



CHINA DATA
BROADCASTING

China Data Broadcasting Holdings Limited **(中華數據廣播控股有限公司)***

(incorporated in Bermuda with limited liability)

(Stock Code: 8016)

RESULTS ANNOUNCEMENT **FOR THE YEAR ENDED 31 DECEMBER 2005**

The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“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 of Hong Kong Limited 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 of Hong Kong Limited. 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 in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, 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 announcement.

This announcement, for which the directors of China Data Broadcasting Holdings Limited 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 of Hong Kong Limited for the purpose of giving information with regard to China Data Broadcasting Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 1. the information contained in this announcement 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 announcement misleading; and 3. 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.

* for identification only

RESULTS

The board of directors of China Data Broadcasting Holdings Limited (the “Company”) is pleased to announce the audited financial results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2005.

CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
REVENUE	<i>1</i>	28,927	578,032
Cost of sales		<u>(28,185)</u>	<u>(554,419)</u>
Gross profit		742	23,613
Other income	<i>1</i>	144	356
Selling expenses		(956)	(3,613)
Administrative expenses		(8,547)	(13,040)
Other operating expenses		<u>(395)</u>	<u>(7,632)</u>
Operating loss	<i>3</i>	(9,012)	(316)
Finance costs		(354)	–
Gain on disposal of subsidiaries attributable to discontinued operations		<u>–</u>	<u>6,612</u>
(LOSS)/PROFIT BEFORE TAX		(9,366)	6,296
Tax	<i>4</i>	<u>16</u>	<u>(5,933)</u>
(LOSS)/PROFIT FOR THE YEAR		<u>(9,350)</u>	<u>363</u>
(LOSS)/EARNINGS PER SHARE			
Basic	<i>5</i>	<u>(2.94 cents)</u>	<u>0.11 cents</u>
Diluted		<u>N/A</u>	<u>0.11 cents</u>

CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	2005 HK\$'000	2004 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets		<u>125</u>	<u>1,093</u>
CURRENT ASSETS			
Inventories		22,180	625
Trade and bills receivable		4,666	17,713
Service deposits paid		5,616	–
Prepayments, other deposits and other receivables		377	202
Amount due from a director		390	–
Amount due from a fellow subsidiary		1,624	–
Amount due from holding company		–	48
Pledged deposits		–	180
Cash and cash equivalents		<u>7,244</u>	<u>17,014</u>
		<u>42,097</u>	<u>35,782</u>
CURRENT LIABILITIES			
Trade and bills payable		5,095	13,871
Tax payable		4,928	5,964
Other payables and accruals		3,366	704
Amount due to holding company		<u>21,847</u>	<u>–</u>
		<u>35,236</u>	<u>20,539</u>
NET CURRENT ASSETS		<u>6,861</u>	<u>15,243</u>
NET ASSETS		<u>6,986</u>	<u>16,336</u>
CAPITAL AND RESERVES			
Share capital		7,950	7,950
Reserves	6	<u>(964)</u>	<u>8,386</u>
TOTAL EQUITY		<u>6,986</u>	<u>16,336</u>

DISCLAIMER OF AUDIT OPINION

The auditors stated that they planned their audit so as to obtain all the information and explanations which they considered necessary in order to provide them with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to them was limited as follows:

(1) *Inventories*

Included in the inventories of HK\$22,180,000 are defective goods at costs of HK\$22,071,000. These defective goods were shipped to the supplier of these goods and are now being repaired by the supplier free of charge. However, auditors have not been provided with sufficient evidence to justify whether the defective goods can be sold at amounts higher than its costs. Accordingly, they are unable to determine whether any write down to net realizable value should be made against the abovementioned defective inventories.

(2) *Professional fee and service deposits paid*

- (a) The Group had paid a deposit of HK\$3,900,000 to Ms. Fei Liqiong (“Ms. Fei”) pursuant to an agreement. Ms. Fei had utilized part of the aforesaid deposit to set off against a professional fee of HK\$1,404,000 paid by her on behalf of the Company. The outstanding balance of the deposit was HK\$2,496,000 as at 31 December 2005.

