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 2006-07

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

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The principal means of information dissemination of GEM is publication on the internet website operated by the Stock Exchange. Listed companies 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 at www.hkgem.com in order to obtain up-to-date information of GEM-listed issuers.

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 report 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 report misleading; and (iii) 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.

Contents

BOARD OF DIRECTORS

Executive Directors

Chen Jijin *(Chairman)*
Huang Menghuai
Zhong Min

Independent Non-executive Directors

Chen Weirong
Lam Hon Kuen
Law Chi Yuen

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Ling Chan, *CPA Australia, CPA*

COMPLIANCE OFFICER

Chen Jijin

AUDIT COMMITTEE

Chen Weirong
Lam Hon Kuen
Law Chi Yuen

AUTHORISED REPRESENTATIVE

Chen Jijin
Ling Chan, *CPA Australia, 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

Directors' Business Review

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 2007 to our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

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.

During the year, the Group continues to strive towards excellence through strategic expansion of product portfolio and distribution networks. To solidify the earning base, the Group has launched new digital AV products including new model of DVD player, Digital Video Broadcast, Digital Photo Frame and Home Theatre System to the market and at the same time discontinued non-profitable production lines. The new products' contribution in term of turnover was approximately HK$50,141,000 during this financial year. The Group is always trying to broaden the Group's source of income. The Group has developed and expanded mobile phone trading and distribution business across the region and world wide, which recorded a turnover of HK$12,841,000 during this 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"), located in Heyuan, Guangdong, the PRC in December 2005. The major product is fax machine under the brand name "Philips". The business operation of Photar Sagem is progressing well and provided solid financial contribution to the Group.

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 PRC and over 2,800 points-of-sales for the Group to promote and market the Company's products in the PRC.

As the businesses on the new AV products are still in the development stage despite a year of fast expansion, the Group continued to operate at a loss. Net loss attributable to equity holders of the Group for the year was approximately HK$28,510,000. This was mainly due to bad debt written off for the impairment of trade receivables and increase in administrative expenses for paying the non-recurrent cost incurred in creating additional distribution and selling points throughout the Mainland China in order to strengthen and expand the existing distribution and selling network of the Group.

In order to ensure long-term growth and profitability, a strategic investor – Emcom Limited ("Emcom") will join the Group. Emcom Limited engages in the development and distribution of telecommunication products and services in the Asia Pacific region. A subscription agreement was signed on 4 June 2007 and the subscription has not yet been completed. We believe when the Group is taken over by Emcom, the Group will have healthier financial position and board base of business lines and distribution system.

ENHANCEMENT OF CAPITAL BASES

1. Placing of New Shares to two Consultant Agents

On 25 April 2006, the Company has entered into the agreements with two consultant agents, pursuant to which each of the consultant agents agreed that total remuneration of HK$19,993,800 payable to the consultant agents for introducing 2,800 points-of-sales was satisfied by way of issuance and allotment of 49,976,000 new ordinary shares, representing approximately 7.84% of the issued share capital as enlarged by the issue of consideration shares of the Company, at an issue price of HK$0.40 per share. The Board believes that the distribution network of the Company's products can be strengthened with increase in points-of-sales in the 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 the long-term and at minimal cost and provide solid contribution to the turnover of the Group. The new shares were issued and allotted on 16 May 2006. Details of the above transaction were stated in the circular dated 18 May 2006.

2. 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 43,478,261 shares, representing approximately 6.8% 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 can provide an opportunity for the Company to enlarge its capital base (if the note holder converts his/her rights). The net proceeds from the convertible note of HK$16,800,000 had be used as general working capital for the Company. Details of the above transaction were stated in the announcement dated 9 June 2006.

Directors' Business Review

FINANCIAL REVIEW

RESULTS

For year under review, the Group recorded a total turnover of approximately HK$63,072,000 (2006: HK$64,147,000). Loss attributable for the year to equity holders was approximately HK$28,510,000 (2006: loss HK$12,599,000).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 March 2007, the Group had total assets of approximately HK$83,871,000 (31 March 2006: HK$56,564,000), including cash and cash equivalents of approximately HK$8,624,000 (31 March 2006: HK$3,346,000). There was no pledged bank deposit as at 31 March 2007 (31 March 2006: Nil).

The Group generally financed its operations and investing activities mainly with its internally generated cash flows and net proceeds from placements of convertible note in June 2006 and borrowing from a shareholder. As at 31 March 2007, there was no bank overdraft (31 March 2006: Nil) and there was no charge on the Group's assets (31 March 2006: Nil).

As at 31 March 2007, the debt ratio (defined as the ratio between total liabilities over total assets) was 0.85 approximately (31 March 2006: approximately 0.66).

The shares of the Company were listed on GEM on 12 November 2002. During the year under review, the Company had issued 49,976,000 shares in the placement of shares completed on 16 May 2006. As such, the number of issued and fully-paid of the Company increased to 637,432,000 ordinary shares as at 31 March 2007.

EMPLOYEES

As at 31 March 2007, the Group had 212 (31 March 2006: 61) staff including directors based in the PRC and Hong Kong. Total staff costs including directors remuneration were approximately HK$3,366,000 in the year under review (31 March 2006: HK$1,483,000).

Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-ended bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contribution 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 five major product lines of the Group, which are namely, Fax Machines, DVD players, Digital Video Broadcast, Digital Photo Frame and Home Theatre System. Business of Fax Machines is operated by Photar Sagem. During the year under review, sales of Fax Machines, DVD players, Digital Video Broadcast, Digital Photo Frame, Home Theatre System and cell phone represent approximately 0.1%, 67.9%, 4%, 4%, 4% and 20% respectively of the Group's turnover (31 March 2006: Fax Machines: 78%, IC Recorders: 1%, MP3 players: 3%, DVD players: 16% and other IC components: 2%).

