CHINA DATA BROADCASTING HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code : 8016)

Annual Report

2005

CHARACTERISTICS OF 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 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 of http://www.hkgem.com operated by the Stock Exchange. Companies listed 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.

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Corporate Information

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	301 Brea Canyon Road Walnut, CA91789 United States of America
Hong Kong liaison office	Unit 3701, 37/F, West Tower, Shun Tak Centre 168-200 Connaught Road Central Hong Kong
E-mail address	LEE@apexdigital.com.hk
Compliance officer	Ms. Alice HSU Chu Yun
Qualified accountant	Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.) ACIS & ACS
Company secretary	Mr. SHUM Shing Kei CPA (HKICPA)
Authorised representatives	Mr. David JI Long Fen Mr. SHUM Shing Kei CPA (HKICPA)
Bermuda resident representative	Mr. John Charles Ross COLLIS
Bermuda deputy resident representative	Mr. Anthony Devon WHALEY
Stock exchange	Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Stock code	8016
Auditors	RSM Nelson Wheeler *Certified Public Accountants* 7/F, Allied Kajima Building 138 Gloucester Road Hong Kong

Corporate Information

Bermuda principal share registrar and transfer office	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited 46/F, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited China Insurance Group Building 141 Des Voeux Road Central, Sheung Wan Hong Kong
	Fubon Bank (Hong Kong) Limited Fubon Bank Building 38 Des Voeux Road Central Hong Kong

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 approximately HK$7.2 million.

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.

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.

David Ji Long Fen
Chairman

31 August 2006

EXECUTIVE DIRECTORS

Mr. David Ji Long Fen, aged 53, is the chairman of the Company. He is responsible for the formulation of corporate strategy and business direction of the Group. He graduated from the Department of Foreign Languages of Fudan University in Shanghai, the PRC and holds a Master of Business Administration degree from Pacific States University in the USA. He has more than 14 years of experience in the consumer electronics industry in the USA, including sourcing and wholesale operations. In December 2002. Mr. Ji was elected by TIME Magazine and CNN from more than 100 nominees of young executives as one of 15 Global Influentials for the year 2002.

Mr. Ancle Hsu Ann Keh, aged 44, is responsible for management and operation of the Group. He has more than 16 years of experience in the consumer electronics industry. In December 2002. Mr. Hsu was elected by TIME Magazine and CNN from more than 100 nominees of young executives as one of 15 Global Influentials for the year 2002.

Ms. Alice Hsu Chu Yun, aged 43, is responsible for financial management of the Group. She holds a Bachelor of Science degree in computer information system from California State University in the USA and an Associate of Arts degree in accounting and statistics from Shih Chie University in Taipei, Taiwan. She has over 22 years of experience in accounting and financial management.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SENIOR MANAGEMENT

Mr. Shum Shing Kei, aged 34, is company secretary of the Company. He obtained a Master's degree in financial management from the University of London, the United Kingdom. He is also a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in March 2002, he had 9 years' experience in auditing and accounting and had worked for an international accounting firm. Mr. Shum resigned as the Company's qualified accountant with effect from 21 July 2005.

Mr. LEE Wing Lun, aged 47, graduated from the Australian National University with a Bachelor degree in Commerce and holds a Postgraduate Diploma in Corporate Administration from the Polytechnic University of Hong Kong. He is a member of the Hong Kong Institute of Certified Public Accountants, the CPA Australia, the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. He joins the Group in April 2005 as financial controller and is responsible for the financial and accounting management and secretarial affairs of the Group. He is appointed as the Company's qualified accountant with effect from 21 July 2005. He has over 11 years of working experience in auditing, accounting and finance matters including over 6 years in several audit firms and has been the financial controller of a trading group.

Corporate Governance Report

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") has promulgated the Code on Corporate Governance Practices (the "CG Code") contained in appendix 15 to the GEM Listing Rules which sets out corporate governance principles (the "Principles") and code provisions (the "Code Provision").

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 CG Code.

Directors' Securities Transactions

The Company has complied with the requirements of director's securities transaction stated in the GEM Listing Rules. All the directors of the Company have confirmed that they have complied with the requirements as set out in the GEM Listing Rules for the year ended 31 December 2005.

Board of Directors and Board Meeting

The Board comprises of 3 members and their positions are as follows:

Executive Directors

Mr. David Ji Long Fen
Mr. Ancle Hsu Ann Keh
Ms. Alice Hsu Chu Yun

Profiles of Directors are set out on pages 7 of this annual report for the year ended 31 December 2005.

The Directors, with relevant and sufficient experience and qualification have exercised due care, fiduciary duties to the significant issues of the Company and its subsidiaries (the "Group"). The directors have no relation to each other or all Directors have no business relation with the Group.

The Directors held 4 meetings and the attendance of the Directors for the financial year ended 31 December 2005 is as follows:

Name of Director	Attendance
Mr. David Ji Long Fen	4/4
Mr. Ancle Hsu Ann Keh	4/4
Ms. Alice Hsu Chu Yun	4/4

The Board also approved matters by resolution in writing. Information of material issues, due notice of meeting and minutes of each directors' meeting have been sent to each of the Directors for their information, comment and review.

