



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)

Interim Report
2006

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

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

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

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

FINANCIAL RESULTS

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

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 September		Three months ended 30 September	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	2	43,706	37,234	28,303	30,005
Cost of sales		(37,482)	(33,226)	(24,571)	(26,284)
Gross profit		6,224	4,008	3,732	3,721
Other revenues		143	1,811	62	1,211
Selling and distribution expenses		–	(1)	–	(1)
Administrative expenses		(9,939)	(4,287)	(7,388)	(3,260)
Other operating expenses		–	(72)	–	–
Operating (loss)/profit		(3,572)	1,459	(3,594)	1,671
Finance costs		(375)	–	(375)	–
(Loss)/Profit before taxation	3	(3,947)	1,459	(3,969)	1,671
Income tax	4	–	–	–	–
Net (loss)/profit attributable to equity shareholders of the Company		(3,947)	1,459	(3,969)	1,671
Dividend	5	–	–	–	–
(Loss)/Earning per share	6				
– Basic (cent)		(0.63)	0.27	(0.62)	0.31
– Diluted (cent)		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 September 2006 (Unaudited) <i>HK\$'000</i>	As at 31 March 2006 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		26,171	25,642
Investment in listed securities		195	–
		26,366	25,642
CURRENT ASSETS			
Inventory		16,864	5,690
Trade receivables	7	20,191	16,601
Other receivables, deposits and prepayments		29,532	3,412
Tax recoverable		1,913	261
Cash and bank balances		6,402	10,872
		74,902	36,836
CURRENT LIABILITIES			
Trade payables	8	16,779	13,028
Other payables and accruals		5,209	2,072
Short-term loan		14,563	–
		36,551	15,100
NET CURRENT ASSETS		38,351	21,736
TOTAL ASSETS LESS CURRENT LIABILITIES		64,717	47,378
NON-CURRENT LIABILITIES			
Convertible note payables		20,000	–
Amount due to a director		9,448	28,149
		29,448	28,149
NET ASSETS		35,269	19,229
CAPITAL AND RESERVES			
Share capital	9	6,374	5,875
Reserves		28,895	13,354
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		35,269	19,229

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September 2006 (Unaudited) HK\$'000	Six months ended 30 September 2005 (Unaudited) HK\$'000
Net cash used in operating activities	(25,585)	(11,629)
Net cash used in investing activities	(7,119)	(1,230)
Net cash generated from financing activities	35,852	10,114
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	3,148	(2,745)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,346	4,538
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(92)	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6,402	1,793
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	6,402	1,793

CONSOLIDATED STATEMENT OF CHANGE OF EQUITY

	Share Capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Accumulated losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 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
Net profit for the period	-	-	-	1,459	1,459
At 30 September 2005	5,706	27,424	-	(7,919)	25,211
At 1 April 2006	5,875	34,854	477	(21,977)	19,229
Placing of new shares of HK\$0.01 each completed on 16 May 2006	499	19,491	-	-	19,990
Exchange difference arising from translation of financial statements	-	-	(3)	-	(3)
Net loss for the period	-	-	-	(3,947)	(3,947)
At 30 September 2006	6,374	54,345	474	(25,924)	35,269

NOTES:

1. Basis of presentation

The unaudited condensed consolidated results for the six months ended 30 September 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 six months ended 30 September 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 interim results has not been audited by the Company’s auditors but has been reviewed by the Company’s Audit Committee.

2. Turnover and segment information

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

The Group is currently organised into the following business segments – thermal sensitive and transfer telefacsimile machines (“Fax Machines”) product segment, digital versatile disc players (“DVD players”) product segment, Home Theatre Systems (“HTS”) product segment, TV Set Top Boxes (“TV STB”) product segment. These divisions are the basis on which the Group reports its primary segment information.