During the year ended under review, 29% of the Group's products were sold to the PRC market and 71% of the Group's products were sold to the overseas market. 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 5 to the financial statements.

EXCHANGE RATIO

The Group's transactions during the year ended 31 March 2007 were mainly denominated in Renminbi, Hong Kong Dollars and United States Dollars. The Renminbi income received from sales in the PRC was fully applied to working capital need of the Group in the PRC.

SIGNIFICANT INVESTMENTS

During the year ended 31 March 2007, other than setting up 2,800 points-of-sales, there was no other significant investment made by the Group. For the year ended 31 March 2006, other than investing in a jointly controlled entity, there was no other significant investment made by the Group.

CONTINGENT LIABILITIES

As at 31 March 2007, the Group had no contingent liabilities (31 March 2006: Nil).

CAPITAL COMMITMENTS

i) During the year, the group entered into agreements with a supplier, whereby the group agreed to purchase a certain amount of cell phones from the supplier. Commitment payable amounted to approximately HK$14,089,000 as at 31 March 2007 (2006: HK$Nil).

ii) On 17 March 2007, the group entered into an agreement with a third party to purchase the machinery. Commitment payable amounted to approximately HK$212,000 as at 31 March 2007 (2006: Nil).

iii) As at 31 March 2007, the group has capital commitment of HK$505,860 (equivalent to RMB500,000) for the remaining balance of investment cost in a jointly controlled entity.

OPERATING LEASE COMMITMENTS

As at 31 March 2007, the commitments under a non-cancellable 2-year operating lease in respect of premises are HK$1,668,000 (31 March 2006: HK$2,026,000) and detailed below:

	31 March 2007 (Audited) HK$'000	31 March 2006 (Audited) HK$'000
Not later than one year	**1,063**	1,033
Later than one year and not later than five years	**605**	993
Total operating lease commitments	**1,668**	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 2007

EXECUTIVE DIRECTORS

Mr. Chen Jijin ("Mr. Chen"), aged 42, 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 11 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 42, 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 16 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 52, has been appointed as an executive Director with effect from 4 November 2005. Mr. Zhong has over 21 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.

Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Weirong, aged 47, has been appointed as an independent non-executive Director with effect 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 40, has been appointed as an independent non-executive Director with effect from 4 November 2005. Mr. Lam holds a bachelor degree in Social Sciences from the University of Hong Kong. He has over 17 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 49, has been appointed as an independent non-executive Director with effect 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. 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 27 April 2006.

SENIOR MANAGEMENT

Ms. Chan Ling ("Ms. Chan"), aged 35, is the qualified accountant and company secretary of the Group. Ms. Chan is responsible for the accounting and finance functions of the Group. Ms. Chan holds a Bachelor of Commerce degree in Professional Accounting from Macquarie University and a Master degree in Professional Accounting from University of Sydney in Australia. She is also a member of CPA Australia and a member of the Hong Kong Institute of Certified Public Accountants. Ms. Chan has over ten years working experience in accounting.

Directors' Report

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 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 15 to the financial statements.

FINANCIAL STATEMENTS AND DIVIDENDS

The results of the Group for the year ended 31 March 2007 and the state of the Company's and the Group's affairs as at 31 March 2007 are set out in the financial statement on pages 22 to 24.

The directors of the Company (the "Directors") do not recommend the payment of dividend for the year ended 31 March 2007 (2006: 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 2007 and of the assets and liabilities as at 31 March 2003, 2004, 2005, 2006 and 2007 are set out on page 72.

SHARE CAPITAL

Details of the movements of the share capital of the Company are set out in note 28 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 30 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 14 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)

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. Zou Hai Yan	(appointed on 3 August 2005 and resigned on 27 April 2006)

In accordance with Article 87 of the Company's Articles of Association, Mr. Chen Jijin, Ms. Huang Menghuai and Mr. Zhong Min 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. 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 2007 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 position as an executive Director is HK$29,000 per month. Ms. Huang and Mr. Zhong gave up their emoluments as executive Directors. The emoluments for Mr. Chen, Ms. Huang and Mr. Zhong are determined on an arm's length negotiation between the parties with reference to the prevailing market condition. 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 emoluments 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 are determined on an arm's length negotiation between the parties with reference to prevailing market condition. 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 9 and 33 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 33 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 2007, 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	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 March 2007, 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 2007, 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 31 March 2007, 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 position 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 shareholding and directorship 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 business which competes, or might compete, either directly or indirectly, with the business 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 their best endeavour to ensure 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 the 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. 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 the disclosure 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 was 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 2007.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was 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 following:

	Percentage of the Group's total	
	2007	2006
Sales		
– the largest customer	**20%**	7%
– five largest customers in aggregate	**73%**	25%
Purchases		
– the largest supplier	**30%**	26%
– five largest suppliers in aggregate	**58%**	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 is no provision 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 the year under review.

POST BALANCE SHEET EVENTS

i) On 4 June 2007, a subscription agreement was entered into by the Group with Emcom Limited and Smart Step Limited in relation to the subscription of a total of 1,800,000,000 new shares at a subscription price of HK$0.017 per subscription share. The consideration of HK$30,600,000 will be mainly used to pay off convertible note and shareholder's loan. The directors believe that the subscription provides the Group with a good opportunity to expand its capital base and strengthen its overall financial position. Details of the above transaction were stated in the announcement dated 13 June 2007.

ii) It is proposed that the name of the company will be changed to reflect the change in controlling shareholder of the company. A new name of the company has not been decided yet.

iii) Subsequent to the balance sheet date, the group entered into agreements with a supplier, whereby the group agreed to purchase cell phones amounting to approximately HK$41,676,000 from the supplier.

