

2007
Interim Report



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)

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

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

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

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

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

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

FINANCIAL RESULTS

The board of directors (the "Board") of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the "Group") for the three and six months ended 30 September 2007 ("Condensed Financial Statements"), together with the unaudited comparative figures for the corresponding period in 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 September		Three months ended 30 September	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Turnover	2	78,954	14,499	12,598	14,411
Cost of sales		(80,516)	(13,009)	(12,260)	(12,930)
Gross (loss)/profit		(1,562)	1,490	338	1,481
Other revenues		3,254	143	2,722	75
Selling and distribution expenses		(169)	–	(169)	–
Administrative expenses		(7,497)	(6,354)	(6,177)	(5,642)
Operating loss		(5,974)	(4,721)	(3,286)	(4,086)
Finance costs		(817)	(375)	(414)	(375)
Share of profit of a jointly controlled entity		152	1,149	60	492
Loss before taxation	3	(6,639)	(3,947)	(3,640)	(3,969)
Income tax	4	527	–	527	–
Net loss attributable to equity shareholders of the Company		(6,112)	(3,947)	(3,113)	(3,969)
Dividend	5	–	–	–	–
Loss per share	6				
– Basic (cent)		(0.4900)	(0.6314)	(0.1682)	(0.6227)
– Diluted (cent)		N/A	N/A	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 September 2007 (Unaudited) HK\$'000	As at 31 March 2007 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment		12,403	13,193
Investment in a jointly controlled entity		20,893	20,604
		33,296	33,797
CURRENT ASSETS			
Financial assets at fair value through profit or loss		245	245
Inventory		8,932	7,675
Trade receivables	7	4,940	15,132
Other receivables, deposits and prepayments		40,308	12,509
Amount due from a jointly controlled entity		169	65
Tax recoverable		391	5,824
Cash and bank balances		23,794	8,624
		78,779	50,074
CURRENT LIABILITIES			
Trade payables	8	6,580	16,974
Other payables and accruals		53,493	1,667
Amount due to a shareholder		14,704	–
Amount due to a former director		–	11,260
Secured bank loans		–	25,293
Embedded financial derivatives		–	445
		74,777	55,639
NET CURRENT ASSETS/(LIABILITIES)		4,002	(5,565)
TOTAL ASSETS LESS CURRENT LIABILITIES		37,298	28,232
NON-CURRENT LIABILITIES			
Convertible note payables		–	15,747
NET ASSETS		37,298	12,485
CAPITAL AND RESERVES			
Share capital	9	24,374	6,374
Reserves		12,924	6,111
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		37,298	12,485

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 September 2007 (Unaudited) HK\$'000	Six months ended 30 September 2006 (Unaudited) HK\$'000
Net cash generated from/(used in) operating activities	28,502	(36,344)
Net cash used in investing activities	(91)	(1,044)
Net cash (used in)/generated from financing activities	(13,093)	35,852
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	15,318	(1,536)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,624	3,346
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(148)	356
CASH AND CASH EQUIVALENTS AT END OF PERIOD	23,794	2,166
ANALYSIS OF BALANCE OF CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	23,794	2,166

CONSOLIDATED STATEMENT OF CHANGE OF EQUITY

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Accumulated Losses (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 April 2006	5,875	34,854	477	(21,977)	19,229
Placing of new shares of HK\$0.01 each completed on 16 May 2006	499	19,491	–	–	19,990
Exchange difference arising from translation of financial statements	–	–	(3)	–	(3)
Net loss for the period	–	–	–	(3,947)	(3,947)
At 30 September 2006	6,374	54,345	474	(25,924)	35,269
At 1 April 2007	6,374	54,225	2,373	(50,487)	12,485
Issue of new shares of HK\$0.01 each completed on 31 July 2007	18,000	12,600	–	–	30,600
Exchange difference arising from translation of financial statements	–	–	325	–	325
Net loss for the period	–	–	–	(6,112)	(6,112)
At 30 September 2007	24,374	66,825	2,698	(56,599)	37,298

NOTES:

1. Basis of presentation

The unaudited condensed consolidated results for the six months ended 30 September 2007 (the "Period") have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations), issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the 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 "Stock Exchange") (the "GEM Listing Rules").