Auditors have not been provided with sufficient evidence regarding the validity of the abovementioned professional fee of HK\$1,404,000 and the deposit. As a result, they are unable to satisfy themselves that the professional fee of HK\$1,404,000 and the deposit are properly recognized and disclosed.

In addition, the balance of HK\$2,496,000 has not been used for any service fee and has not been refunded to the Group up to the date of this report. Auditors have not been provided with sufficient evidence to enable them to determine the recoverability of the balance of deposit. Hence, they are unable to ascertain whether the amount could be recovered.

- (b) The Group had a service deposit paid to Naturestar Bio-Tech Inc. of HK\$3,120,000 as at 31 December 2005. Auditors have not been provided with sufficient evidence to satisfy themselves as to the validity of the above deposit paid. As a result, they are unable to satisfy themselves that the deposit is properly recognized and disclosed.

(3) *Amount due from, and administrative and product development expenses charged by a fellow subsidiary*

During the year ended 31 December 2005, the Group advanced a total amount of HK\$2,341,000 to a fellow subsidiary, Apex Digital (Shanghai) Co., Ltd. (“Apex (Shanghai)”). Part of the advance was utilized by Apex (Shanghai) to offset against the administrative and product development expenses of HK\$717,000 charged by Apex (Shanghai) to the Group. The amount due from the fellow subsidiary was HK\$1,624,000 as at 31 December 2005.

In relation to the abovementioned expenses of HK\$717,000 charged by Apex (Shanghai), auditors have not been provided with sufficient evidence to substantiate the validity of these expenses. As a result, they are unable to satisfy themselves that the expenses are properly recognised and disclosed.

In addition, the outstanding balance of HK\$1,624,000 due from the fellow subsidiary has not been settled up to the date of this report. On the other hand, auditors have not been provided with sufficient evidence to enable them to determine the recoverability of the said balance. Hence, they are unable to ascertain whether the amount could be recovered.

(4) *Contingent liabilities*

(a) The Group has contingent liabilities of HK\$23.5 million as at 31 December 2005 relating to a claim by the holding company of the Group, Apex Digital Inc. (“ADI”), for certain freight charges paid by ADI on behalf of the Group to a customer. The Group has dispute over the mentioned freight charges and auditors have not been provided with sufficient evidence to ascertain whether the aforesaid contingent liabilities of freight charges should be recognized as an expense for the year ended 31 December 2005. Consequently, they are unable to satisfy themselves as to the proper disclosure of the contingent liabilities and the completeness of expenses for the year ended 31 December 2005 and the amount due to the holding company as at 31 December 2005.

(b) The Group and the Company have contingent liabilities relating to a claim for patent infringement. The amount of damages claimed was not stated in the writ and auditors have not been provided with sufficient evidence to determine the extent and possibility of the claim against the Group and the Company. As a result, they are unable to satisfy themselves as to the proper disclosure of the contingent liabilities and the completeness of expenses for the year ended 31 December 2005 and related liabilities as at 31 December 2005.

(5) *Amount due from a subsidiary*

The Company has an amount due from a subsidiary with net carrying amount of HK\$16,205,000 as at 31 December 2005. Due to the limitation of scope in respect of the matters set out above, auditors have been unable to satisfy themselves as to whether any further impairment should be made against the carrying amount of the amount due from a subsidiary for the year ended 31 December 2005, and consequently whether the carrying amount as at 31 December 2005 is fairly stated.

(6) *Going concern*

The financial statements have been prepared on a going concern basis. The Group and the Company have net current assets and shareholders' funds as at the balance sheet date as included in their balance sheets as at 31 December 2005. However, as a result of the limitations as set out above, adjustments might be required to reduce the value of assets to their recoverable amounts and to provide for any further liabilities.

In addition, ADI and Mr. David Ji Long Fen pledged their entire shareholdings in the Company which represented 70.08% of the issued shares of the Company ("Controlling Shares") to an independent third party, as a security to secure certain trade receivables due from ADI to that party. Any changes in the registered holders of the Controlling Shares may result in a change in the composition of the board of the directors of the Company and the future direction of the business and financial operations of the Group and the Company.

Any adjustments or changes relating to the above matters may affect the Group's and the Company's ability to continue to operate as going concern.

