

VCD Player

Fax Machines

DVD Player

MP3 Player

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)

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

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

FINANCIAL RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the three months ended 30 June 2006, together with the unaudited comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

| | Notes | Three months ended 30 June | |
|---|-------|---------------------------------|---------------------------------|
| | | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Turnover | 2 | 15,403 | 7,229 |
| Cost of sales | | (12,911) | (6,942) |
| Gross profit | | 2,492 | 287 |
| Other revenues | | 81 | 600 |
| Administrative expenses | | (2,551) | (1,027) |
| Other operating expenses | | – | (72) |
| Operating profit/(loss) | | 22 | (212) |
| Finance costs | | – | – |
| Profit/(Loss) before taxation | | 22 | (212) |
| Income tax | 3 | – | – |
| Net profit/(loss) attributable to equity shareholders of the Company | | 22 | (212) |
| Dividend | 4 | – | – |
| Earning/(Loss) per share | 5 | | |
| – Basic (cent) | | 0.0039 | (0.04) |
| – Diluted (cent) | | N/A | N/A |

*Notes:***1. Basis of presentation**

The unaudited condensed consolidated results for the three months ended 30 June 2006 (the “Period”) have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include 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 and the disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “GEM Listing Rules”).

The unaudited condensed consolidated results have been prepared under the historical cost convention, except for the available-for-sale financial assets that have been measured at fair value. Proportional consolidation has been adopted for the jointly-controlled entity for the three months ended 30 June 2006 in order to reflect the comprehensive financial status of the Group. Except this change, the principal accounting policies and method of computations used in the preparation of the unaudited condensed consolidated results are consistent with those used in the preparation of the Group’s financial statements for the year ended 31 March 2006.

The Group has adopted the following standards that have been issued and effective for the periods beginning on or after 1 January 2006. The adoption of such standards did not have material effect on these financial statements.

| | |
|---------------------|--|
| HKAS 19 (Amendment) | Actuarial gains or losses, group plans and disclosures |
| HKAS 21 (Amendment) | Net Investment in a Foreign Operation |
| HKAS 39 (Amendment) | The Fair Value Option |

The Group has not early adopted the following standards that have been issued but not yet effective. The adoption of such standards will not result in substantial changes to the Group’s accounting policies.

| | |
|--------------------|-------------------------------------|
| HKAS 1 (Amendment) | Capital Disclosures |
| HKFRS 7 | Financial Instruments – Disclosures |

The Group’s unaudited condensed consolidated quarterly results has not been audited by the Company’s auditors but has been reviewed by the Company’s Audit Committee.

2. Turnover

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

| | Three months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Turnover | | |
| Thermal sensitive telefacsimiles machines ("Fax machines") | 15,403 | – |
| Integrated circuit recorders ("IC recorders") | – | 1,532 |
| Digital versatile disc players ("DVD players") | – | 4,969 |
| Others | – | 728 |
| | <u>15,403</u> | <u>7,229</u> |

3. Taxation

No provision for Hong Kong Profit Tax has been provided as the Group had no estimated assessable profit for the three months ended 30 June 2006 (three months ended 30 June 2005: Nil).

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

4. Dividends

The Directors do not recommend the payment of a dividend for the three months ended 30 June 2006 (three months ended 30 June 2005: Nil).

5. Earning/(Loss) per share

The calculations of basic earning per share for the three months ended 30 June 2006 are based on the consolidated net profit attributable to shareholders for the three months ended 30 June 2006 of approximately HK\$22,000 (unaudited consolidated net loss attributable to shareholders for three months ended 30 June 2005: HK\$212,000) and on the weighted average number of 569,047,509 ordinary shares in issue during the three months ended 30 June 2006. (three months ended 30 June 2005: 520,000,000 ordinary shares in issue).

Dilutive earning/(loss) per share amounts have not been presented as the Company did not have any dilutive potential ordinary shares during the periods.