The unaudited condensed consolidated results have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss 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 periods 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 interim results has not been audited by the Company's auditors but has been reviewed by the Company's Audit Committee.

2. Turnover and segment information

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

During the period under review, the Group is currently organised mainly into the following business segments – mobile phones ("Mobile Phones") product segment and digital versatile disc players ("DVD players") product segment. These divisions are the basis on which the Group reports its primary segment information. During the corresponding period last year, the Group was also engaged in Home Theatre Systems ("HTS") product segment.

(a) *Business segments*

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

For the six months ended 30 September

	Mobile phones		DVD players		HTS		Others		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover:										
External sales	72,887	–	5,017	9,997	–	4,021	1,050	481	78,954	14,499
Segment results	1,030	–	(2,697)	911	–	378	105	90	(1,562)	1,379
Other income									3,254	143
Net unallocated expenses									(7,666)	(6,243)
Loss from operations									(5,974)	(4,721)
Finance costs									(817)	(375)
Share of profit of a jointly controlled entity									152	1,149
Loss before taxation									(6,639)	(3,947)
Income Tax									527	–
Net loss attributable to equity shareholders of the Company									(6,112)	(3,947)
As at 30 September										
ASSETS										
Segment assets	84,868	–	5,841	18,311	–	7,430	1,223	796	91,932	26,537
Unallocated assets									20,143	58,441
Total assets									112,075	84,978
LIABILITIES										
Segment liabilities	53,281	–	3,667	2,750	–	1,116	768	120	57,716	3,986
Unallocated liabilities									17,061	45,723
Total liabilities									74,777	49,709
Other segment information:										
Unallocated depreciation									112	–

(b) *Geographical segments*

In determining the Group's geographical segments, revenue is attributable to segments based on the location of customers and assets are attributable to segments based on the location of the assets.

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

For the six months ended 30 September

	TURNOVER		OTHER SEGMENT INFORMATION	
	External sales		Segment assets	
	2007	2006	2007	2006
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The People's Republic of China ("PRC") (including Hong Kong)	70,420	7,099	112,075	84,978
Russia	4,225	—	—	—
USA	3,934	1,226	—	—
Mauritius	260	—	—	—
Japan	115	1,529	—	—
Sweden	—	1,158	—	—
Canada	—	806	—	—
Portugal	—	736	—	—
Switzerland	—	723	—	—
Ireland	—	583	—	—
Argentina	—	639	—	—
Consolidated	78,954	14,499	112,075	84,978

3. Loss before taxation

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

	For the six months ended 30 September		For the three months ended 30 September	
	2007	2006	2007	2006
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Interest on convertible note	–	375	–	375
Depreciation	1,368	456	747	–

4. Income Tax

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

The taxation in the condensed consolidated income statement represents the tax refund to a PRC subsidiary of the Company during the period under review.

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

5. Dividends

The Directors do not recommend the payment of a dividend for the six months ended 30 September 2007 (six months ended 30 September 2006: Nil).

6. Loss per share

The calculations of basic loss per share for the three months and six months ended 30 September 2007 are based on the consolidated net loss attributable to equity shareholders of the Company for the three months and six months ended 30 September 2007 of approximately HK\$3,113,000 and HK\$6,112,000 respectively (unaudited consolidated net loss attributable to equity shareholders of the Company for three months and six months ended 30 September 2006: HK\$3,969,000 and HK\$3,947,000 respectively) and on the weighted average number of 1,850,475,478 ordinary shares and 1,247,268,066 ordinary shares in issue during the three months and six months ended 30 September 2007 (three months and six months ended 30 September 2006: 637,432,000 ordinary shares and 625,142,820 ordinary shares in issue respectively).