Auditors have not been able to carry out alternative procedures to satisfy themselves as to the matters set out above.

Any adjustments that might have been found to be necessary in respect of the matters set out in points (1) to (4) above, would have a significant consequential effect on the net assets of the Group as at 31 December 2005, the Group's net results and cash flows for the year then ended and the related disclosures in the financial statements.

Any adjustments that might have been found to be necessary in respect of professional fee, contingent liabilities and an amount due from a subsidiary as set out in points (2(a)), (4(b)) and (5) above, would have a significant consequential effect on the net assets of the Company as at 31 December 2005, the Company's net results for the year then ended and the related disclosures in the financial statements.

In respect alone of the limitations on their work as stated above, the auditors expressed an opinion that they are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's results and cash flows for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Kong Kong Companies Ordinance.

CORPORATE GOVERNANCE REPORT

The Company has applied most of the Principles and complied with most of the Code Provisions as far as possible and practicable except for:

- (1) the Code Provision A.2.1 which requires the separation of the roles of Chairman and Chief Executive Officer; and
- (2) the Code Provision B.1.1 which requires the establishment of a remuneration committee with specific written terms of reference.

An explanation of the deviations is set out below. The Company will review its current practice of the Principles and Code Provisions in order to comply with the requirements of the Code of Corporate Governance Practice.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual.

The Company does not have an officer with the title of "Chief Executive Officer". Only Mr. David Ji Long Fen is responsible for the formulation of corporate strategy and business direction of the Group, as David Ji has extensive experience in the industry, the Board considers that the arrangement is beneficial to the Group as a whole. Despite the aforesaid, the Board will review such arrangement from time to time and consider the appointment of a Chief Executive Officer in the best interest of the Company and its shareholders.

INDEPENDENT NON-EXECUTIVE DIRECTORS

There is no independent non-executive director appointed since 20 December 2004.

REMUNERATION COMMITTEE

The Company has not established a remuneration committee, the Board of the Directors is authorized by the Shareholders at Annual General Meeting to fix the remuneration of the Directors whereas a Director shall abstain from voting in respect of any remuneration and fees paid to his interest. The Company will arrange for the setting up of a remuneration committee in order to comply with the Code Provision.

Note:

1. REVENUE AND OTHER INCOME

Turnover represents the invoiced value of goods sold and after allowances for goods returned and trade discounts. Revenue recognised during the year is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Revenue		
Continuing operation – sales of consumer electronic products and the related parts and components		
Gross amount	53,466	577,789
Less: Goods returned	<u>(24,539)</u>	<u>–</u>
Net amount	<u>28,927</u>	<u>577,789</u>
Discontinued operations		
Sale of data broadcasting hardware and software	–	211
Income from the provision of data broadcasting and related services	<u>–</u>	<u>32</u>
	<u>–</u>	<u>243</u>
	<u>28,927</u>	<u>578,032</u>
Other income		
Commission income	–	320
Interest income	138	20
Others	<u>6</u>	<u>16</u>
	<u>144</u>	<u>356</u>

2. SEGMENT INFORMATION

During the year ended 31 December 2005, the Group is wholly engaged in the trading of consumer electronic products and the related parts and components.

During the year ended 31 December 2004, the Group was also involved in the manufacture and sale of data broadcasting hardware and software and the provision of data broadcasting and related services. These operations were discontinued with effect from 10 November 2004.

No intersegment sales and transfers were transacted during the years ended 31 December 2005 and 2004.

(a) Business segments

	Year ended 31 December 2005	Year ended 31 December 2004		Total HK\$'000	
	Continuing operations	Continuing operation	Discontinued		
	Trading of consumer electronic products and the related parts and components HK\$'000	Trading of consumer electronic products and the related parts and components HK\$'000	Manufacture and sale of data broadcasting hardware and software HK\$'000	Provision of data broadcasting and related services HK\$'000	
Segment revenue:					
Sales to external customers	<u>28,927</u>	<u>577,789</u>	<u>211</u>	<u>32</u>	<u>578,032</u>
Segment results	(609)	<u>12,151</u>	<u>234</u>	<u>(17)</u>	12,368
Interest income and unallocated gains	144				356
Unallocated corporate expenses	<u>(8,547)</u>				<u>(13,040)</u>
Operating loss	(9,012)				(316)
Finance costs	(354)				-
Gain on disposal of subsidiaries attributable to discontinued operations	-	-	5,741	871	<u>6,612</u>
(Loss)/Profit before tax	(9,366)				6,296
Tax	<u>16</u>				<u>(5,933)</u>
(Loss)/Profit for the year	<u>(9,350)</u>				<u>363</u>