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.

Audit Committee

The Audit Committee principal duties are the review and supervision of the company's financial reporting process and internal control system. As there is no independent non-executive director since 20 December 2004, therefore it is not in compliance with Rule 5.28 of the GEM Listing Rules which requires, among others, the audit committee must comprise a minimum of 3 members.

The Company will arrange to appoint at least 3 Audit Committee members in order to comply with the relevant requirement of the GEM Listing Rules.

Nomination Committee

Nomination committee of the Company is not consider necessary after the assessment of the present situation of the Company. The Board will review the profile of the current Directors and nominate directors (if any) on a regular basis in order to ensure that the composition of the Board is capable to fulfill its obligation and responsibility.

Preparation of Financial Statement

The Directors acknowledge their responsibility for preparing of audited consolidated financial statements of the Group and the auditors of the Company also set out their responsibilities in the Report of the Auditors in the Annual Report of the Company for the year ended 31 December 2005.

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements.

Results and appropriations

The Group's loss for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 62.

The directors do not recommend the payment of any dividend in respect of the year.

Summary financial information

A summary of the published results and the assets and liabilities of the Group is as follows:

RESULTS

	Year ended 31 December				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER	**28,927**	578,032	180,750	111,566	6,036
Cost of sales	**(28,185)**	(554,419)	(171,509)	(111,018)	(7,133)
Gross profit/(loss)	**742**	23,613	9,241	548	(1,097)
Other revenue	**144**	356	246	278	798
Selling and distribution costs	**(956)**	(3,613)	–	(366)	(769)
Administrative expenses	**(8,547)**	(13,040)	(7,694)	(5,245)	(4,772)
Other operating (expenses)/income	**(395)**	(7,632)	14	136	(8,796)
(LOSS)/PROFIT FROM OPERATIONS	**(9,012)**	(316)	1,807	(4,649)	(14,636)
Finance cost	**(354)**	–	–	–	–
Gain on disposal of subsidiaries attributable to discontinued operations	**–**	6,612	–	–	–
(LOSS)/PROFIT BEFORE TAX	**(9,366)**	6,296	1,807	(4,649)	(14,636)
Tax	**16**	(5,933)	(44)	–	–
(LOSS)/PROFIT BEFORE MINORITY INTERESTS	**(9,350)**	363	1,763	(4,649)	(14,636)
Minority interests	**–**	–	(461)	643	3,350
(Loss)/Profit for the year	**(9,350)**	363	1,302	(4,006)	(11,286)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December				
	2005	2004	2003	2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TOTAL ASSETS	**42,222**	36,875	89,884	27,766	32,453
TOTAL LIABILITIES	**(35,236)**	(20,539)	(72,002)	(5,570)	(5,608)
MINORITY INTERESTS	**–**	–	–	(5,599)	(6,242)
	6,986	16,336	17,882	16,597	20,603

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 26 and 27 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the bye-laws of the Company or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 28 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company did not have any reserves available for distribution, other than the Company's share premium account, in the amount of approximately HK$28,537,000, which may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 99% of the total sales for the year and sales to the largest customer included therein amounted to approximately 68%. Purchases from the Group's five largest suppliers accounted for approximately 100% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 66%.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Mr. David Ji Long Fen *(Chairman)*
Mr. Ancle Hsu Ann Keh
Ms. Alice Hsu Chu Yun

Independent non-executive directors:

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

In accordance with clause 86 of the Company's bye-laws, Mr. Ancle Hsu Ann Keh will retire and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on page 7 of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries was a party during the year.

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:

INTERESTS OF THE DIRECTORS IN THE COMPANY *(Continued)*

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") *(notes (a) and (b))*	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") *(notes (a) and (c))*	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 *(note (1))*	Beneficial owner	165,197,340	51.95
United Delta *(note (1))*	Interest of a controlled corporation	165,197,340	51.95
Mr. Ji *(notes (1) and (2))*	Interest of a controlled corporation	165,197,340	51.95
	Beneficial owner	57,700,000	18.14
Mr. Hsu *(notes (1) and (5))*	Interest of a controlled corporation	165,197,340	51.95
Ms. Liu Ru Ying *(note (3))*	Family interest	222,897,340	70.09
Ms. Susan Chang *(notes (4) and (5))*	Family interest	165,197,340	51.95
Mr. Xu Gao Hui	Beneficial owner	22,350,000	7.03

INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS IN THE COMPANY *(Continued)*

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.

AUDITORS

The financial statements for the year ended 31 December 2005 and 2004 were audited by Messrs. RSM Nelson Wheeler, Certified Public Accountants, who retire and being eligible offer themselves for re-appointment. Whereas the accounts for the year ended 31 December 2003 was audited by Messrs. Ernst & Young.

ON BEHALF OF THE BOARD
David Ji Long Fen
Chairman

Hong Kong
31 August 2006

RSM Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

TO THE SHAREHOLDERS OF
CHINA DATA BROADCASTING HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 24 to 62 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

(1) Inventories

Included in the inventories of HK$22,180,000, as stated in note 18 to the financial statements, 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, we have not been provided with sufficient evidence to justify whether the defective goods can be sold at amounts higher than their costs. Accordingly, we 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) As stated in note 20(a) to the financial statements, 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.

