CAPITAL

	2006		2005	
	No. of shares	**HK$'000**	No. of shares	HK$'000
Authorised				
Ordinary share of HK$0.01 each	10,000,000,000	100,000	10,000,000,000	100,000
Issued and fully paid				
At beginning of year	520,000,000	5,200	520,000,000	5,200
Placing of new shares of HK$0.01 each completed on 23 August 2005	50,568,000	506	–	–
Placing of new shares of HK$0.01 each completed on 20 October 2005	16,888,000	169	–	–
	–	–	–	–
At end of year	**587,456,000**	**5,875**	**520,000,000**	**5,200**

24. SHARE OPTIONS

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 share in the Company.

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 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.

25. RESERVES

GROUP

	Share premium HK$'000	Investment revaluation reserve HK$'000	Exchange reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 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)
Loss for the year	–	–	–	(11,617)	(11,617)
At 31 March 2005 and 1 April 2005	17,816	–	–	(9,378)	8,438
Placing of new shares of HK$0.01 each completed on 23 August 2005	9,608	–	–	–	9,608
Placing of new shares of HK$0.01 each completed on 20 October 2005	7,430	–	–	–	7,430
Exchange difference arising from translation of financial statements	–	–	477	–	477
Loss for the year	–	–	–	(12,599)	(12,599)
At 31 March 2006	**34,854**	**–**	**477**	**(21,977)**	**13,354**

25. RESERVES *(Continued)*

COMPANY

	Share premium HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 April 2004	15,874	79	15,953
Loss for the year	–	(5,238)	(5,238)
At 31 March 2005 and 1 April 2005	15,874	(5,159)	10,715
Placing of new shares of HK$0.01 each completed on 23 August 2005	9,608	–	9,608
Placing of new shares of HK$0.01 each completed on 20 October 2005	7,430	–	7,430
Loss for the year	–	(12,398)	(12,398)
At 31 March 2006	**32,912**	**(17,557)**	**15,355**

At 31 March 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was approximately HK$15,355,000 (2005: HK$10,715,000).

26. OPERATING LEASE ARRANGEMENTS

AS LESSEE

The Group leases certain of its office properties and staff quarter under operating lease arrangements.

At the balance sheet date, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		**Company**	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Within one year	**1,033**	–	**–**	–
In the second to fifth years, inclusive	**993**	–	**–**	–
	2,026	–	**–**	–

27. RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with related parties:

a) Related party transactions included in the income statement:

	2006	2005
	HK$'000	HK$'000
Rental expenses to a company controlled by directors	**173**	–
Transfer of inventory to a jointly controlled entity	**12,269**	–

b) Related party transactions included in the balance sheet:

	2006	2005
	HK$'000	HK$'000
Amount due to a director	**28,149**	–
Amount due to a jointly controlled entity	**298**	–

c) Compensation of key management personnel of the Group

	2006	2005
	HK$'000	HK$'000
Salaries, allowances and other benefits	**591**	333

Note: Further details of pension scheme contribution and directors' emoluments are included in note 8 to the financial statements.

28. SUBSEQUENT EVENTS

On 25 April 2006, the Company has entered into the consultancy agreements with two consultant agents, pursuant to which each of the consultant agents shall use its best endeavor to promote and market the Company's consumer electronic products in the PRC and to consolidate the distribution networks by introducing the points-of-sales in PRC. Over 2,800 points-of-sales were successfully introduced to the Company by the consultancy agents. The total remuneration of HK$19,993,800 to the consultant agents was satisfied by way of issuance and allotment of 49,976,000 new ordinary shares, representing approximately 7.4% of issued share capital of the Company as at the date of this report, at the issue price of HK$0.40 per share. The new shares were issued and allotted on 16 May 2006.

28. SUBSEQUENT EVENTS *(Continued)*

On 7 June 2006, the Company entered into the subscription agreement with an independent third party, Lark International Transport Systems Limited (the "Subscriber"), and a guarantor, Mr. Chen Jijin, that the Subscriber agreed to subscribe for a convertible note in the principal amount of HK$20,000,000 issued by the Company at a consideration of HK$17,000,000. Assuming full conversion of the convertible note at the initial conversion price of HK$0.46 per share, the convertible note will be converted into 36,956,521 ordinary shares of the Company.

29. PARENT AND ULTIMATE CONTROLLING PARTY

The directors consider Modern China Holdings Limited, a company incorporated in the British Virgin Islands, to be the parent of the Company.

The directors regard Mr. Chen Jijin through his direct shareholding in Modern China Holdings Limited as being the ultimate controlling party.

30. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current years' presentation.

Financial Summary

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

	For the year ended 31 March				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**64,147**	34,526	78,470	42,039	12,254
(Loss)/profit before taxation	**(13,299)**	(11,384)	2,943	3,092	800
Taxation	**700**	(233)	(956)	(206)	–
(Loss)/profit attributable to shareholders	**(12,599)**	(11,617)	1,987	2,886	800
(Loss)/earnings per share Basic	**(2.26) cents**	(2.23) cents	0.38 cent	0.61 cent	0.18 cent

	At 31 March				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Asset and liabilities					
Total assets	**56,564**	19,073	30,203	40,325	3,080
Total liabilities	**(37,335)**	(5,435)	(3,548)	(17,057)	(1,706)
Shareholders' funds	**19,229**	13,638	26,655	23,268	1,374

Notes:

1. The results, assets and liabilities of the Group for the year ended 2002 were extracted from the prospectus of the Company dated 30 October 2002. The (loss)/earnings per share for the year ended 31 March 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 year ended 31 March 2004 and its assets and liabilities as at 31 March 2004 were extracted from the financial statements of the Company dated 23 June 2004.

4. The results of the Group for the two years ended 31 March 2005 and 2006, its assets and liabilities as at 31 March 2005 and 2006 are set out in the financial statements on pages 21 and 22 respectively.