	Year ended 31 December 2005	Year ended 31 December 2004			Total HK\$'000
	Continuing operations	Continuing operation	Discontinued		
	Trading of consumer electronic products and the related parts and components HK\$'000	Trading of consumer electronic products and the related parts and components HK\$'000	Manufacture and sale of data broadcasting hardware and software HK\$'000	Provision of data broadcasting and related services HK\$'000	
Segment assets:	26,846	19,128	-	-	19,128
Unallocated assets	15,376				17,747
Total assets	<u>42,222</u>				<u>36,875</u>
Segment liabilities	26,988	13,871	-	-	13,871
Unallocated liabilities	8,248				6,668
Total liabilities	<u>35,236</u>				<u>20,539</u>
Other segment information:					
Capital expenditure	-	1,185	-	-	1,185
Unallocated capital expenditure	2				101
Total capital expenditure	<u>2</u>				<u>1,286</u>
Depreciation	395	395	-	-	395
Unallocated depreciation	180				235
Total depreciation	<u>575</u>				<u>630</u>
Impairment loss of fixed assets	395	-	-	-	-
Bad debts written off	-	7,632	-	-	7,632
Write back of provision for slow-moving inventories	<u>-</u>	<u>-</u>	<u>(328)</u>	<u>-</u>	<u>(328)</u>

(b) Geographical segments

	Segment revenue	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
USA	19,593	397,400
Europe	6,389	–
The People's Republic of China ("PRC")	2,393	180,632
Hong Kong	552	–
	<hr/>	<hr/>
Total	28,927	578,032
	<hr/> <hr/>	<hr/> <hr/>
	Segment assets	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
USA	28,718	15,445
Hong Kong	13,504	20,640
PRC	–	790
	<hr/>	<hr/>
Total	42,222	36,875
	<hr/> <hr/>	<hr/> <hr/>
	Capital expenditure	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	2	101
PRC	–	1,185
	<hr/>	<hr/>
Total	2	1,286
	<hr/> <hr/>	<hr/> <hr/>

3. OPERATING LOSS

Operating loss is arrived at after charging/(crediting):

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Bad debts written off	–	7,632
Cost of inventories sold	28,185	554,370
Cost of services provided	–	49
Depreciation	575	630
Research and development costs	–	3,120
Exchange losses/(gains), net	18	(11)
Minimum lease payments under operating leases in respect of land and buildings	463	360
Auditors' remuneration	600	450
Staff costs (including directors' remuneration):		
Salaries and related staff costs	1,882	2,274
Pension scheme contributions	51	81
	<u>1,933</u>	<u>2,355</u>
Impairment loss of fixed assets	395	–
Write back of allowance for slow-moving inventories	<u>–</u>	<u>(328)</u>

4. TAX

(a) The taxation (credited)/charged to the income statement represents:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong profits tax		
– overprovision in previous years	(16)	–
Elsewhere		
– current	–	2,412
– underprovision in previous year	–	3,521
	<u>(16)</u>	<u>5,933</u>

No provision for Hong Kong profits tax is required since the Group has no assessable profit for the years ended 31 December 2005 and 2004.

No provision for elsewhere profits tax is required since the Group has no assessable profit for the year ended 31 December 2005. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof for the year ended 31 December 2004.