We 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, we are unable to satisfy ourselves 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. We have not been provided with sufficient evidence to enable us to determine the recoverability of the balance of deposit. Hence, we are unable to ascertain whether the amount could be recovered.

(b) As detailed in note 20(b) to the financial statements, the Group had a service deposit paid to Naturestar Bio-Tech Inc. ("Naturestar") of HK$3,120,000 as at 31 December 2005. We have not been provided with sufficient evidence to satisfy ourselves as to the validity of the above deposit paid. As a result, we are unable to satisfy ourselves that the deposit is properly recognized and disclosed.

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

As detailed in note 22 to the financial statements, 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), we have not been provided with sufficient evidence to substantiate the validity of these expenses. As a result, we are unable to satisfy ourselves 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, we have not been provided with sufficient evidence to enable us to determine the recoverability of the said balance. Hence, we are unable to ascertain whether the amount could be recovered.

(4) Contingent liabilities

(a) As detailed in note 30(a) to the financial statements, 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. As the Group has dispute over the mentioned freight charges and we 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, we are unable to satisfy ourselves 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) As disclosed in note 30(b) to the financial statements, the Group and the Company have contingent liabilities relating to a claim for patent infringement. As the amount of damages claimed was not stated in the writ and we 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, we are unable to satisfy ourselves 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

As disclosed in note 17 to the financial statements, 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, we have been unable to satisfy ourselves 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, as detailed in note 25(b) to the financial statements, ADI and an executive director of the Company, Mr. David Ji Long Fen, pledged their entire shareholdings in the Company which represented 70.09% 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.

We have not been able to carry out alternative procedures to satisfy ourselves 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 forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion: Disclaimer on view given by financial statements

Because of the significance of the possible effect of the limitations in evidence available to us as described in the section of "Basis of Opinion" above, we 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 Hong Kong Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

– we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

– we were unable to determine whether proper books of accounts have been kept.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
31 August 2006

Consolidated Income Statement

YEAR ENDED 31 DECEMBER 2005

	Notes	2005 HK$'000	2004 HK$'000
REVENUE	7	**28,927**	578,032
Cost of sales		**(28,185)**	(554,419)
Gross profit		**742**	23,613
Other income	7	**144**	356
Selling expenses		**(956)**	(3,613)
Administrative expenses		**(8,547)**	(13,040)
Other operating expenses		**(395)**	(7,632)
Operating loss	8	**(9,012)**	(316)
Finance costs		**(354)**	–
Gain on disposal of subsidiaries attributable to discontinued operations	9	**–**	6,612
(LOSS)/PROFIT BEFORE TAX		**(9,366)**	6,296
Tax	12	**16**	(5,933)
(LOSS)/PROFIT FOR THE YEAR	13	**(9,350)**	363
(LOSS)/EARNINGS PER SHARE	14		
Basic		**(2.94 cents)**	0.11 cents
Diluted		**N/A**	0.11 cents

Consolidated Balance Sheet

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	*15*	**125**	1,093
CURRENT ASSETS			
Inventories	*18*	**22,180**	625
Trade and bills receivable	*19*	**4,666**	17,713
Service deposits paid	*20*	**5,616**	–
Prepayments, other deposits and other receivables		**377**	202
Amount due from a director	*21*	**390**	–
Amount due from a fellow subsidiary	*22*	**1,624**	–
Amount due from holding company	*25*	**–**	48
Pledged deposits	*23*	**–**	180
Cash and cash equivalents	*23*	**7,244**	17,014
		42,097	35,782
CURRENT LIABILITIES			
Trade and bills payable	*24*	**5,095**	13,871
Tax payable		**4,928**	5,964
Other payables and accruals		**3,366**	704
Amount due to holding company	*25*	**21,847**	–
		35,236	20,539
NET CURRENT ASSETS		**6,861**	15,243
NET ASSETS		**6,986**	16,336
CAPITAL AND RESERVES			
Share capital	*26*	**7,950**	7,950
Reserves	*28*	**(964)**	8,386
TOTAL EQUITY		**6,986**	16,336

David Ji Long Fen
Director

Alice Hsu Chu Yun
Director

Consolidated Statement of Changes of Equity

Year ended 31 December 2005

	Notes	**2005** **HK$'000**	2004 HK$'000
Total equity at 1 January		**16,336**	17,882
Reserves realised upon disposal of subsidiaries	*28*	**–**	(1,909)
(Loss)/Profit for the year	*28*	**(9,350)**	363
Total equity at 31 December		**6,986**	16,336