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

7. Trade receivables

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

An aged analysis of trade receivables is as follows:

	As at 30 September 2007 (Unaudited) HK\$'000	As at 31 March 2007 (Audited) HK\$'000
Within 30 days	–	14,867
Over 90 days	4,940	265
	4,940	15,132

8. Trade payables

An aged analysis of trade payables is as follows:

	As at 30 September 2007 (Unaudited) HK\$'000	As at 31 March 2007 (Audited) HK\$'000
Within 30 days	1,013	2,867
31-60 days	815	3,939
61-90 days	3,063	4,111
Over 90 days	1,689	6,057
	6,580	16,974

9. Share Capital

	As at 30 September 2007 (Unaudited)		As at 31 March 2007 (Audited)	
	Number of Shares	Amount HK\$'000	Number of Shares	Amount HK\$'000
Authorised:				
Shares of HK\$0.01 each	10,000,000,000	100,000	10,000,000,000	100,000
Issued and fully paid:				
Shares of HK\$0.01 each	2,437,432,000	24,374	637,432,000	6,374

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 equipment and networks products. It is the objective of the Group to be a leading and major developer, producer and distributor worldwide by development, production and distribution of all kinds of high quality electronic telecommunication, office automation and network products adapted to the needs of the market, through combining the marketing experience and well-developed network of the Group in China and cooperation with international enterprises which are independent third parties.

Financial review

During the six months ended 30 September 2007 the Group recorded a turnover of approximately HK\$78,954,000, an increase of approximately 4.4 times as compared to the corresponding period in 2006.

Net loss attributable to equity shareholders of the Company for the six months ended 30 September 2007 was approximately HK\$6,112,000 while net loss for the corresponding period in 2006 was approximately HK\$3,947,000.

Liquidity, financial resources and capital structure

As at 30 September 2007, the Group had total assets of approximately HK\$112,075,000 (31 March 2007: approximately HK\$83,871,000), including cash and bank balances of approximately HK\$23,794,000 (31 March 2007: approximately HK\$8,624,000). There was no pledged bank deposit as at 30 September 2007 (31 March 2007: Nil).

During the six months ended 30 September 2007, the Group financed its operations mainly with its own working capital, advance from a shareholder and proceeds from placement of new shares of the Company completed in July 2007. During the same period, funds had been applied to redeem the convertible bond and repay a loan from a former director. As at 30 September 2007, there was no bank overdraft (31 March 2007: Nil) and there was no charge on the Group's assets (31 March 2007: Nil).

As at 30 September 2007, the debt ratio (defined as the ratio between total liabilities over total assets) was approximately 0.67 (31 March 2007: approximately 0.85).

The shares of the Company were listed on GEM on 12 November 2002. During the six months ended 30 September 2007, the Company had issued 1,800,000,000 new shares in the placement completed on 31 July 2007. A change in controlling shareholder of the Company is resulted following the placement.

The Group's transactions during the six months ended 30 September 2007 were mainly denominated in Renminbi, HK Dollars and US Dollars. The Renminbi income received from sales in PRC was fully applied to working capital need of the Group in PRC.

Segment information

Sales of the Group comprise mainly sales of two major product lines of the Group, which are Mobile Phones and DVD players. During the six months ended 30 September 2007, sales of Mobile Phones and DVD players represent approximately 92% and 6% respectively of the Group's turnover (for the six months ended 30 September 2006: Mobile Phones: 0%, DVD players: 69%).

During the six months ended 30 September 2007, the Group's products were sold to the markets in PRC (including Hong Kong), Russia, USA, Mauritius and Japan. During the corresponding period in previous year, the Group's products were sold to widespread markets with majority in PRC (including Hong Kong), USA, Japan and Sweden.

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

Contingent liabilities

As at 30 September 2007, the Group had no contingent liabilities (31 March 2007: Nil).

Operating lease commitments

As at 30 September 2007, the commitments under non-cancellable operating lease in respect of premises are approximately HK\$1,199,000 (31 March 2007: approximately HK\$1,668,000) and represented as follows:

	As at 30 September 2007 (Unaudited) HK\$'000	As at 31 March 2007 (Audited) HK\$'000
Within one year	764	1,063
In the second to fifth year, inclusive	435	605
Total operating lease commitments	1,199	1,668

Operation review and prospects

During the six months ended 30 September 2007, the Group successfully expanded the business into mobile phones whereas its contribution substantially exceeded that from other product segments. Due to the fierce competition in the market, the new product segment had not yet yielded satisfactory results to the Group. The joint venture company established at the beginning of 2006 which is engaged in the manufacturing of office automation equipment continued to provide marginally positive returns to the Group. Details of the business and geographical segments are disclosed in Note 2 "Turnover and segment information" under the section headed "Financial Results" of this report.

