(Stock Code: 8220)

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)

Third Quarterly Report 2006

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

FINANCIAL RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the three and nine months ended 31 December 2006 ("Condensed Financial Statements"), together with the unaudited comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Nine months ended 31 December		Three months ended 31 December	
		2006	2005	**2006**	2005
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*2*	**80,374**	57,413	**36,316**	20,179
Cost of sales		**(68,703)**	(51,759)	**30,936**	(18,533)
Gross profit		**11,671**	5,654	**5,380**	1,646
Other revenues		**50**	2,240	**(58)**	429
Selling and distribution expenses		**(2,975)**	(1)	**(420)**	–
Administrative expenses		**(12,121)**	(11,423)	**(7,023)**	(7,136)
Other operating expenses		**–**	(72)	**–**	–
Operating loss		**(3,375)**	(3,602)	**(2,121)**	(5,061)
Finance costs		**(1,387)**	–	**(819)**	–
Loss before taxation	*3*	**(4,762)**	(3,602)	**(2,940)**	(5,061)
Income tax	*4*	**–**	(560)	**–**	(560)
Net loss attributable to equity shareholders of the Company		**(4,762)**	(4,162)	**(2,940)**	(5,621)
Dividend	*5*	**–**	–	**–**	–
Loss per share	*6*				
– Basic (cent)		**(0.76)**	(0.76)	**(0.46)**	(0.96)
– Diluted (cent)		**N/A**	N/A	**N/A**	N/A

Notes:

1. Basis of presentation

The unaudited condensed consolidated results for the nine months ended 31 December 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 nine months ended 31 December 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. All significant intra-group transactions and balances have been eliminated on consolidation. Analysis of turnover of the Group is as follows:

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, Digital Video Broadcast ("DVB") product segment. These divisions are the basis on which the Group reports its primary segment information.

	Nine months ended 31 December		**Three months ended 31 December**	
	2006	2005	**2006**	2005
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover				
Fax machines	**43,908**	43,006	**14,661**	16,410
DVD players	**32,018**	10,127	**19,937**	2,374
HTS	**2,098**	–	**470**	–
DVB	**2,350**	–	**1,248**	–
MP3 players	**–**	2,020	**–**	1,395
IC recorders	**–**	728	**–**	–
Others	**–**	1,532	**–**	–
Total	**80,374**	57,413	**36,316**	20,179

3. Loss before taxation

The Group's loss before taxation is arrived at after charging the following:

	For the nine months ended 31 December		**For the three months ended 31 December**	
	2006	2005	**2006**	2005
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Interest on convertible note	**750**	–	**375**	–

4. Taxation

No Hong Kong Profit Tax and China taxation have been provided for in the financial statements as the Group had no estimated assessable profit for the three months and nine months ended 31 December 2006. (Taxation for the Group for the three months and nine months ended 31 December 2005 represents China Taxation: HK$560,000).

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

5. Dividends

The Directors do not recommend the payment of a dividend for the nine months ended 31 December 2006 (nine months ended 31 December 2005: Nil).

6. Loss per share

The calculation of basic loss per share for the three months and nine months ended 31 December 2006 are based on the consolidated net loss attributable to equity shareholders of the Company for the three months and nine months ended 31 December 2006 of approximately HK$2,940,000 and HK$4,762,000 respectively (unaudited consolidated net profit attributable to equity shareholders of the Company for the three months and nine months ended 31 December 2005 : HK$5,621,000 and HK$4,162,000 respectively) and on the weighted average number of 637,432,000 ordinary shares and 629,254,109 ordinary shares in issue during the three months and nine months ended 31 December 2006. (the three months and nine months ended 31 December 2005: 583,968,261 ordinary shares and 548,571,753 ordinary shares in issue respectively).

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

7. Reserves

	Share premium (Unaudited) *HK$'000*	Exchange reserve (Unaudited) *HK$'000*	Accumulated losses (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
At 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
Net loss for the period	–	–	(4,162)	(4,162)
At 31 December 2005	34,854	–	(13,540)	21,314
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	–	2,016	–	2,016
Net loss for the period	–	–	(4,762)	(4,762)
At 31 December 2006	54,345	2,493	(26,739)	30,099

MANAGEMENT DISCUSSION AND ANALYSIS

General

The Group is principally engaged in manufacturing and selling electronics consumer products including electronic telecommunication, office automation and network products. The objective of the Group is to become 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 marketing experience and well-developed network of the Group in China and cooperation with international enterprises which are independent third parties.

Financial review

During the nine months ended 31 December 2006, the Group recorded a turnover of approximately HK$80,374,000 an increase of approximately 40% as compared to the corresponding period in 2005.

For the nine months ended 31 December 2006, the Group recorded gross profit of approximately HK$11,671,000 and overall gross profit margin was approximately 14.52%. Gross profit of approximately HK$5,654,000 was recorded in the corresponding period in 2005.

Net loss attributable to equity shareholders of the Company for the nine months ended 31 December 2006 was approximately HK$4,762,000 while net loss attributable to equity shareholders for the corresponding period in 2005 was approximately HK$4,162,000. This was mainly due to increase in administrative expenses for paying non-recurrent cost of creating additional distribution and selling points over Mainland China and to strengthen and expand the existing distribution and selling network of the Group.

Operation review and prospects

During the nine months ended 31 December 2006, the Group has commenced to develop its overseas business by selling and distributing the Group's newly developed models of DVD players, Home Theatre Systems and Digital Video Broadcast. Sales and profits of these new products were positive and impressive, which were beyond of the Group's expectation. As a result, 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 the P.R.C market, the Group will explore more overseas markets for promoting the brands of the Group and contributing to the profits of the Group throughout the remainder of this financial year. On 25 April 2006, the Group had entered into consultancy agreements with two consultant agents who have successfully developed sales and distribution network in over twenty provinces and cities of the P.R.C and over 2,800 points-of-sale for the Group to promote and market the Company's consumer products including electronic telecommunication, office automation and network products in the the P.R.C. The Group will continue to develop different varieties of highly profitable new electronics consumer products throughout the remainder of the financial year.

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 P.R.C. The business and operation of Photar Sagem are in good progress. Photar Sagem is expanding its production capacity, and has continuously launched new products to the market, recorded growing monthly results, and provided solid contributions to the results of the Group. Sagem Communication and the Group are confident about 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 31 December 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 31 December 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 31 December 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 31 December 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 31 December 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 31 December 2006.

COMPETING INTEREST

Pursuant to Rule 19.64(9) and Rule 11.04 of the GEM Listing Rules, as at 31 December 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 nine months ended 31 December 2006, the Group paid rental expenses in an amount of approximately HK$177,000 (nine months ended 31 December 2005: HK$115,000) to a company controlled by a director of the Company, which had been included in the income statement.

PURCHASE, SALE OR REDEMPTION OF SHARES

For the period ended 31 December 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 nine months ended 31 December 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 nine months ended 31 December 2006.

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

Hong Kong, 9 February 2007

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.