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	**2005 HK$'000**	2004 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/Profit before tax		**(9,366)**	6,296
Adjustments for:			
Depreciation		**575**	630
Interest income		**(138)**	(20)
Interest expenses		**354**	–
Impairment losses of fixed assets		**395**	–
Gain on disposal of subsidiaries attributable to discontinued operations	*9*	**–**	(6,612)
Bad debts written off		**–**	7,632
Write back of allowance for slow-moving inventories		**–**	(328)
		(8,180)	7,598
Increase in inventories		**(21,555)**	(297)
Decrease in trade and bills receivable		**13,047**	53,084
Increase in service deposits paid		**(5,616)**	–
(Increase)/Decrease in prepayments, other deposits and other receivables		**(175)**	122
Increase in amount due from a director		**(390)**	–
Increase in amount due from a fellow subsidiary		**(1,624)**	–
Decrease in trade and bills payable		**(8,776)**	(52,371)
Increase/(Decrease) in other payables and accruals		**2,308**	(72)
Increase/(Decrease) in amount due to/from holding company		**21,895**	(48)
Cash (used in)/generated from operations		**(9,066)**	8,016
Interest received		**138**	20
Hong Kong profits tax paid		**(122)**	–
Overseas profits tax paid		**(898)**	(13)
Net cash (used in)/from operating activities		**(9,948)**	8,023
CASH FLOWS FROM INVESTING ACTIVITIES			
Disposal of subsidiaries	*9*	**–**	(20)
Purchases of fixed assets		**(2)**	(1,286)
Proceeds from disposal of fixed assets		**–**	185
Decrease in time deposits with original maturity of more than three months		**56**	–
Decrease in pledged deposits		**180**	1,954
Net cash from investing activities		**234**	833

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	**2005** **HK$'000**	2004 HK$'000 (Restated)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(9,714)**	8,856
CASH AND CASH EQUIVALENTS AT 1 JANUARY	*23*	**16,958**	8,102
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	*23*	**7,244**	16,958
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank and cash balances		**7,182**	16,953
Time deposits with original maturity of less than three months when acquired		**62**	5
		7,244	16,958

Balance Sheet

31 December 2005

	Notes	2005 HK$'000	2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Interests in subsidiaries	*16*	**–**	–
CURRENT ASSETS			
Prepayments, deposits and other receivables		**235**	160
Amount due from a subsidiary	*17*	**16,205**	17,146
Amount due from a director	*21*	**390**	–
Cash and cash equivalents	*23*	**70**	75
		16,900	17,381
CURRENT LIABILITIES			
Other payables and accruals		**725**	655
Amount due to a subsidiary	*17*	**2,005**	–
		2,730	655
NET CURRENT ASSETS		**14,170**	16,726
NET ASSETS		**14,170**	16,726
CAPITAL AND RESERVES			
Share capital	*26*	**7,950**	7,950
Reserves	*28*	**6,220**	8,776
TOTAL EQUITY		**14,170**	16,726

David Ji Long Fen
Director

Alice Hsu Chu Yun
Director

1. GENERAL INFORMATION

The Company was incorporated in Bermuda with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The address of its principal place of business is located at 301 Brea Canyon Road, Walnut, CA91789, United States of America ("USA"). The Company's shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The trading of the shares of the Company in the Stock Exchange has been suspended since 28 December 2004 at the request of the Company and will remain suspended until further notice.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 16 to the financial statements.

In the opinion of the directors of the Company, as at 31 December 2005, Apex Digital, Inc. ("ADI"), a company incorporated in the USA, is the immediate parent; United Delta Inc. ("United Delta"), a company incorporated in the USA, is the ultimate parent and Mr. David Ji Long Fen ("Mr. Ji") and Mr. Ancle Hsu Ann Keh ("Mr. Hsu") are the ultimate controlling parties of the Company.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting polices and amounts reported for the current year and prior years.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the interests in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting form this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– all resulting exchange differences are recognised in the exchange fluctuation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the exchange fluctuation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and impairment losses. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of fixed assets is calculated at rates sufficient to write off their costs less their estimated residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Furniture, fixtures and equipment	16% – 20%
Leasehold improvements	Over the shorter of the lease terms or 20%

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(d) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowance is recognised in the income statement.

(g) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(h) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(i) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(j) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Revenue recognition

Revenue from the sales of manufactured goods and trading of raw materials are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

(l) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on interests in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(o) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products (business segment), or in providing products within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segment be presented as the primary reporting format and geographical as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories and trade and bills receivable. Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings.

Segment revenue, expenses, results, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Segment reporting *(Continued)*

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

In respect of geographical segment reporting, sales are based on the countries in which customers are located. Total assets and capital expenditure are based on where the assets are located.

(p) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Provisions and contingent liabilities *(Continued)*

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(r) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

4. KEY ESTIMATES

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customers' taste and competitors' actions in response to severe industry cycles. Management reassesses the estimations by each balance sheet date.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, United States dollars and Renminbi. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2005 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade and bills receivable, and service deposits paid. In order to minimise credit risk, management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(d) Interest rate risk

As the Group has no significant interest-bearing assets and liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values.