- (b) A reconciliation of the tax (credit)/expense applicable to (loss)/profit before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

2005

	Hong Kong		USA		Total	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Loss before tax	<u>(6,383)</u>		<u>(2,983)</u>		<u>(9,366)</u>	
Tax at the statutory tax rate	(1,117)	(17.5)	(1,278)	(42.8)	(2,395)	(25.6)
Income not subject to tax	(5)	(0.1)	-	-	(5)	(0.1)
Expenses not deductible for tax	515	8.1	1,239	41.5	1,754	18.7
Deferred tax asset not recognised	27	0.4	-	-	27	0.3
Tax losses not recognised	580	9.1	39	1.3	619	6.7
Overprovision in previous years	<u>(16)</u>	<u>(0.3)</u>	<u>-</u>	<u>-</u>	<u>(16)</u>	<u>(0.2)</u>
Tax credit at the Group's effective rate	<u>(16)</u>	<u>(0.3)</u>	<u>-</u>	<u>-</u>	<u>(16)</u>	<u>(0.2)</u>

2004

	Hong Kong		USA		PRC		Total	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit/(Loss) before tax	<u>1,981</u>		<u>5,702</u>		<u>(1,387)</u>		<u>6,296</u>	
Tax at the statutory tax rate	347	17.5	2,443	42.8	(458)	(33.0)	2,332	37.1
Lower tax rate for specific provinces	-	-	-	-	291	21.0	291	4.6
Income not subject to tax	(1,157)	(58.4)	(31)	(0.5)	-	-	(1,188)	(18.9)
Expenses not deductible for tax	270	13.6	-	-	-	-	270	4.3
Deferred tax asset not recognised	16	0.8	-	-	-	-	16	0.2
Tax losses not recognised	524	26.5	-	-	167	12.0	691	11.0
Underprovision in previous year	<u>-</u>	<u>-</u>	<u>3,521</u>	<u>61.8</u>	<u>-</u>	<u>-</u>	<u>3,521</u>	<u>55.9</u>
Tax charge at the Group's effective rate	<u>-</u>	<u>-</u>	<u>5,933</u>	<u>104.1</u>	<u>-</u>	<u>-</u>	<u>5,933</u>	<u>94.2</u>

- (c) At the balance sheet date, the following unused tax losses have not been recognised as deferred tax assets:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Unused tax losses	<u>6,424</u>	<u>2,997</u>

Deferred tax assets have not recognised in respect of the above item due to the unpredictability of future profit streams. Included in the above unused tax losses are losses of HK\$115,000 (2004: HK\$ Nil) that will expire after ten years from the year of assessment they relate to. Other unused tax losses may be carried forward indefinitely.

5. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss for the year of HK\$9,350,000 (2004: profit of HK\$363,000), and the weighted average of 318,000,000 (2004: 318,000,000) ordinary shares in issue during the year.

No diluted loss per share has been presented because the trading of the Company's shares on the Stock Exchange has been suspended since 28 December 2004 and there is no market price of the Company's shares during the year ended 31 December 2005 and the directors considered there is no appropriate basis to ascertain the fair value of the Company's shares.

The calculation of diluted earnings per share for the year ended 2004 was based on the net profit for that year of HK\$363,000. The weighted average number of ordinary shares used in the calculation was the 318,000,000 ordinary shares in issue during that year, as used in the basic earnings per share calculation; and the weighted average of 1,020,619 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year ended 31 December 2004.

6. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	PRC reserve fund <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	28,537	885	41	307	676	(20,514)	9,932
Reserves realised upon disposal of subsidiaries	-	(885)	(41)	(307)	(676)	-	(1,909)
Profit for the year	-	-	-	-	-	363	363
At 31 December 2004 and at 1 January 2005	28,537	-	-	-	-	(20,151)	8,386
Loss for the year	-	-	-	-	-	(9,350)	(9,350)
At 31 December 2005	28,537	-	-	-	-	(29,501)	(964)

