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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2007

CHARACTERISTICS OF 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

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 announcement, 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 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 announcement 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 announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The board (the "Board") of directors of the Company (the "Directors") herein presents the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 March 2007 together with the comparative audited figures for the corresponding period in 2006.

CONSOLIDATED INCOME STATEMENT

YEAR ENDED 31 MARCH 2007

	Note	**2007** *HK$'000*	2006 *HK$'000*
Turnover	*3*	**63,072**	64,147
Cost of sales		**(56,675)**	(58,717)
Gross profit		**6,397**	5,430
Other revenue	*3*	**127**	2,621
Distribution expenses		**–**	(1)
Administrative expenses		**(32,845)**	(21,756)
Loss from operations	*4*	**(26,321)**	(13,706)
Finance costs	*5*	**(3,129)**	–
Share of profit of a jointly controlled entity		**940**	407
Loss before taxation		**(28,510)**	(13,299)
Income tax	*6(a)*	**–**	700
Loss for the year attributable to equity holders of the company		**(28,510)**	(12,599)
Dividend	*7*	**–**	–
Loss per share			
– Basic	*8*	**(4.52 cents)**	(2.26 cents)
– Diluted	*8*	**N/A**	N/A

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2007

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

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

Notes:

1. BASIS OF PREPARATION

a. General Information

The principal activity of the company is investment holding. The principal activities of the company's subsidiaries are manufacturing and sales of electronic communication and consumer products and investment in listed securities.

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.

b. Basis of 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.

c. Going Concern

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 post balance sheet events.

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.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") (collectively "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants which are relevant to its operations and effective for accounting periods beginning on or after 1 January 2006 for the presentation of these financial statements. 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.

3. 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

4. LOSS FROM OPERATIONS

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

	2007	2006
	HK$'000	*HK$'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):		
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

5. FINANCE COSTS

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

6. INCOME TAX

a) Income tax in the consolidated income statement represents:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Provision for the People's Republic of China ("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).

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

7. DIVIDEND

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

8. 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.

9. 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 and fax machine, IC components, IC recorders and MP3 players. These divisions are the basis on which the group reports its primary segment information.

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	**Digital photo frame**	**Home theatre systems**	**Digital video broadcast**	**Fax machine**	**IC recorders**	**MP3 players**	**DVD players**	**IC**	**Con-solidated**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'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**

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

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

10. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvement *HK$'000*	Mould *HK$'000*	Plant and machinery *HK$'000*	Computers *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *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

11. 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	Proportion of ownership interest: Held by the Company	Proportion of ownership interest: 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

12. 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.

13. 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 realizable value.

14. 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

15. 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.

16. 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 rate:

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

17. 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

18. 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.

19. 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.

20. 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.

21. 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$0.55 per share.

The fair value of the liability component and the equity conversion component 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	**conversion option**	**Bondholder redemption option**	**Issuer redemption option**	**Fair value adjustment**	**Total**
Convertible bonds 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

22. SHARE CAPITAL

	2007 *No. of shares '000*	***HK$'000***	2006 *No. of shares '000*	*HK$'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.

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.

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 9 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$212,000 as at 31 March 2007 (2006: HK$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.

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

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' 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.

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

As at the date of this announcement, the Company's executive directors are Mr. Chen Jijin, Ms. Huang Menghuai and Mr. Zhong Min and the Company's independent non-executive directors are Mr. Chen Wei Rong, Mr. Lam Hon Kuen and Mr. Law Chi Yuen.

This announcement will remain on the "Latest Company Announcement" page of the GEM website (www.hkgem.com) for at least 7 days from its date of publication.