6. 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			
	Continuing operation	Continuing operation	Discontinued operations		
	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	Total HK$'000
Segment revenue:					
Sales to external customers	28,927	577,789	211	32	578,032
Segment results	(609)	12,151	234	(17)	12,368
Interest income and unallocated gains	144				356
Unallocated corporate expenses	(8,547)				(13,040)
Operating loss	(9,012)				(316)
Finance costs	(354)				–
Gain on disposal of subsidiaries attributable to discontinued operations	–	–	5,741	871	6,612
(Loss)/Profit before tax	(9,366)				6,296
Tax	16				(5,933)
(Loss)/Profit for the year	(9,350)				363

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

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

6. SEGMENT INFORMATION (Continued)

(b) Geographical segments

	Segment revenue	
	2005	2004
	HK$'000	HK$'000
USA	**19,593**	397,400
Europe	**6,389**	–
The People's Republic of China ("PRC")	**2,393**	180,632
Hong Kong	**552**	–
Total	**28,927**	578,032

	Segment assets	
	2005	2004
	HK$'000	HK$'000
USA	**28,718**	15,445
Hong Kong	**13,504**	20,640
PRC	**–**	790
Total	**42,222**	36,875

	Capital expenditure	
	2005	2004
	HK$'000	HK$'000
Hong Kong	**2**	101
PRC	**–**	1,185
Total	**2**	1,286

7. REVENUE AND OTHER INCOME

Revenue, which was also the Group's 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 HK$'000	2004 HK$'000
Revenue		
Continuing operation – sales of consumer electronic products and the related parts and components		
Gross amount	**53,466**	577,789
Less: Goods returned	**(24,539)**	–
Net amount	**28,927**	577,789
Discontinued operations *(note 9)*		
Sale of data broadcasting hardware and software	**–**	211
Income from the provision of data broadcasting and related services	**–**	32
	–	243
	28,927	578,032
Other income		
Commission income	**–**	320
Interest income	**138**	20
Others	**6**	16
	144	356

8. OPERATING LOSS

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

	2005 HK$'000	2004 HK$'000
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 *(note 10)*):		
Salaries and related staff costs	1,882	2,274
Pension scheme contributions	51	81
	1,933	2,355
Impairment loss of fixed assets	395	–
Write back of allowance for slow-moving inventories	–	(328)

9. DISCONTINUED OPERATIONS

Pursuant to an instrument of transfer dated 10 November 2004, the Company disposed of its wholly owned subsidiary, Verified Solutions Group Limited ("Verified Solutions"), at a consideration of US$1. Verified Solutions and its subsidiary were principally engaged in the manufacture and sale of data broadcasting hardware and software and the provision of data broadcasting and related services. As a consequence of the above, the operations of Verified Solutions and its subsidiary were reported as discontinued operations. The gain on disposal of subsidiaries attributable to discontinued operations of HK$6,612,000 was credited to the income statement for the year ended 31 December 2004. There was no income tax arising from the disposal.

9. DISCONTINUED OPERATIONS *(Continued)*

The revenue, other income, expenses, results, cash flows, total assets and liabilities of the discontinued operations are as follows:

	Period from 1 January to 10 November 2004		
	Manufacture and sale of data broadcasting hardware and software	Provision of data broadcasting and related services	Total
	HK$'000	HK$'000	HK$'000
Revenue	211	32	243
Cost of sales	* 23	(49)	(26)
Gross profit/(loss)	234	(17)	217
Other income	3	–	3
Administrative expenses	(1,399)	(213)	(1,612)
Loss before tax	(1,162)	(230)	(1,392)
Tax	–	–	–
Loss for the year	(1,162)	(230)	(1,392)
Net cash used in operating activities	(1,055)	(160)	(1,215)
Net cash from investing activities	161	24	185
Total net cash outflow	(894)	(136)	(1,030)

* *Cost of sales for the period ended 10 November 2004 included write back of provision for slow-moving inventories of HK$328,000.*

The Group has applied the transitional provisions in HKFRS 5 "Non-current assets held for sale and discontinued operations" with respect to the presentation of income statements relating to the discontinued operations in 2004. No amount is restated and the standard is applied prospectively.

9. DISCONTINUED OPERATIONS *(Continued)*

	As at 10 November 2004		
	Manufacture and sale of data broadcasting hardware and software	**Provision of data broadcasting and related services**	**Total**
	HK$'000	HK$'000	HK$'000
Total assets	207	30	237
Total liabilities, including amounts due to the Group of HK$9,467,000	(12,510)	(1,897)	(14,407)
Net liabilities	(12,303)	(1,867)	(14,170)

Disposal of subsidiaries

	HK$'000
Consideration	–
Net liabilities disposed of	(14,170)
Amounts due to the Group written off	9,467
Reserves realised upon disposal of subsidiaries	(1,909)
Gain on disposal of subsidiaries attributable to discontinued operations	6,612

The net cash outflow on disposal is determined as follows:

	HK$'000
Bank and cash balances disposed of	(20)
Net cash outflow from disposal of discontinued operation	(20)

10. DIRECTORS' REMUNERATION

For the years ended 31 December 2005 and 2004, no executive directors and independent non-executive directors received any directors' fees and emoluments.

In both years, no emoluments were paid by the Group to the directors as a bonus, as an inducement to join the Group or upon joining the Group, or as compensation for loss of office. None of the directors has waived or agreed to waive any emoluments during the years.