On 30 September 2007, the Company entered into a joint venture agreement with Color City Enterprise Co., Ltd., an independent third party (the "JV Partner"). Pursuant to the joint venture agreement, the joint venture company shall be incorporated in Hong Kong to develop, market and deploy and deliver the T2Free platform and its related services. The joint venture company will be owned as to 70% by the Company and 30% by the JV Partner upon formation. The Company shall contribute up to the sum of US\$1,000,000 (equivalent to approximately HK\$7,800,000) (including the registered capital contributed by both parties of HK\$100,000) in the form of loan financing for the working capital of the joint venture. As at the date of this report, the joint venture company has been incorporated.

During the period under review, the Company set up a wholly-owned subsidiary, EmCall Pte Limited ("EmCall") to spearhead the marketing of telecommunications services to various market segments covering South East Asia, Taiwan and Hong Kong. EmCall will utilize the T2Free Platform (as mentioned above the paragraph), as well as its own platforms to deliver the products and services to its market. The focus of EmCall is to provide a combination of VoIP (Voice over Internet Protocol), fixed-line and mobile communication solutions to our customers at a reasonable price. The dynamics of the market place is expected to be fluid in the next few months and the management is confident with the business environment. EmCall expect to provide positive contribution to the Group's results shortly.

On 2 October 2007, following the approval obtained in the extraordinary general meeting, the Company's name was changed to "Emcom International Limited" to reflect the change in controlling shareholders of the Company. The Company shall utilise the expertise and networks of the new controlling shareholders to expand into the telecommunication related businesses.

On 11 October 2007, the Company and Sunshine Empire Pte Limited, an independent third party (the "Subscriber"), entered into a subscription agreement whereby the Subscriber agreed to subscribe for convertible bond in the principal amount of US\$8,000,000 (or approximately HK\$62,400,000). The net proceeds from the issue of the convertible bond will be used as investment and general working capital. The subscription has been completed on 31 October 2007. The Directors of the Company consider that the issue of the convertible bond may provide the Company with funding without immediate dilution of the shareholding of the shareholders of the Company. In addition, the Directors of the Company believe that the issue of the convertible bond provides an opportunity for the Company to enlarge its capital base (if the bondholder converts its right).

In the near future, a number of subsidiaries shall be formed to tap the telecommunication market in Taipei, Shenzhen and Shanghai. Given the relatively more advance in technology and the ever-increasing demands in these major cities, the Directors of the Company believe that there are still plenty of potentials in these markets.

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

As at 30 September 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 the Directors to be notified to the Company and the Stock Exchange:

(a) Director's interests and short positions in the securities of the Company and its associated corporations

Name of Director	Nature of interest	No. of Shares held	Position	Approximate percentage of issued share capital
Mr. Yong Wai Hong ^{Note 1}	Controlled corporate	1,826,132,000	Long	74.92%
Mr. Lee Pin Yeow ^{Note 2}	Controlled corporate	1,826,132,000	Long	74.92%
Mr. Lam Kwok Ho ^{Note 3}	Beneficial owner	16,000	Long	0.00%

Note:

- (1) Mr. Yong Wai Hong is deemed to be interested in 1,826,132,000 shares through its beneficial interest in 15% of the entire issued share capital of Emcom Limited. Emcom Limited is a concert party with Smart Step Holdings Limited, Jolly King Limited and Modern China Holdings Limited under section 317(a) of the SFO.
- (2) Mr. Lee Pin Yeow is deemed to be interested in 1,826,132,000 shares through its beneficial interest in 10% of the entire issued share capital of Emcom Limited. Emcom Limited is a concert party with Smart Step Holdings Limited, Jolly King Limited and Modern China Holdings Limited under section 317(a) of the SFO.
- (3) Mr. Lam Kwok Ho is an independent non-executive director of the Company.