2. Turnover and segment information (Continued)

(a) Business segments

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

For the six months ended 30 September

	Fax Machines		DVD players		HTS		TV STB		IC Recorders		MP3 players		IC		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover:																
External sales	29,207	26,596	9,997	7,753	4,021	-	481	-	-	728	-	625	-	1,532	43,706	37,234
Segment results	1,149	2,985	911	1,108	378	-	90	-	-	7	-	25	-	67	2,528	4,192
Other income															143	610
Net unallocated expenses															(6,243)	(3,343)
(Loss)/Profit from operations															(3,572)	1,459
Finance costs															(375)	-
(Loss)/Profit before taxation															(3,947)	1,459
Income Tax															-	-
Net (loss)/profit attributable to equity shareholders of the Company															(3,947)	1,459
As at 30 September																
ASSETS																
Segment assets	29,631	26,602	18,311	10,922	7,430	500	796	500	-	500	-	1,125	-	-	56,168	38,149
Unallocated assets															45,100	9,658
Total assets															101,268	47,807
LIABILITIES																
Segment liabilities	12,793	12,357	2,750	131	1,116	-	120	-	-	-	-	-	-	-	16,779	12,488
Unallocated liabilities															49,220	10,109
Total liabilities															65,999	22,597
Other segment information:																
Unallocated depreciation															-	21

2. Turnover and 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 are attributable to segments based on the location of the assets.

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

For the six months ended 30 September

	TURNOVER		OTHER SEGMENT INFORMATION	
	External sales		Segment assets	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The People's Republic of China ("PRC") (including Hong Kong)	36,306	37,234	101,268	47,791
USA	1,226	-	-	-
Japan	1,529	-	-	-
Sweden	1,158	-	-	-
Canada	806	-	-	-
Portugal	736	-	-	-
Switzerland	723	-	-	-
Ireland	583	-	-	-
Argentina	639	-	-	-
Consolidated Total	43,706	37,234	101,268	47,791

3. (Loss)/Profit before taxation

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

	For the six months ended		For the three months ended	
	30 September		30 September	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest on convertible note	375	–	375	–
Depreciation	815	444	406	221

4. Income Tax

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

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

5. Dividends

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

6. (Loss)/Earning per share

The calculations of basic loss per share for the three months and six months ended 30 September 2006 are based on the consolidated net loss attributable to equity shareholders of the Company for the three months and six months ended 30 September 2006 of approximately HK\$3,969,000 and HK\$3,947,000 respectively (unaudited consolidated net profit attributable to equity shareholders of the Company for three months and six months ended 30 September 2005: HK\$1,671,000 and HK\$1,459,000 respectively) and on the weighted average number of 637,432,000 ordinary shares and 625,142,820 ordinary shares in issue during the three months and six months ended 30 September 2006. (three months and six months ended 30 September 2005: 541,436,435 ordinary shares and 530,776,787 ordinary shares in issue respectively).

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

7. Trade receivables

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

An aged analysis of trade receivables is as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Within 30 days	8,398	13,463
31-60 days	2,454	1,972
61-90 days	1,439	1,062
Over 90 days	7,900	104
	20,191	16,601

8. Trade payables

An aged analysis of trade payables is as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Within 30 days	13,553	11,507
31-60 days	1,766	106
61-90 days	1,460	46
Over 90 days	-	1,369
	16,779	13,028

9. Share Capital

	As at 30 September 2006 (Unaudited)		As at 31 March 2006 (Audited)	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
<i>Authorised:</i>				
Shares of HK\$0.01 each	10,000,000,000	100,000	10,000,000,000	100,000
<i>Issued and fully paid:</i>				
Shares of HK\$0.01 each	637,432,000	6,374	587,456,000	5,875

10. Comparative Figures

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

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 worldwide 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 six months ended 30 September 2006, the Group recorded a turnover of approximately HK\$43,706,000, an increase of approximately 17.38% as compared to the corresponding period in 2005.

For the six months ended 30 September 2006, the Group recorded gross profit of approximately HK\$6,224,000 and overall gross profit margin was approximately 55.29%. Gross profit of approximately HK\$4,008,000 was recorded in the corresponding period in 2005.

Net loss attributable to equity shareholders of the Company for the six months ended 30 September 2006 was approximately HK\$3,947,000 while net profit attributable to equity shareholders of the corresponding period in 2005 was approximately HK\$1,459,000.

Liquidity, financial resources and capital structure

As at 30 September 2006, the Group had total assets of approximately HK\$101,268,000 (31 March 2006: approximately HK\$62,478,000), including cash and bank balances of approximately HK\$6,402,000 (31 March 2006: approximately HK\$10,872,000). There was no pledged bank deposit as at 30 September 2006 (31 March 2006: Nil).