AUDIT COMMITTEE

The Company established its audit committee (the "Committee") on the 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 Group's financial statements for the year ended 31 March 2007 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 2007.

AUDITORS

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

On behalf of the Board

Chen Jijin
Chairman

Hong Kong, 26 June 2007

Independent Auditor's Report

CCIF

CCIF CPA LIMITED

20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA PHOTAR ELECTRONICS GROUP LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Photar Electronics Group Limited (the "company") set out on pages 22 to 71, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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 the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 March 2007 and of the group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 2(a) in the financial statements which indicates that the group incurred a net loss of HK$28,510,000 during the year ended 31 March 2007 and, as of that date, the group's current liabilities exceeded its current assets by HK$5,565,000. These conditions, along with other matters as set forth in note 2(a), indicate the existence of a material uncertainty which may cast significant doubt about the group's ability to continue as a going concern.

CCIF CPA Limited
Certified Public Accountants
Hong Kong

26 June 2007

Kwok Cheuk Yuen
Practising Certificate Number P02412

Consolidated Income Statement

Year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	*6*	**63,072**	64,147
Cost of sales		**(56,675)**	(58,717)
Gross profit		**6,397**	5,430
Other revenue	*6*	**127**	2,621
Distribution expenses		**–**	(1)
Administrative expenses		**(32,845)**	(21,756)
Loss from operations	*7*	**(26,321)**	(13,706)
Finance costs	*8*	**(3,129)**	–
Share of profit of a jointly controlled entity		**940**	407
Loss before taxation		**(28,510)**	(13,299)
Income tax	*10(a)*	**–**	700
Loss for the year attributable to equity holders of the company	*11*	**(28,510)**	(12,599)
Dividend	*12*	**–**	–
Loss per share			
– Basic	*13*	**(4.52 cents)**	(2.26 cents)
– Diluted	*13*	**N/A**	N/A

The notes on pages 28 to 71 form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**13,193**	19,992
Interest in a jointly controlled entity	16	**20,604**	19,339
		33,797	39,331
CURRENT ASSETS			
Financial assets at fair value through profit or loss	17	**245**	–
Inventories	18	**7,675**	296
Trade receivables	19	**15,132**	11,268
Other receivables, deposits and prepayments		**5,974**	2,307
Amount due from a jointly controlled entity	20	**65**	–
Amount due from a related company	20	**6,535**	–
Tax recoverable	10(b)	**5,824**	16
Cash and cash equivalents	21	**8,624**	3,346
		50,074	17,233
CURRENT LIABILITIES			
Trade payables	22	**16,974**	8,001
Other payables and accruals		**1,667**	887
Amount due to a jointly controlled entity	23	**–**	298
Amount due to a director	24	**11,260**	–
Secured bank loans	25	**25,293**	–
Embedded financial derivatives	26	**445**	–
		55,639	9,186
NET CURRENT (LIABILITIES)/ASSETS		**(5,565)**	8,047
TOTAL ASSETS LESS CURRENT LIABILITIES		**28,232**	47,378
NON-CURRENT LIABILITIES			
Amount due to a director	24	**–**	28,149
Convertible note	26	**15,747**	–
		15,747	28,149
NET ASSETS		**12,485**	19,229
CAPITAL AND RESERVES			
Share capital	28	**6,374**	5,875
Reserves	30	**6,111**	13,354
TOTAL EQUITY		**12,485**	19,229

Approved and authorised for issue by the board of directors on 26 June 2007

On behalf of the board

Director *Director*

The notes on pages 28 to 71 form an integral part of these financial statements.

Balance Sheet

At 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*15*	**36,271**	21,024
CURRENT ASSETS			
Tax recoverable	*10(b)*	**3**	16
Other receivables, deposits and prepayments		**–**	530
		3	546
CURRENT LIABILITIES			
Other payables and accruals		**373**	340
Embedded financial derivatives	*26*	**445**	–
		818	340
NET CURRENT (LIABILITIES)/ASSETS		**(815)**	206
TOTAL ASSETS LESS CURRENT LIABILITIES		**35,456**	21,230
NON-CURRENT LIABILITIES			
Convertible note	*26*	**15,747**	–
NET ASSETS		**19,709**	21,230
CAPITAL AND RESERVES			
Share capital	*28*	**6,374**	5,875
Reserves	*30*	**13,335**	15,355
TOTAL EQUITY		**19,709**	21,230

Approved and authorised for issue by the board of directors on 26 June 2007

On behalf of the board

Director *Director*

The notes on pages 28 to 71 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	Share capital HK$'000	Share premium HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2005	5,200	17,816	–	(9,378)	13,638
Placing of new shares	506	9,608	–	–	10,114
Placing of new shares	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 and 1 April 2006	5,875	34,854	477	(21,977)	19,229
Issue of new shares	499	19,491	–	–	19,990
Issuing expenses	–	(120)	–	–	(120)
Exchange difference arising from translation of financial statements	–	–	1,896	–	1,896
Loss for the year	–	–	–	(28,510)	(28,510)
At 31 March 2007	6,374	54,225	2,373	(50,487)	12,485