11. FIVE HIGHEST PAID EMPLOYEES

All of the five highest paid employees in both years were not directors. Details of the remuneration of the five highest paid employees for the years are as follows:

	2005	2004
	HK$'000	HK$'000
Salaries and allowances	**1,480**	1,239
Performance related incentive payments	**68**	30
Pension scheme contributions	**38**	26
	1,586	1,295

Remuneration of each of the non-director, highest paid employee for both years falls within the band of less than HK$1,000,000.

During the year, no emoluments were paid to the non-director, five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

12. TAX

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

	2005 HK$'000	2004 HK$'000
Hong Kong profits tax		
– overprovision in previous years	(16)	–
Elsewhere		
– current	–	2,412
– underprovision in previous year	–	3,521
Total tax (credit)/charge for the year	(16)	5,933

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	
	HK$'000	%	HK$'000	%	HK$'000	%
Loss before tax	(6,383)		(2,983)		(9,366)	
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	(16)	(0.3)	–	–	(16)	(0.2)
Tax credit at the Group's effective rate	(16)	(0.3)	–	–	(16)	(0.2)

12. TAX *(Continued)*

(b) *(Continued)*

2004

	Hong Kong		USA		PRC		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Profit/(Loss) before tax	1,981		5,702		(1,387)		6,296	
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	–	–	3,521	61.8	–	–	3,521	55.9
Tax charge at the Group's effective rate	–	–	5,933	104.1	–	–	5,933	94.2

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

	2005	2004
	HK$'000	HK$'000
Unused tax losses	**6,424**	2,997

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.

13. (LOSS)/PROFIT FOR THE YEAR

(Loss)/Profit for the year ended 31 December 2005 dealt with in the financial statements of the Company was loss of HK$2,556,000 (2004: HK$271,000).

14. (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.

15. FIXED ASSETS

Group

	Furniture, fixtures and equipment	**Leasehold improvements**	**Total**
	HK$'000	HK$'000	HK$'000
Cost			
At 1 January 2004	945	292	1,237
Additions	1,274	12	1,286
Disposals	(206)	–	(206)
Disposal of subsidiaries	(627)	–	(627)
At 31 December 2004 and at 1 January 2005	1,386	304	1,690
Additions	2	–	2
At 31 December 2005	**1,388**	**304**	**1,692**

15. FIXED ASSETS *(Continued)*

Group

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Total HK$'000
Accumulated depreciation and impairment losses			
At 1 January 2004	471	12	483
Charge for the year	480	150	630
Disposals	(21)	–	(21)
Disposal of subsidiaries	(495)	–	(495)
At 31 December 2004 and at 1 January 2005	435	162	597
Charge for the year	435	140	575
Impairment losses	395	–	395
At 31 December 2005	**1,265**	**302**	**1,567**
Net book value			
At 31 December 2005	**123**	**2**	**125**
At 31 December 2004	951	142	1,093

16. INTERESTS IN SUBSIDIARIES

	Company 2005 HK$'000	2004 HK$'000 (Restated)
Unlisted shares, at cost	–	–

16. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries of the Company as at 31 December 2005 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Apex Honour Resources Limited	British Virgin Islands	US$1	100	–	Investment holding
Apex Digital, LLC ("Apex (USA)")	USA	US$365,190	–	100	Trading of consumer electronic products and related parts and components
Apex Digital Inc. Limited ("Apex (HK)")	Hong Kong	HK$2	–	100	Trading of consumer electronic products and related parts and components

The above table lists out the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

17. AMOUNT DUE FROM/TO A SUBSIDIARY – Company

The amount due from a subsidiary, net of impairment of HK$4,460,000, is unsecured, interest-free and has no fixed term of repayment. The comparative figures of the amount due from a subsidiary as included in interests in subsidiaries as at 31 December 2004 have been reclassified as current assets in order to conform with the current year's presentation.

The amount due to a subsidiary is unsecured, interest-free and has no fixed term of repayment.

18. INVENTORIES

	Group	
	2005	2004
	HK$'000	HK$'000
Goods for sale	**22,180**	625

The inventories include defective goods at costs of HK$22,071,000 which were returned from a customer of the Group during the year ended 31 December 2005. The goods were received by the holding company of the Group, ADI, on behalf of the Group (note 31(a)). Majority of these returned goods were received in the first half of year 2005.

In January 2006, on behalf of the Group, ADI entered into an agreement with the supplier of the abovementioned goods to repair the defective goods. Upon the condition that ADI purchased certain products from the supplier, the supplier agreed to repair the returned goods for the Group free of charge. These defective goods were shipped to the supplier and are now being repaired by the supplier. The directors of the Company are in the opinion that the net realizable value of inventories would be higher than their costs. The inventories are hence stated at cost, without any write down to net realizable value.

19. TRADE AND BILLS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers where partial payment in advance is normally required. The credit period is generally for a period of one month. Overdue balances are reviewed regularly by senior management.

