



Photar

CHINA PHOTAR ELECTRONICS GROUP LIMITED

中國豐達電子集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8220)

First Quarterly Report

2007

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

Financial Results

The board of directors (the “Board”) of the Company announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 30 June 2007, together with the unaudited comparative figures for the corresponding period in 2006 as follows:

Condensed Consolidated Income Statement

	Notes	Three months ended 30 June	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Turnover	2	66,356	88
Cost of sales		(68,256)	(79)
Gross (loss)/profit		(1,900)	9
Other revenues		532	68
Administrative expenses		(1,320)	(712)
Operating loss		(2,688)	(635)
Finance costs		(403)	–
Share of profit of a jointly controlled entity		92	657
(Loss)/profit before taxation		(2,999)	22
Income tax	3	–	–
Net (loss)/profit attributable to equity shareholders of the Company		(2,999)	22
Dividend	4	–	–
(Loss)/earning per share	5		
– Basic (cent)		(0.4705)	0.0039
– Diluted (cent)		N/A	N/A

Notes:

1. Basis of Preparation

The unaudited condensed consolidated results for the three months ended 30 June 2007 (the "Period") have been prepared in accordance with Hong Kong Financial Report Standards ("HKFRSs") (which also including Hong Kong Accounting Standards ("HKASs") and Interpretations), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosures requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "GEM Listing Rules").

The unaudited condensed consolidated results have been prepared under the historical cost convention, except for the available-for-sale financial assets that have been measured at fair value. The principal accounting policies and method of computations used in the preparation of the unaudited condensed consolidated results are consistent with those used in the preparation of the Group's financial statements for the year ended 31 March 2007.

In particular, the Group's share of the post acquisition results and reserves of a jointly controlled entity is included in the unaudited condensed consolidated income statement and consolidated reserves, respectively. Comparative figures have been reclassified to conform with current period's presentation.

The Group has adopted the following standards that have been issued and effective for the period beginning on or after 1 January 2007. The adoption of such standards did not have material effect on these financial statements.

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

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

2. Turnover

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

	Three months ended	
	30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover		
Thermal sensitive telefacsimiles machines ("Fax machines")	–	88
Digital versatile disc players ("DVD players")	3,167	–
Cell phones	62,932	–
Others	257	–
	<hr/>	<hr/>
	66,356	88
	<hr/>	<hr/>

3. Taxation

No provision for Hong Kong Profits Tax has been made as the Group had no estimated assessable profit for the three months ended 30 June 2007 (three months ended 30 June 2006: Nil).

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

4. Dividends

The directors do not recommend the payment of a dividend for the three months ended 30 June 2007 (three months ended 30 June 2006: Nil).

5. (Loss)/Earning per Share

The calculation of basic (loss)/earning per share for the three months ended 30 June 2007 are based on the consolidated net loss attributable to equity shareholders for the three months ended 30 June 2007 of approximately HK\$2,999,000 (unaudited consolidated net profit attributable to equity shareholders for three months ended 30 June 2006: HK\$22,000) and on the weighted average number of 637,432,000 shares in issue during the three months ended 30 June 2007 (three months ended 30 June 2006: 569,047,509 ordinary shares in issue).

No diluted earning per share for the three months ended 30 June 2007 has been presented because the Company's share options did not have a dilutive effect during the period. The effect of convertible note is anti-dilutive and is not included in the calculation of diluted loss per share for the three months ended 30 June 2007.

6. Reserves

	Share premium (unaudited) <i>HK\$'000</i>	Exchange reserve (unaudited) <i>HK\$'000</i>	Accumulated loss (unaudited) <i>HK\$'000</i>	Total (unaudited) <i>HK\$'000</i>
At 1 April 2006	34,854	477	(21,977)	13,354
Placing of new shares of HK\$0.01 each completed on 16 May 2006	19,491	–	–	19,491
Exchange difference arising from translation of financial statements	–	93	–	93
Net profit for the period	–	–	22	22
At 30 June 2006	<u>54,345</u>	<u>570</u>	<u>(21,955)</u>	<u>32,960</u>
At 1 April 2007	54,225	2,373	(50,487)	6,111
Exchange difference arising from translation of financial statements	–	290	–	290
Net loss for the period	–	–	(2,999)	(2,999)
At 30 June 2007	<u>54,225</u>	<u>2,663</u>	<u>(53,486)</u>	<u>3,402</u>

Management Discussion And Analysis

General

The Group is principally engaged in, among other things, the manufacturing and sale of electronics consumer products including electronic telecommunication, office automation and network products.

Financial review

During the three months ended 30 June 2007, the Group recorded a turnover of approximately HK\$66,356,000. During the corresponding period in 2006, the Group recorded a turnover of approximately HK\$88,000.

For the three months ended 30 June 2007, the Group recorded gross loss of approximately HK\$1,900,000. Gross profit of approximately HK\$9,000 was recorded in the corresponding period in 2006.

Net loss attributable to equity shareholders of the Group for the three months ended 30 June 2007 was approximately HK\$2,999,000 while net profit attributable to equity shareholders of the corresponding period in 2006 was approximately HK\$22,000.

Operation Review and Prospects

During the period under review, the Group successfully expanded the business into cell phones whereas its contribution to turnover exceeded that of DVD players. Due to the fierce competition from the market, the new product segment had not yet yielded satisfactory results to the Group. The business of Photar Sagem Electronics Company Limited, the joint venture company established at the beginning of 2006, continued to provide contribution to the Group.

On 31 July 2007, the subscription of shares by Emcom Limited ("Emcom") as disclosed in the 2007 annual report of the Company has been completed. After taken over by Emcom, the Group is in healthier financial position and broader base of business lines and distribution system.

Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 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 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 herein; or which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange:

- (a) Directors' Interests and Short Positions in the Securities of the Company and Its Associated Corporations

Name of director	Nature of interest	No. of Shares held	Position	Approximate percentage of issued share capital
Chen Jijin ^{Note}	Corporate	346,700,000	Long	54.39%

Note:

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

Save as disclosed above, as at 30 June 2007, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which 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 known to the Directors, as at 30 June 2007, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short 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 and 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 30 June 2007, the Directors are not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings any member of the Company.

Share Options Scheme

Pursuant to the written resolutions of the sole shareholder of the Company passed on 19 October 2002, the Company adopted a share option scheme (the "Scheme") under which share options to subscribe for the shares of the Company may be granted under the terms and conditions stipulated therein. As at 30 June 2007, no share option had been granted or agreed to be granted by the Company under the Scheme.

Directors' and Employees' Rights to Acquire Shares or Debentures

Apart from as disclosed under the heading "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES" above and save for the share options that may be granted under the Scheme, none of the Directors or employees of the Group or their associates were granted by the Company or its subsidiaries the rights to acquire shares or debentures of the Company or any other body corporate, or had exercised any such rights as at 30 June 2007.

Competing Interest

Pursuant to Rule 19.64(9) and Rule 11.04 of the GEM Listing Rules, as at 30 June 2007, the following director of the Company is considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group:

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

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

Save as disclosed herein, none of the Directors, the management shareholders or the substantial shareholders of the Company, or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group or has any other conflict of interest with the Group.

Related Party Transactions

For the three months ended 30 June 2007, the Group paid rental expenses in the amount of approximately HK\$61,000 to a company controlled by a director of the Company included in the income statement (three months ended 30 June 2006: HK\$58,000).

Purchase, Sale or Redemption of Shares

For the period ended 30 June 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

Audit Committee

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

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 Rule 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the three months ended 30 June 2007.

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

Hong Kong, 9 August 2007

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