The notes on pages 28 to 71 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before taxation		**(28,510)**	(13,299)
Adjustments for			
Depreciation of property, plant and equipment		**2,151**	1,303
Interest income		**(65)**	(21)
Interest on convertible note		**2,333**	–
Other interest expenses		**796**	–
Bad debts written off		**2,497**	8,360
Exchange loss/(gain), net		**231**	(32)
Consultancy fee	*34*	**19,990**	–
Loss on disposal of a jointly controlled entity		**499**	–
Loss on disposal of property, plant and equipment		**6,668**	–
Loss on disposal of investment securities		**–**	760
Share of profit of a jointly controlled entity		**(940)**	(407)
Fair value changes on embedded financial derivatives		**(2,991)**	–
Operating loss before working capital changes		**2,659**	(3,336)
Increase in inventories		**(7,379)**	(296)
Increase in trade receivables		**(6,361)**	(7,104)
Increase in other receivables, deposits and prepayments		**(3,667)**	(8,654)
Increase in tax recoverable		**(5,808)**	–
Increase in amount due from a related company		**(6,535)**	–
Increase in amount due from a jointly controlled entity		**(65)**	–
Increase in amount due to a director		**11,260**	–
(Decrease)/increase in amount due to a jointly controlled entity		**(298)**	298
Increase in trade payables		**8,973**	4,290
Increase in other payables and accruals		**780**	422
Net cash used in operations		**(6,441)**	(14,380)
Income tax paid		**–**	(559)
NET CASH USED IN OPERATING ACTIVITIES		**(6,441)**	(14,939)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(1,475)**	(13,953)
Purchases of financial assets		**(245)**	–
Sales proceeds for investment securities		**–**	240
Investment in a jointly controlled entity		**–**	(18,932)
Interest received		**65**	21
NET CASH USED IN INVESTING ACTIVITIES		**(1,655)**	(32,624)

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
(Payment for)/proceeds from placement of new shares		**(120)**	17,713
Sales proceed of convertible note		**16,850**	–
Increase in bank loans		**25,293**	–
(Decrease)/increase in amount due to a director		**(28,149)**	28,149
Interest paid		**(796)**	–
NET CASH GENERATED FROM FINANCING ACTIVITIES		**13,078**	45,862
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**4,982**	(1,701)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**3,346**	4,538
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**296**	509
CASH AND CASH EQUIVALENTS AT END OF YEAR	*21*	**8,624**	3,346

The notes on pages 28 to 71 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 15 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) Basis of Preparation

The group had net current liabilities of approximately HK$5,565,000 as at 31 March 2007.

The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful completion of the share subscription agreement entered into by the company and the potential subscribers on 4 June 2007 which will bring in aggregate consideration of approximately HK$30,600,000 to meet the working capital requirements of the group as detailed in note 35(i).

Should there be failure on the completion of the share subscription agreement and the creditors request for immediate payment, adjustments would have to be made to reduce the values of assets to their recoverable amounts, to provide for further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

The directors believe that it is appropriate to prepare the financial statements on a going concern concept.

b) 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 and under historical cost convention expect for financial assets at fair value through profit or loss and the convertible note that have been measured at fair value.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

b) Statement of Compliance *(Continued)*

The group has adopted the following new/revised 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 and losses, group plans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	The fair value option
HKFRS – Int4	Determining whether an arrangement contains a lease

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2007 and which have not been adopted in these financial statements.

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the company's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the financial statements:

	Effective for annual periods beginning on or after
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

c) Consolidation

The consolidated financial statements include the financial statements of the company and all of its subsidiaries for the year ended 31 March 2007. 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

d) 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. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

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.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

e) 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.

f) 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

f) Property, Plant and Equipment *(Continued)*

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	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

g) Impairment of Assets

i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

g) Impairment of Assets *(Continued)*

i) *Impairment of investments in debt and equity securities and other receivables (Continued)*

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Impairment losses recognised in the income statement in respect of available-for-sale equity securities are not reversed through income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

g) Impairment of Assets *(Continued)*

ii) *Impairment of other 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.

– 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).

– 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

g) Impairment of Assets *(Continued)*

ii) Impairment of other assets (Continued)

– 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.

h) 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

i) Investments

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.

i) 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.

ii) 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(k)).

iii) 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.

iv) 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)*

i) Investments *(Continued)*

iv) *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)*

j) 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.

iv) Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

k) 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(g)), 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(g)).

l) 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.

m) 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

m) Foreign Currencies *(Continued)*

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.

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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

n) 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.

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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

o) Cash and Cash Equivalents

Cash and cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired. Cash and cash equivalents include investments and advances denominated in foreign currencies provide that they fulfil the above criteria.

For the purposes of the cash flow statement, cash and cash equivalents would also include bank overdrafts and advances from banks repayable within three months from the date of the advance.

p) Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

p) Income Tax *(Continued)*

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

p) Income Tax *(Continued)*

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the company or the group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the company or the group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously: or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

q) 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)*

r) 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 P.R.C. 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 P.R.C 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

s) 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.

t) 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

u) Borrowing Costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowing using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option, which is recognised and included in equity.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

v) Convertible Note

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest rate method.

3. FINANCIAL RISK MANAGEMENT

The group's activities expose it to a variety of financial risks. 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 States 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.

d) Cash flow interest rate risk

The group is exposed to the changes in cash flow interest rate risk due to its short-term bank borrowings, carrying interest at variable rates which are disclosed in note 25 to the financial statements. The group enters into debt obligations to support general corporate purposes including capital expenditures and working capital needs. The group currently does not have an interest rate hedging policy and does not use any derivative instruments to reduce its economic exposure to the changes in interest rates.

e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 March 2007.

f) Estimation of fair values of securities

Fair values of securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs. Fair values for the unquoted equity investments are estimated using the applicable price/earning ratios for similar listed companies adjusted for the specific circumstances of the issuer.