During the six months ended 30 September 2006, the Group financed its operations mainly with its own working capital, proceeds from placement of newly issued shares of the Company in May 2006 and issue of convertible notes in June 2006. As at 30 September 2006, there was no bank overdraft (31 March 2006: Nil) and there was no charge on the Group's assets (31 March 2005: Nil).

As at 30 September 2006, the debt ratio (defined as the ratio between total liabilities over total assets) was approximately 0.65 (31 March 2006: approximately 0.66).

The shares of the Company were listed on GEM on 12 November 2002. During the six months ended 30 September 2006, the Company had issued 49,976,000 newly shares in the placement completed on 16 May 2006 for setting up 2,820 point-of-sales over the Mainland China. As such, the number of shares in issued and fully-paid of the Company increased to 637,432,000 ordinary shares as at 30 September 2006.

The Group's transactions during the six months ended 30 September 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.

Segment information

Sales of the Group comprise mainly sales of four major product lines of the Group, which are Fax Machines, DVD players, Home Theatre Systems and TV Set Top Boxes. During the six months ended 30 September 2006, sales of Fax Machines, DVD players, Home Theatre Systems and TV Set Top Boxes represent approximately 67%, 23%, 9% and 1% respectively of the Group's turnover (for the six months ended 30 September 2005: Fax Machines: 71%, IC Recorders: 2%, MP3 players: 2%, DVD players: 21% and other IC components: 4%).

During the six months ended 30 September 2006, the Group's products were sold to the markets in PRC (including Hong Kong), USA, Japan, Sweden, Canada, Portugal, Switzerland, Ireland and Argentina. During the corresponding period in previous year, all of the Group's products were only sold to the PRC market.

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

Contingent liabilities

As at 30 September 2006, the Group had no contingent liabilities (31 March 2005: Nil).

Operating lease commitments

As at 30 September 2006, the commitments under non-cancellable operating lease in respect of premises are approximately HK\$1,370,000 (31 March 2006: approximately HK\$2,026,000) and represented as follows:

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Not later than one year	865	1,033
Later than one year and not later than five years	505	933
Total operating lease commitments	1,370	2,026

Operation review and prospects

During the six months ended 30 September 2006, the Group has commenced to develop its overseas business by selling and distribution of the Group's newly developed models of DVD players, Home Theatre Systems and TV set top boxes in different oversea countries (including USA, Japan, Sweden, Canada, Switzerland, Portugal, Ireland and Argentina). Most countries have positive and impressive responses to the Group's products which are out of the Group's expectation. A high turnover figure of overseas business was also recorded. As such, the Board believes that there is unlimited potential of the Group's products in overseas markets. In addition to continuing promotion of the Group's products in PRC market, the Group will extend to explore much more overseas markets in order to promote the brand name of the Group for a long run and at minimal cost and provide solid contributions to the profits of the Group throughout the remainder of the financial year. Details of the business and geographical segments are disclosed in Note 2 "Turnover and segment information" under the section headed "Financial Results" of this report.

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. The business development and operation of Photar Sagem are in good progress. Photar Sagem has new products promoting to the market continuously and records growing monthly results. Photar Sagem provides solid contributions to the results of the Group. As such, Sagem Communication and the Group are quite confident of the prospect of Photar Sagem and believe Photar Sagem will have impressive results throughout the remainder of the financial year.

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

As at 30 September 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 September 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 September 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 September 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 September 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 September 2006.

COMPETING INTEREST

Pursuant to Rule 19.64(9) and Rule 11.04 of the GEM Listing Rules, as at 30 September 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 six months ended 30 September 2006, the Group paid rental expenses in the amount of approximately HK\$116,000 to a company controlled by a director of the Company included in the income statement (six months ended 30 September 2005: HK\$58,000).

PURCHASE, SALE OR REDEMPTION OF SHARES

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

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 period ended 30 September 2006, complied with the CCGP.

Code provisions set out in the CCGP

A.2 The Chairman and chief executive officer of the Company were performed by the same individual

B.1 Remuneration committee has not yet been set up by the Company

Reasons for deviations

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.

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 period ended 30 September 2006.

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 six months ended 30 September 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 six months ended 30 September 2006.

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

Hong Kong, 10 November 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.