An aged analysis of trade and bills receivable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**4,463**	17,514
4 to 6 months	–	71
7 to 12 months	–	128
Over 1 year	**203**	–
	4,666	17,713

20. SERVICE DEPOSITS PAID – Group

(a) Service deposit paid to an individual of HK$2,496,000

On 25 February 2005, an indirect wholly-owned subsidiary of the Company, Apex (HK), entered into an agreement with an individual, Ms. Fei Liqiong ("Ms. Fei"), whereby Ms. Fei acted for Apex (HK) to handle its legal matters relating to the trading businesses in the PRC and the USA. The agreement covered a period of three years from the date of the agreement and will be terminated with three-months notice issued by either party to the agreement. Service fee charged by Ms. Fei would be based on the time incurred for the services rendered.

In accordance with the agreement, Apex (HK) agreed to pay a deposit of HK$3,900,000 to Ms. Fei. During the year ended 31 December 2005, part of the deposit amounted to HK$1,404,000 was used to settle a professional fee paid by Ms. Fei on behalf of the Company. The aforesaid professional fee, included in administrative expenses, was paid to a PRC legal firm to perform a due diligence review for the Company in relation to a dispute between ADI and a trade creditor of ADI. No service fee has been charged by Ms. Fei to the Company and the Group in respect of the arrangement. In view of the above, as at the balance sheet date, the net deposit maintained by Ms. Fei was HK$2,496,000. The abovementioned deposit is unsecured, interest-free and has no fixed repayment date. Nevertheless, the directors of the Company considered that the entire balance will be settled before 31 December 2006.

(b) Service deposit paid to a company of HK$3,120,000

In February 2005, Apex (HK) paid a deposit of HK$3,900,000 to Naturestar Bio-Tech Inc. ("Naturestar") for the purchase of goods amounted to HK$3,900,000. Mr. Ji and Mr. Hsu, the executive directors of the Company, were also directors of Naturestar. However, they have not held any shares in Naturestar and have not involved in any management of Naturestar. Nevertheless, Naturstar failed to deliver the goods contracted. During the year, Naturestar refunded part of the aforesaid deposit amounted to HK$780,000 to the Group. For the remaining balance of HK$3,120,000, Apex (HK) entered into an agreement with Naturestar on 1 September 2005 under which the aforesaid HK$3,120,000 was kept by Naturestar as deposit.

Pursuant to the agreement, Naturestar acted for Apex (HK) to handle its legal matters relating to businesses for a period of three years from the date of the agreement and will be terminated with three-months notice issued by either party to the agreement. Service fee charged by Naturestar would be based on the time incurred for the services rendered.

No service was provided by Naturestar during the year ended 31 December 2005. The deposit is unsecured, interest-free and has no fixed repayment date. Subsequent to the balance sheet date, the entire amount of HK$3,120,000 has been refunded to the Group.

21. AMOUNT DUE FROM A DIRECTOR

The amount due from a director of the Company, Mr. Ji, is unsecured, interest free and repayable on demand.

	Group and Company	
	2005	2004
	HK$'000	HK$'000
Aggregate amount of principal outstanding as at 31 December	**390**	–
Maximum aggregate amount of principal outstanding during the year	**390**	–

22. AMOUNT DUE FROM A FELLOW SUBSIDIARY – Group

The amount due from a fellow subsidiary of the Company, Apex Digital (Shanghai) Co., Ltd. ("Apex (Shanghai)"), is unsecured, interest-free and repayable on demand. Apex (Shanghai) is a wholly-owned subsidiary of ADI. The maximum aggregate amount due from Apex (Shanghai) during the year was HK$2,341,000.

On 14 July 2006, ADI and the subsidiary of the Company, Apex (HK), (collectively known as the "Contractual Parties"), entered into an agreement with Apex (Shanghai), whereby the Contractual Parties agreed, based on the proportion of their turnover, to share the administrative and product development expenses incurred by Apex (Shanghai). The agreement covered a period from 1 January 2005 to 31 December 2005. It will be renewed annually upon mutual agreement and can be terminated with one-month notice issued by any party to the agreement. During the year ended 31 December 2005, Apex (Shanghai) has charged the Group for the administrative and product development expenses amounted to HK$717,000 (note 31(a)). The amount was included in the administrative expenses of the consolidated income statement.

During the year ended 31 December 2005, the Group had advanced HK$2,341,000 to Apex (Shanghai). The outstanding amount due from Apex (Shanghai) as at 31 December 2005 was HK$1,624,000 after the net off of abovementioned administrative and product development expenses.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank and cash balances	**7,182**	17,133	**9**	14
Time deposits	**62**	61	**61**	61
	7,244	17,194	**70**	75
Less: Pledged deposits	**–**	180	**–**	–
Time deposit with original maturity of more than three months	**–**	56	**–**	56
Cash and cash equivalents	**7,244**	16,958	**70**	19

Cash and cash equivalents bears interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates.

24. TRADE AND BILLS PAYABLE

An aged analysis of trade and bills payable as at the balance sheet date, based on invoice date is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Within 3 months	**5,095**	13,871

The directors consider that the carrying amount of trade and bills payable approximates its fair value.

25. AMOUNT DUE FROM/(TO) HOLDING COMPANY – Group

(a) The amount due to holding company, ADI, of HK$21,847,000 represented the payment of HK$22 million made on behalf of the Group to its customer relating to sales returned as stated in note 18 to the financial statements, less various expenses paid by the Group on behalf of ADI and trade receivables due from ADI.