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.

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(g). 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 impairment loss for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provision 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 changed.

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

d) Estimated net realisable value of inventories

The group makes provision for slow moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Provision are applied to the inventories where events or changes in circumstances indicates that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the inventories and provision for inventory expenses in the period in which such estimate has been changed.

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 – digital versatile disc players ("DVD players"), cell phone, digital photo frame, home theatre systems, digital video broadcast, fax machine, IC components, IC recorders and MP3 players. 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 2007

	Cell phone HK$'000	Digital photo frame HK$'000	Home theatre systems HK$'000	Digital video broadcast HK$'000	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	12,841	2,396	2,577	2,359	90	–	–	42,809	–	63,072
Results										
Segment results	1,303	243	261	239	9	–	–	4,342	–	6,397
Interest income										65
Other income										62
Share of profits of a jointly controlled entity										940
Unallocated costs										(35,974)
Loss before taxation										(28,510)
Income tax										–
Net loss for the year										(28,510)
As at 31 March 2007										
Assets										
Segment assets	4,614	2,396	–	190	29	–	–	7,607	–	14,836
Unallocated assets										69,035
										83,871
Liabilities										
Segment liabilities	8,364	131	–	28	265	–	–	2,928	–	11,716
Unallocated liabilities										59,670
										71,386
Other information										
Unallocated capital expenditure										1,475
Unallocated depreciation										2,151

5. SEGMENT INFORMATION *(Continued)*

a) Business segments

For the year ended 31 March 2006

	Cell phone HK$'000	Digital photo frame HK$'000	Home theatre systems HK$'000	Digital video broadcast HK$'000	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	–	–	–	–	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 a jointly controlled entity										407
Unallocated costs										(18,722)
Loss before taxation										(13,299)
Income tax										700
Net loss for the year										(12,599)
As at 31 March 2007										
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)*

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 2007

	The People's Republic of China (the "PRC") (including Hong Kong) HK$'000	The United States of America ("U.S.A.") HK$'000	Europe HK$'000	Others HK$'000	Consolidated HK$'000
Turnover					
External sales	**18,383**	**11,357**	**18,896**	**14,436**	**63,072**
Assets					
Segment assets	**83,871**	**–**	**–**	**–**	**83,871**
Other information					
Capital expenditure	**1,475**	**–**	**–**	**–**	**1,475**

For the year ended 31 March 2006

	The PRC (including Hong Kong) HK$'000	U.S.A. HK$'000	Europe HK$'000	Others HK$'000	Consolidated HK$'000
Turnover					
External sales	64,147	–	–	–	64,147
Assets					
Segment assets	56,564	–	–	–	56,564
Other information					
Capital expenditure	13,953	–	–	–	13,953

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:

	2007	2006
	HK$'000	HK$'000
Turnover		
Sale of products	**63,072**	64,147
Other revenue		
Interest income	**65**	21
Exchange gain, net	**–**	32
Dividend income	**5**	–
Unrealised gain on financial assets at fair value through profit or loss	**39**	–
Sundry income	**18**	2,568
	127	2,621
Total revenue	**63,199**	66,768

7. LOSS FROM OPERATIONS

The group's loss from operations is arrived at after (crediting) and charging the following:

	2007 HK$'000	2006 HK$'000
Fair value changes on embedded financial derivatives	(2,991)	–
Cost of inventories	56,675	58,717
Operating lease rentals in respect of rented premises	920	972
Depreciation	2,151	1,303
Auditors' remuneration	248	200
Exchange loss	231	–
Staff costs (excluding directors' remuneration – note 9):		
Wages and salaries	2,819	865
Retirement benefits scheme contributions	12	27
	2,831	892
Bad debts written off:		
Other receivables	–	8,360
Trade receivables	2,497	–
Loss on disposal of property, plant and equipment	6,668	–
Loss on disposal of a jointly controlled entity	499	–
Loss on disposal of investment securities	–	760
Research and development costs	–	107

8. FINANCE COSTS

	2007 HK$'000	2006 HK$'000
Bank loan interest	796	–
Convertible note interest	2,333	–
	3,129	–

9. 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 2007			
Name of Director	**Fees**	**Basic salaries, allowances and other benefits**	**Pension scheme contribution**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Chen Jijin	**348**	**–**	**–**	**348**
Zou Hai Yan *(note 1)*	**4**	**–**	**–**	**4**
Law Chi Yuen *(note 2)*	**55**	**–**	**–**	**55**
Zhong Min	**–**	**–**	**–**	**–**
Lam Hon Kuen	**60**	**–**	**–**	**60**
Chen Weirong	**60**	**–**	**–**	**60**
Huang Menghuai	**8**	**–**	**–**	**8**
	535	**–**	**–**	**535**

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

i) *(Continued)*

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

Note:

1. Appointed on 3 August 2005 and resigned on 27 April 2006

2. Appointed on 27 April 2006

3. Appointed on 3 August 2005 and resigned on 4 November 2005

4. Resigned on 20 May 2005

5. Resigned on 4 November 2005

One of the directors waived his emoluments during the year and another director waived her emoluments for the year after receiving her emoluments for one month. Other than the foregoing, 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 2007 (2006: Nil).