7. CONTINGENT LIABILITIES

- (a) During the year ended 31 December 2005, ADI claimed that, other than the payment of HK\$22 million made on behalf of the Group to its customer relating to goods returned, ADI had also reimbursed related freight charges of HK\$23.5 million on behalf of the Group to the abovementioned customer. However, the directors of the Company are of the opinion that the Group do not have any obligation to reimburse the freight charges. Accordingly, the directors considered that no provision would be made for the freight charges for the year ended 31 December 2005, but to disclose the unrecognized freight charges of HK\$23.5 million as contingent liabilities of the Group.
- (b) On 12 June 2006, Koninkljk Philips Electronics N.V. and United States Philips Corporation issued a writ of summons (“Summons”) to the United States District Court, Central District of California, against eight parties, including the Company, two subsidiaries of the Company, Apex Digital Inc. Limited and Apex Digital, LLC, two executive directors of the Company, Mr. David Ji Long Fen and Mr. Ancle Hsu Ann Keh, two holding companies of the Group, ADI and United Delta Inc., and an individual (collectively known as the “Defendants”). The Defendants were claimed damages for patent infringement for the distribution of unlicensed DVD products within the USA. Nevertheless, the amount of the claim was not stated in the Summons. Up to the date of this report, the directors of the Company are unable to estimate the liability under the claim.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year, the Group engaged in sourcing and procurement business in the consumer electronic industry (the “ Procurement Business “) . Due to fierce competition in the consumer electronic market, effect of dispute between Sichuan Changhong Electric Co. Ltd. and a substantial shareholder (Apex Digital Inc.) of the Company and the macro-economic adjustment from the PRC government; the Group has accomplished revenue of approximately HK\$28.9 million and a net loss of approximately HK\$9.4 million for the year ended 31 December 2005.

The Group’s financial position was strong as at 31 December 2005 and the cash and bank balance was HK\$7.2 million approximately.

LIQUIDITY AND FINANCIAL RESOURCES

The Group’s financial and liquidity positions are not as well as prior year but still fairly healthy and stable. As at 31 December 2005, the Group has no borrowings and its cash and bank balances amount to HK\$7.2 million. The Group’s net current assets approximate to HK\$6.9 million and the Group does not have any charges on its assets. The management is confident that the Group’s financial resources are sufficient to finance the daily operation.

The Group’s monetary assets and liabilities and transactions are principally denominated in Hong Kong dollars, Renminbi and United States Dollars. As the exchange rate between Hong Kong dollars and United States dollars is pegged, together with the minimal fluctuation in the exchange rate between Hong Kong dollars and Renminbi, the Group believes its exposure to exchange risk is minimal.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2005, the total number of the Group’s staff was approximately 10. The total staff costs amounted to HK\$1.9 million for the year under review. The Group remunerates its employees based on their performance, experience and prevailing industry practice. The Group provides retirement benefit for its employees in Hong Kong in form of mandatory provident fund and provides similar schemes for its employees in the Mainland China.

The Group established a Share Options Scheme to reward its employees for their individual performance. As at 31 December 2005, there was no outstanding share options. During the year under review, no share option had been granted nor exercised.

OUTLOOK

As regards the Procurement Business, the Board believes that the development of the Procurement Business in the consumer electronic industry is indeed an appropriate approach to building up a steady and considerable income stream of the Group. In addition, the management possess extensive experience and knowledge in the consumer electronic industry which is a vital and beneficial to further develop the existing Procurement Business and explore further business opportunities in the consumer electronic industry, such as trading of finished goods/parts and components of televisions, DVD players, digital cameras, game consoles and other products. The Group determines to put more resources to develop the Procurement Business and explore further business opportunities in the consumer electronic industry and is confident that the business will set back on the track as the uncertainty is cleared.

INTERESTS OF THE DIRECTORS IN THE COMPANY

As at 31 December 2005, the interests and short positions of the Directors in the ordinary Shares of the Company (the “Shares”), underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares

Name of Director	Number of Shares	Capacity	Type of Interest	Approximate percentage of interest
Mr. David Ji Long Fen (“Mr. Ji”) (<i>notes a and b</i>)	165,197,340	Interest of a controlled corporation	Corporate	51.95
	57,700,000	Beneficial owner	Personal	18.14
Mr. Ancle Hsu Ann Keh (“Mr. Hsu”) (<i>note a and c</i>)	165,197,340	Interest of a controlled corporation	Corporate	51.95

Notes:

- (a) Apex Digital Inc., (“Apex Digital”) is controlled by Mr. Ji and United Delta Inc., (“United Delta”), a private corporation incorporated in the USA and which is equally owned by Mr. Ji and Mr. Hsu. Accordingly, each of Mr. Hsu and Mr. Ji is deemed to be interested in the 165,197,340 shares owned by Apex Digital.
- (b) In addition to Mr. Ji’s deemed interest in the 165,197,340 shares held by Apex Digital, Mr. Ji is interested in another 57,700,000 shares held by him directly, and is therefore interested in a total of 222,897,340 shares.
- (c) On 10 April 2006, Mr. Hsu disposed all interest in Apex Digital and United Delta to Mr. Ji.