6. Reserves

| | Share premium (Unaudited) <i>HK\$'000</i> | Exchange reserve (Unaudited) <i>HK\$'000</i> | (Accumulated losses) (Unaudited) <i>HK\$'000</i> | Total (Unaudited) <i>HK\$'000</i> |
|---|--|---|---|---|
| At 1 April 2005 | 17,816 | – | (9,378) | 8,438 |
| Net loss for the period | – | – | (212) | (212) |
| At 30 June 2005 | <u>17,816</u> | <u>–</u> | <u>(9,590)</u> | <u>8,226</u> |
| At 1 April 2006 | 34,854 | 477 | (21,977) | 13,354 |
| Placing of new shares of HK\$0.01 each completed on 16 May 2006 | 19,491 | – | – | 19,491 |
| Exchange difference arising from translation of financial statements | – | 93 | – | 93 |
| Net profit for the period | – | – | 22 | 22 |
| At 30 June 2006 | <u>54,345</u> | <u>570</u> | <u>(21,955)</u> | <u>32,960</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

General

The Group is principally engaged in, among other things, the manufacturing and sale of electronics consumer products including electronic telecommunication, office automation and networks products. It is the objective of the Group to be a leading and major developer, producer and distributor world-wide by development, production and distribution of all kinds of high quality electronic telecommunication, office automation and network products adapted to the needs of the market, through combining the marketing experience and well-developed network of the Group in China and cooperation with international enterprises which are independent third parties.

Financial review

During the three months ended 30 June 2006, the Group recorded a turnover of approximately HK\$15,403,000 an increase of approximately 113% as compared to the corresponding period in 2005.

For the three months ended 30 June 2006, the Group recorded gross profit of approximately HK\$2,492,000 and overall gross profit margin was approximately 16%. Gross profit of approximately HK\$287,000 was recorded in the corresponding period in 2005.

Net profit attributable to shareholders of the Group for the three months ended 30 June 2006 was approximately HK\$22,000 while net loss attributable to shareholders of the corresponding period in 2005 was approximately HK\$212,000.

Operation review and prospects

During the three months ended 30 June 2006, the Group has entered into the consultancy agreements with two consultant agents on 25 April 2006 pursuant to which sales and distribution networks developed in over twenty provinces and cities of PRC and over 2,800 points-of-sale successfully created for the Group to promote and market the Company's consumer products including electronic telecommunication, office automation and networks products in the PRC. Having developed the well-facilitated sales and distribution networks and under sharing of technologies and resources, the Group will extend to develop different varieties of new electronics consumer products throughout the remainder of the financial year. Together with existing developed products of the Group, network distributors can use its best endeavor to promote and market all different varieties products of the Group. In this

connection, the Board 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.

At the beginning of the year 2006, Guangdong Photar Digital & Electronic Company Limited (“Photar Digital”), a wholly-owned subsidiary of the Company, and Sagem Communication established a joint venture company, Photar Sagem Electronics Company Limited (“Photar Sagem”) in Heyuan, Guangdong, the PRC. Photar Sagem has commenced its operations. Although Photar Sagem is still in the starting stage, the business development and operation of Photar Sagem are in good progress. Photar Sagem has new products promoted to the market continuously and records growing monthly results. Sagem Communication believes this cooperation with the Group has broken the record of previous cooperation with other international enterprises as Photar Sagem can have rewards in the month of investment. As such, Sagem Communication and the Group are quite confident of the prospect of Photar Sagem and believe Photar Sagem will have impressive results. Sagem Communication and the Group also expect to extend the area of cooperation in foreseeable future.

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

As at 30 June 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 the Directors 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 | 54.39% |

Note:

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

Save as disclosed above, as at 30 June 2006, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 30 June 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 | 54.39% |

Note:

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

Save as disclosed above, as at the 30 June 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.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the sole shareholder of the Company passed on 19 October 2002, the Company adopted a share option scheme (the "Scheme") under which share options to subscribe for the shares of the Company may be granted under the terms and conditions stipulated therein. As at 30 June 2006, 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 or employees of the Group or their respective associates were granted by the Company or its subsidiaries the rights to acquire shares or debentures of the Company or any other body corporate, or had exercised any such rights as at 30 June 2006.

COMPETING INTEREST

Pursuant to Rule 19.64(9) and Rule 11.04 of the GEM Listing Rules, as at 30 June 2006, the following director of the Company is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group:

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

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

Save as disclosed herein, none of the Directors, 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.

RELATED PARTY TRANSACTIONS

For the three months ended 30 June 2006, the Group paid rental expenses in the amount of approximately HK\$58,000 to a company controlled by a director of the Company included in the income statement (three months ended 30 June 2005: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

For the period ended 30 June 2006, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

AUDIT COMMITTEE

The Company established its audit committee (the "Committee") on 19 October 2002 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee comprises three independent non-executive Directors, namely, Mr. Lam Hon Kuen, Mr. Chen Wei Rong and Mr. Law Chi Yuen. The Group's unaudited results for the three months ended 30 June 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.

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 have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the three months ended 30 June 2006.

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

Hong Kong, 11 August 2006

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