9. 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:

	2007	2006
	HK$'000	HK$'000
Basic salaries, allowances and other benefits	**868**	837
Retirement benefits scheme contributions	**12**	11
	880	848

	2007	2006
Number of directors	**4**	3
Number of employees	**1**	2
	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:

	2007	2006
Nil – HK$1,000,000	**5**	5

10. INCOME TAX

a) Income tax in the consolidated income statement represents:

	Group	
	2007	2006
	HK$'000	HK$'000
Provision for the 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)
	–	(700)

The income tax for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2007	2006
	HK$'000	HK$'000
Loss before taxation	**(28,510)**	(13,299)
Calculated at a taxation rate of 17.5%	**(4,989)**	(2,327)
Tax losses not recognised	**–**	20
Income not subject to taxation	**(174)**	(1,178)
Expenses not deductible for taxation purposes	**5,204**	4,359
Utilisation of tax losses previously not recognised	**–**	(385)
Effect of tax exemption of the PRC subsidiary	**(79)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**21**	(43)
Tax effect of unrecognised temporary difference	**17**	113
Reversal of deferred tax provision for previous years	**–**	(1,259)
	–	(700)

No Hong Kong profits tax has been provided for in the financial statements as the group has no assessable profits for the year (2006: Nil).

10. INCOME TAX *(Continued)*

a) *(Continued)*

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.

Guangdong Photar Digital & Electronic Company Limited ("Guangdong Photar"), the subsidiary where the group's turnover is derived therefrom, was subject to the PRC enterprise income tax. As a wholly foreign-owned enterprise pursuant to the Income Tax Law of the PRC for Foreign Investment Enterprise and with the confirmation received from the 河源市國家稅務直屬稅務分局 on 24 August 2006, Guangdong Photar will be exempted from the PRC enterprise income tax for the two years starting from its first profit making year and thereafter (after offsetting the accumulated losses), and is entitled to a 50% relief for the subsequent three years. For the year ended 31 March 2007, Guangdong Photar was exempted from the PRC enterprise income tax.

b) Taxation in the consolidated balance sheet represents:

	Group		**Company**	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Provisional tax paid	**–**	–	**–**	–
Balance of provision relating to prior years	**–**	16	**3**	16
Tax recoverable	**5,824**	–	**–**	–
	5,824	16	**3**	16

11. LOSS FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss for the year attributable to equity holders of the company for the year dealt with in the financial statements of the company is net loss of HK$21,391,000 (2006: net loss of HK$12,398,000).

12. DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 March 2007 (2006: Nil).

13. LOSS PER SHARE

i) The calculation of basic loss per share for the year is based on the net loss attributable to equity holders of HK$28,510,000 (2006: net loss of HK$12,599,000) and the weighted average number of 631,270,575 (2006: 558,159,649) shares in issue during the year.

ii) No diluted earnings per share for the year ended 31 March 2007 has been presented because the company's share options did not have a dilutive effect during the year. The effect of convertible note is anti-dilutive and is not included in the calculation of diluted loss per share for the year ended 31 March 2007.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvement	Mould	Plant and machinery	Computers	Furniture, fixtures and equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	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 and 1 April 2006	332	9,713	11,563	235	665	260	22,768
Additions	130	216	910	–	219	–	1,475
Disposal	–	–	(8,455)	(181)	(179)	–	(8,815)
Exchange difference	–	409	130	–	18	11	568
At 31 March 2007	462	10,338	4,148	54	723	271	15,996
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 and 1 April 2006	55	468	1,873	175	201	4	2,776
Charge for the year	72	1,553	340	13	124	49	2,151
Disposal	–	–	(1,826)	(163)	(158)	–	(2,147)
Exchange difference	–	20	2	–	1	–	23
At 31 March 2007	127	2,041	389	25	168	53	2,803
Net book value							
At 31 March 2007	335	8,297	3,759	29	555	218	13,193
At 31 March 2006	277	9,245	9,690	60	464	256	19,992

15. INTERESTS IN SUBSIDIARIES

	Company 2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**2,066**	2,066
Amounts due from subsidiaries	**34,205**	18,958
	36,271	21,024

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable within one year.

Particulars of the company's subsidiaries as at 31 March 2007 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%	Dormant
Speedweight Technology Limited	The British Virgin Islands	US$1,000	–	100%	Dormant
Everyday Investments Limited	The British Virgin Islands	US$1,000	–	100%	Investment in listed securities
Photar International Holdings 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.

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2007	2006
	HK$'000	HK$'000
Share of net assets	**20,604**	19,339

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

Name	Business structure	Place of establishment and operations	Registered capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Photar Sagem Electronics Co. Ltd.	Corporate (Joint venture)	The PRC	RMB100,000,000	20% (2006: 30%)	–	20% (2006: 30%)	Sales of fax machines

The jointly controlled entity was incorporated on 28 December 2005. During the year, the group agreed to transfer 10% shareholding of Photar Sagem Electronics Co., Ltd. to the joint venture partner as the group intended not to pay the remaining investment cost based on the joint venture agreement.

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

	2007	28/12/2005 to 31/3/2006
	HK$'000	HK$'000
Non-current assets	**23,262**	18,833
Current assets	**120,165**	65,516
Current liabilities	**(38,305)**	(19,885)
Net assets	**105,122**	64,464
Income	**183,041**	39,464
Expenses	**(180,146)**	(38,108)
Profit for the year/period	**2,895**	1,356

17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
	HK$'000	HK$'000
Listed securities – Hong Kong	**245**	–
Held for trading	**245**	–

Changes in fair values of financial assets at fair value through profit or loss are recorded in the income statement.

18. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**5,835**	87
Work-in-progress	**–**	209
Finished goods	**1,840**	–
	7,675	296

At 31 March 2006 and 31 March 2007, no inventories were carried at net realisable value.

19. TRADE RECEIVABLES

The aging of the group's trade receivables is analysed as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Outstanding balances with ages		
Within 30 days	**14,867**	8,199
31 – 60 days	**–**	1,903
61 – 90 days	**–**	1,062
91 – 365 days	**265**	104
	15,132	11,268

20. AMOUNT DUE FROM A RELATED COMPANY/A JOINTLY CONTROLLED ENTITY

The amount due is unsecured, interest free and has no fixed terms of repayment. The maximum outstanding due from a related company and a jointly controlled entity is HK$6,535,000 and HK$65,000 during the year respectively.

21. CASH AND CASH EQUIVALENTS

	Group	
	2007	2006
	HK$'000	HK$'000
Cash at bank and in hand	**8,624**	3,346

The directors consider the carrying value of the amount at the balance sheet date approximates to the fair value.

Included in the cash and cash equivalents are the following amounts denominated in currencies other than functional currency of the entity to which they relate:

	Group	
	2007	2006
	'000	'000
United States Dollars ("USD")	**USD120**	USD28
Renminbi ("RMB")	**RMB7,614**	RMB2,474

22. TRADE PAYABLES

The aging of the group's trade payables is analysed as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Outstanding balances with ages		
Within 30 days	**2,867**	6,603
31 – 60 days	**3,939**	–
61 – 90 days	**4,111**	29
Over 90 days	**6,057**	1,369
	16,974	8,001

23. AMOUNT DUE TO A JOINTLY CONTROLLED ENTITY

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

24. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, non-interest bearing and has no fixed terms of repayment during the year. In last year, the amount will not demand repayment within the next twelve months.

25. SECURED BANK LOANS

	Group	
	2007	2006
	HK$'000	HK$'000
Principal outstanding	**25,293**	–
Less: Amounts repayable within one year (shown under current liabilities)	**(25,293)**	–
Amounts repayable after one year but within five years (shown under non-current liabilities)	**–**	–

The loans bear interest range from 5.85% to 6.12% and secured by personal guarantee from one of the directors, investment cost in a jointly controlled entity by the group and the land use rights from a related company.

26. CONVERTIBLE NOTE

On 7 June 2006, the company issued convertible note with a face value of HK$20,000,000 to a third party at a consideration of HK$17,000,000. The principal terms of the convertible note are as follows:

a) Maturity date 2 years from date of issue;

b) Bear no interest; and

c) The note can be converted from the date of issue and up to the business day immediately prior to the date of maturity in whole or in partial into common shares of the company at a conversion price of HK$0.46 per share.

The fair values of the liability component and the embedded derivatives were determined by an independent professional valuer, Asset Appraisal Limited.

The initial fair value of the liability component of the convertible note represents the discounted future cash flows calculated using market interest rates for an equivalent non-convertible bond upon issuance. The liability component is subsequently carried at amortised cost. The fair values of the embedded derivatives are calculated using the Binomial Option Pricing Model.

Inputs into the Binominal Option Pricing Model are as follows:

	7 June 2006	**31 March 2007**
Exercise price	0.46	**0.46**
Risk-free rate of interest	4.378%	**3.760%**
Dividend yield	0%	**0%**
Time to expiration	2 years	**1.19 years**
Volatility	104	**74.42**

The movements of the liability component and embedded derivatives of the convertible note for the year is set out below:

	Liability component HK'000	**conversion option** HK'000	**Noteholder redemption option** HK'000	**Issuer redemption option** HK'000	**Fair value adjustment** HK'000	**Total** HK'000
Convertible note issued on 7 June 2006	13,510	7,732	–	–	(4,242)	17,000
Issuing expenses	(96)	(54)	–	–	–	(150)
Interest payable during the year	2,333	–	–	–	–	2,333
Changes in fair value	–	(7,233)	–	–	4,242	(2,991)
At 31 March 2007	15,747	445	–	–	–	16,192

27. DEFERRED TAXATION

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

	Group	
	2007	2006
	HK$'000	HK$'000
At beginning of year	**–**	1,259
Credit to income statement for the year due to reversal of provision in the previous years	**–**	(1,259)
At end of year	**–**	–

At 31 March 2007, the group had tax losses arising in Hong Kong of approximately HK$11,838,000 (2006:HK$11,838,000) which may be carried forward indefinitely. The group has not recognised deferred tax assets in respect of tax loss due to the unpredictability of the future profit stream.

28. SHARE CAPITAL

	2007		2006	
	No. of shares '000	**HK$'000**	No. of shares '000	HK$'000
Authorised				
Ordinary share of HK$0.01 each	**10,000,000**	**100,000**	10,000,000	100,000
Issued and fully paid				
At beginning of year	**587,456**	**5,875**	520,000	5,200
Placing of new shares *(note 1)*	**–**	**–**	50,568	506
Placing of new shares *(note 2)*	**–**	**–**	16,888	169
Issue of shares *(note 3)*	**49,976**	**499**	–	–
At end of year	**637,432**	**6,374**	587,456	5,875

Note 1: The company issued 50,568,000 ordinary shares of HK$0.01 each on 23 August 2005.

Note 2: The company issued 16,888,000 ordinary shares of HK$0.01 each on 20 October 2005.

Note 3: The company issued 49,976,000 ordinary shares of HK$0.01 each on 16 May 2006.

29. 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.