The amount is unsecured, interest free and repayable on demand. The maximum aggregate receivable amount during the year was HK$48,000 (2004: HK$48,000).

(b) On 15 July 2005, the directors of the Company declared that ADI and Mr. Ji had pledged their entire ownership of 165,197,340 ordinary shares and 57,700,000 ordinary shares in the Company (collectively known as "Controlling Shares"), representing 51.95% and 18.14% respectively of the Company's issued share capital, to Sichuan Changhong Electric Co. Ltd. ("Changhong") which was an independent third party to the Group and a supplier of the Group, as security for certain trade receivables due from ADI to Changhong.

ADI is the immediate holding company of the Company and Mr. Ji, an executive director of the Company, is the ultimate controlling party of ADI. The directors considered that any changes in the register holders of the Controlling Shares may result in a change in the composition of the board of the directors of the Company.

(c) During the year ended 31 December 2005, because of further acquisition of the issued shares of the Company, ADI became the holding company of the Group. The comparative figures of the amount due from substantial shareholder, ADI, as at 31 December 2004 has been reclassified as amount due from holding company in order to conform with the current year's presentation.

26. SHARE CAPITAL

Shares

	2005	2004
	HK$'000	HK$'000
Authorised:		
1,200,000,000 ordinary shares of HK$0.025 each	**30,000**	30,000
Issued and fully paid:		
318,000,000 ordinary shares of HK$0.025 each	**7,950**	7,950

Share options

Details of the Company's share option schemes are included in note 27.

27. SHARE OPTIONS

On 11 January 2000, the Company approved the share option scheme (the "Scheme") under which the directors may, at their discretion, grant options to full-time employees ("Employees") of the Company and its subsidiaries (including executive directors of the Company and its subsidiaries) to subscribe for shares in the Company. The scheme became effective upon the listing of the Company's shares on the GEM on 24 January 2000.

The maximum number of shares in respect of which options may be granted may not exceed 10% of the share capital of the Company in issue from time to time other than: (i) shares issued pursuant to this Scheme; and (ii) any pro rata entitlements to further issues in respect of any shares mentioned in (i) during a period of 10 years from the date when the Scheme is adopted. The subscription price shall be a price determined by the board of directors at its absolute discretion and notified to Employees and shall be no less than the higher of: (i) the closing price of the shares as stated in the daily quotation sheets issued by the GEM on the offer date; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the GEM for the five business days immediately preceding the offer date; and (iii) the nominal value of a share.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The following share options were outstanding under the Scheme during the year:

	Number of share options						
Category of participant	At 1 January 2005	Exercised during the year	Lapsed during the year	At 31 December 2005	Date of grant of share options	Exercise period of share options	Exercise price of share options HK$
Employees	12,000,000	–	12,000,000	–	3 February 2000	3 February 2000 to 3 February 2007	1.775

During the year ended 31 December 2005, the share options to subscribe under the Scheme for a total of 12,000,000 underlying shares granted to the employees of the Company lapsed after the relevant employees ceased to be the employees of the Group. Since the date of the grant of the Scheme, none of the share options were exercised or cancelled.

28. RESERVES

Group

	Share premium HK$'000	Contributed surplus HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000	PRC reserve fund HK$'000	Accumulated losses HK$'000	Total HK$'000
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)**

Company

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	28,537	885	(19,490)	9,932
Reserves realised upon disposal of subsidiaries	–	(885)	–	(885)
Loss for the year	–	–	(271)	(271)
At 31 December 2004 and 1 January 2005	28,537	–	(19,761)	8,776
Loss for the year	–	–	(2,556)	(2,556)
At 31 December 2005	**28,537**	**–**	**(22,317)**	**6,220**

29. COMMITMENT UNDER OPERATING LEASE

The Group and the Company entered into non-cancellable operating lease arrangement in respect of its office premises. The term of the lease was one year.

At 31 December 2005, the Group and the Company had outstanding commitment under a non-cancellable operating lease, which falls due as follows:

	Group and Company	
	2005	2004
	HK$'000	HK$'000
Within one year	**657**	254
In the second to fifth years, inclusive	**465**	–
	1,122	254

30. 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 (note 25(a)), 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, Koninkljke 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 (HK) and Apex (USA), two executive directors of the Company, Mr. Ji and Mr. Hsu, 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.

31. RELATED PARTY TRANSACTIONS – Group

(a) Save for the balances and transactions detailed in notes 18, 21, 22 and 25, the Group has the following transactions with related parties during the year:

	Notes	**2005 HK$'000**	2004 HK$'000
Sales to			
– ADI	*(i)*	**881**	24
– Apex (Shanghai)	*(i)*	**9**	48
Handling charge paid to ADI	*(ii)*	**153**	930

(b) During the year, ADI provided support regarding human resources, sales and purchasing, logistics and customer services to Apex (HK) for no consideration.

Notes:

(i) The transactions were based on terms as agreed between the Group and the related parties.

(ii) ADI provided support regarding human resources, sales and purchasing, logistics, customer services to Apex (USA). The handling charge was charged at a rate of 0.75% of the sales of Apex (USA).

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 31 August 2006.