Save as disclosed in this paragraph, as at 31 December 2005, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) 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 are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate. No options have been granted to the directors up to the date of this report.

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as was known to any Director or chief executive of the Company, as at 31 December 2005, the persons or companies (not being a Director or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% 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 were as follows:

Long positions in Shares

Name of Director	Capacity	Number of Shares	Approximate percentage of interest %
Apex Digital (<i>note 1</i>)	Beneficial owner	165,197,340	51.95
United Delta (<i>note 1</i>)	Interest of a controlled corporation	165,197,340	51.95
Mr. Ji (<i>notes 1 and 2</i>)	Interest of a controlled corporation	165,197,340	51.95
	Beneficial owner	57,700,000	18.14
Mr. Hsu (<i>note 1 and 5</i>)	Interest of a controlled corporation	165,197,340	51.95
Ms. Liu Ru Ying (<i>note 3</i>)	Family interest	222,897,340	70.09
Ms. Susan Chang (<i>note 4 and 5</i>)	Family interest	165,197,340	51.95
Mr. Xu Gao Hui	Beneficial owner	22,350,000	7.03

Notes:

- (1) Apex Digital is controlled by Mr. Ji and United Delta, a private corporation incorporated in the USA and which is equally owned by Mr. Ji and Mr. Hsu. Accordingly, each of Mr. Hsu and Mr. Ji is deemed to be interested in the 165,197,340 shares owned by Apex Digital.
- (2) In addition to Mr. Ji's deemed interest in the 165,197,340 shares held by Apex Digital, Mr. Ji is interested in another 57,700,000 shares held by him directly, and is therefore interested in a total of 222,897,340 shares.
- (3) Ms. Liu Ru Ying is the spouse of Mr. Ji. and, under Section 316 of the SFO, is therefore deemed to be interested in all 222,897,340 shares in which Mr. Ji is interested.
- (4) Ms. Susan Chang is the spouse of Mr. Hsu and, under Section 316 of the SFO, is therefore deemed to be interested in all 165,197,340 shares in which Mr. Hsu is interested.
- (5) On 10 April 2006, Mr. Hsu disposed all interest in the Apex Digital and United Delta to Mr. Ji.

Save as disclosed above, as at 31 December 2005, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

COMPETING INTEREST

Apex Digital was founded by Mr. Ji and Mr. Hsu, the executive directors of the Company, and is controlled by Mr. Ji and United Delta, which is equally owned by Mr. Ji and Mr. Hsu. Apex Digital is principally engaged in the wholesaling business of consumer home electronics items under the name of “APEX Digital”.

On 10 April 2006, Mr. Hsu disposed all interest in Apex Digital and United Delta to Mr. Ji.

Save as disclosed above, none of the directors or the management shareholders of the Company (as defined in the Rules Governing the Listing of Securities on GEM) had an interest in a business which competes or may compete with the business of the Group during the period under review.

AUDIT COMMITTEE

All of independent non-executive directors resigned on 20 December 2004 due to personal reasons and at the date of this report, the Company still has no independent non-executive directors. Therefore, the Company does not have an audit committee to review and supervise the Group’s financial reporting procedures and internal control since their resignation.

COMPLIANCE WITH CODE OF BEST PRACTICE

To the best knowledge of the Board, the Company had complied with the Code of Best Practice as set out in Appendix 15 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited except for the insufficient independent non-executive directors and the absence of the audit, nomination and remuneration committees.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY’S LISTING SECURITIES

During the year under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

By Order of the Board
David Ji Long Fen
Chairman

Hong Kong, 31 August 2006

As at the date of this announcement, the Company’s executive directors are Mr. David Ji Long Fen, Mr. Anle Hsu Ann Keh and Ms. Alice Hsu Chu Yun. There is no independent non-executive director appointed at the date of this announcement.

This announcement will remain on the GEM website on the “Latest Company Announcements” page for at least 7 days from the date of its posting.