30. RESERVES

Group

	Share premium HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2005	17,816	–	(9,378)	8,438
Placing of new shares	9,608	–	–	9,608
Placing of new shares	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 and 1 April 2006	34,854	477	(21,977)	13,354
Issue of shares	19,491	–	–	19,491
Issuing expenses	(120)	–	–	(120)
Exchange difference arising from translation of financial statements	–	1,896	–	1,896
Loss for the year	–	–	(28,510)	(28,510)
At 31 March 2007	54,225	2,373	(50,487)	6,111

Company

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2005	15,874	(5,159)	10,715
Placing of new shares	9,608	–	9,608
Placing of new shares	7,430	–	7,430
Loss for the year	–	(12,398)	(12,398)
At 31 March 2006 and 1 April 2006	32,912	(17,557)	15,355
Issue of shares	19,491	–	19,491
Issuing expenses	(120)	–	(120)
Loss for the year	–	(21,391)	(21,391)
At 31 March 2007	52,283	(38,948)	13,335

At 31 March 2007, the aggregate amount of reserves available for distribution to equity holders of the company was approximately HK$13,335,000 (2006: HK$15,355,000).

31. OPERATING LEASE ARRANGEMENTS

As lessee

The group leases certain of its office properties and director's 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	
	2007	2006
	HK$'000	HK$'000
Within one year	**1,063**	1,033
In the second to fifth years, inclusive	**605**	993
	1,668	2,026

32. CAPITAL COMMITMENTS

i) During the year, the group entered into agreements with a supplier, whereby the group agreed to purchase a certain amount of cell phones from the supplier. Commitment payable amounted to approximately HK$14,089,000 as at 31 March 2007. (2006: HK$nil).

ii) On 17 March 2007, the group entered into an agreement with a third party to purchase the machinery. Commitment payable amounted to approximately HK$212,000 as at 31 March 2007 (2006: HK$nil).

iii) As at 31 March 2007, the group has capital commitment of HK$505,860 (equivalent to RMB500,000) for the remaining balance of investment cost in a jointly controlled entity.

33. 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:

	2007	2006
	HK$'000	HK$'000
Rental expenses paid to Guangdong Photar High Technology Co., Ltd. ("Photar High Tech") *(note)*	**237**	173
Transfer of inventory to a jointly controlled entity	**–**	12,269

Note: There is a common shareholder in the company and Photar High Tech.

b) Related party transactions included in the balance sheet:

	2007	2006
	HK$'000	HK$'000
Amount due from Photar High Tech	**6,535**	–
Amount due to a director	**11,260**	28,149
Amount due from/(to) a jointly controlled entity	**65**	(298)

c) Compensation of key management personnel of the Group

	2007	2006
	HK$'000	HK$'000
Salaries, allowances and other benefits	**535**	591

Note: Further details of pension scheme contribution and directors' emoluments are included in note 9 to the financial statements.

d) Provision of personal guarantee by a director

For the year ended 31 March 2007, the bank loans of the group were secured by the personal guarantee provided by a director, Mr. Chen Jijin.

e) Provision of guarantee from a related company

For the year ended 31 March 2007, the bank loans of the group were secured by land use right provided by Photar High Tech.

34. NON-CASH TRANSACTION

The group entered into consultancy agreements with two sales agent coordinators for a term of two years in relation to the establishment of certain points-of-sale in the PRC. During the year, the company issued 49,976,000 shares at HK$0.4 per share to these two sales agent coordinators for paying the success fee for the services provided by the sales agent coordinators. The total consideration of HK$19,990,400 was recognised in the income statement during the year. So, the shares issued is a non-cash transaction.

35. SUBSEQUENT EVENTS

i) The company has entered into the subscription agreement with Emcom Limited ("Emcom") and Smart Step Limited ("Smart Step") on 4 June 2007 in relation to the subscription of a total of 1,800 million subscription shares at a subscription price of HK$0.017 per subscription share.

The aggregate consideration for the subscription shares is HK$30.6 million and will be paid in cash by the subscribers upon completion. Upon completion, Emcon and Smart Step will be interested in 1,620 million and 180 million shares respectively, representing approximately 66.46% and 7.39% of the share capital of the company as enlarged by the subscription respectively, resulting in a change of control of the company.

Upon completion, the company shall apply HK$8 million of the proceeds from the subscription for repayment of the director's loan and upon which the director shall duly execute a deed of release in favour of the company for full discharge of the director's loan. The proceeds from the subscription will also be used for redemption of the convertible note after completion.

ii) It is proposed that the name of company will be changed to reflect the change in controlling shareholder of the company. A new name of the company has not been decided yet.

iii) Subsequent to the balance sheet date, the group entered into agreements with a supplier, whereby the group agreed to purchase cell phones amounting to approximately HK$41,676,000 from the supplier.

36. 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.

37. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's 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				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Turnover	**63,072**	64,147	34,526	78,470	42,039
(Loss)/profit before taxation	**(28,510)**	(13,299)	(11,384)	2,943	3,092
Income tax	**–**	700	(233)	(956)	(206)
(Loss)/profit attributable to shareholders	**(28,510)**	(12,599)	(11,617)	1,987	2,886
(Loss)/earnings per share Basic	**(4.52) cents**	(2.26) cents	(2.23) cent	0.38 cent	0.61 cent

	At 31 March				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Asset and liabilities					
Total assets	**83,871**	56,564	19,073	30,203	40,325
Total liabilities	**(71,386)**	(37,335)	(5,435)	(3,548)	(17,057)
Shareholders' funds	**12,485**	19,229	13,638	26,655	23,268