Save as disclosed above, as at 30 September 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 they were taken or deemed to have under such provisions of the SFO); or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

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

So far as is known to the Directors, as at 30 September 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
Emcom Limited ^{Note 1}	1,826,132,000	Long	74.92%
Smart Step Holdings Limited ^{Note 2}	1,826,132,000	Long	74.92%
Mr. Lim Yi Shenn ^{Note 2}	1,826,132,000	Long	74.92%
Jolly King Limited ^{Note 3}	1,826,132,000	Long	74.92%
Mr. Phang Wah ^{Note 3}	1,826,132,000	Long	74.92%
Modern China Holdings Limited ^{Note 4}	151,700,000	Long	6.22%

Notes:

- (1) The issued share capital of Emcom Limited is beneficially owned as to 75% by Mr. Phang Wah, 15% by Mr. Yong Wai Hong and 10% by Mr. Lee Pin Yeow. Both Mr. Yong Wai Hong and Mr. Lee Pin Yeow are an executive directors of the Company. Emcom Limited is a concert party with Smart Step Holdings Limited, Jolly King Limited and Modern China Holdings Limited under section 317(a) of the SFO. Therefore, Emcom Limited is deemed to be interested in 1,826,132,000 shares.
- (2) Smart Step Holdings Limited is a concert party with Emcom Limited, Jolly King Limited and Modern China Holdings Limited under section 317(a) of the SFO. Therefore, Smart Step Holdings Limited is deemed to be interested in 1,826,132,000 shares.
- (3) Jolly King Limited holds 75% interest in Emcom Limited and is therefore entitled to exercise or control the exercise of one-third or more of the voting power of Emcom Limited. The entire issued share capital of Jolly King Limited is held by Mr. Phang Wah. By virtue of the SFO, Jolly King Limited and Mr. Phang Wah are deemed to be interested in 1,826,132,000 shares.
- (4) Modern China Holdings Limited is wholly and beneficially owned by Mr. Chen Jijin who was formerly the Chairman and an executive director of the Company.

Save as disclosed above, as at the 30 September 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 positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the sole shareholder of the Company passed on 19 October 2002, the Company adopted a share option scheme (the "Scheme") under which share options to subscribe for the shares of the Company may be granted under the terms and conditions stipulated therein. As at 30 September 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 respective associates were granted by the Company or its subsidiaries the rights to acquire shares or debentures of the Company or any other body corporate, or had exercised any such rights as at 30 September 2007.

COMPETING INTEREST

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

RELATED PARTY TRANSACTIONS

For the six months ended 30 September 2007, the Group paid rental expenses in the amount of approximately HK\$104,000 to a company controlled by a former director of the Company included in the income statement (six months ended 30 September 2006: HK\$116,000).

PURCHASE, SALE OR REDEMPTION OF SHARES

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

CORPORATE GOVERNANCE

Save and except the following deviations from the code provisions (except code provision C.2 on internal control and the relevant disclosure requirements of which the implementation date is for accounting period commencing on or after 1 July 2005) set out in the Code on Corporate Governance Practices as contained in Appendix 15 to the GEM Listing Rules (the "CCGP"), the Company had, during the period ended 30 September 2007, 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. Yong Wai Hong 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 period ended 30 September 2007.

AUDIT COMMITTEE

The Company established its audit committee (the "Committee") on 19 October 2002 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Committee are to review and supervise the financial reporting process and internal control system of the Group. The Committee comprises three independent non-executive Directors, namely, Mr. Chan Cheong Yee, Mr. Lam Kwok Ho and Ms. Tsang Fung Chu. The Group's unaudited results for the six months ended 30 September 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 Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, all Directors have complied with the required standard of dealings and the code of conduct regarding securities transactions by Directors adopted by the Company throughout the six months ended 30 September 2007.

By Order of the Board
China Photar Electronics Group Limited
Yong Wai Hong
Chairman and Chief Executive Officer

Hong Kong, 6 November 2007

As at the date of this report, Mr. Yong Wai Hong and Mr. Lee Pin Yeow are the executive Directors and Mr. Chan Cheong Yee, Mr. Lam Kwok Ho and Ms. Tsang Fung Chu are the independent non-executive Directors.