AUNNAL REPORT

2006

CHINA DATA BROADCASTING HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 8016

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

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board 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.

CONTENTS

CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	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 (ceased on 5/7/2007) Ms. TANG Yun (act on 5/7/2007)
Qualified accountant	Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.), ACIS & ACS
Company secretary	Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.), ACIS & ACS
Authorised representatives	Mr. David JI Long Fen (ceased on 5/7/2007) Mr. SHUM Shing Kei CPA (HKICPA) (ceased on 5/7/2007) Mr. TANG Yun (act on 5/7/2007) Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.), ACIS & ACS (act on 5/7/2007)
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
Auditor	RSM Nelson Wheeler *Certified Public Accountants* 7/F, Allied Kajima Building 138 Gloucester Road Hong Kong
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

CORPORATE INFORMATION

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

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

During the year, the Company and its subsidiaries (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 and the decrease in confidence of the economy of the United States of America ("USA") for the products, the Group has accomplished revenue of approximately HK$22.9 million and a net loss of approximately HK$16.2 million for the year ended 31 December 2006.

The Group's financial position was still good as at 31 December 2006 and the cash and bank balance was approximately HK$674,000.

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 2006, the Group has no borrowings and its cash and bank balances amounted to approximately HK$674,000. The Group's net current liabilities approximate to HK$9.3 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 2006, the total number of the Group's staff was 10. The total staff costs amounted to approximately HK$2.7 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 2006, there were no outstanding share options. During the year under review, no share option had been granted nor exercised.

OUTLOOK

The Board believes that when the business set back on the track, the Procurement Business in the consumer electronic industry will build up a steady and considerable income stream of the Group. As the economy of Hong Kong becomes well, the management put more resources to 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 Board is confident that the business relating to the consumer electronic products will be better in the near future.

YU Xiao
Chairman

25 July 2007

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. YU Xiao, aged 38, is the chairman of the Company. He is responsible for overseeing the strategies and directions of the Group. He holds a Bachelor of National Economic Management degree from Sichuan University in the People's Republic of China ("PRC") and has more than 16 years of experience in financial and economic management.

Mr. TANG Yun, aged 41, is the managing director of the Company. He is responsible for the formulation of corporate strategy and business direction of the Group. He obtained a Master degree in Applied Physics from the University of Electronic Science and Technology of China in the PRC and has more than 17 years of experience in engineering and marketing.

Mr. DU Jun, aged 34, is responsible for import and export activities of the Group in PRC and Asia. He holds a Bachelor of International Business Management (English) degree from the Shanghai International Studies University in the PRC and has more than 10 years of experience in international business management.

Mr. XIANG Chao Yang, aged 49, is responsible for the PRC legal matters of the Company. He obtained a Master of Criminal Law of China from Sichuan University in the PRC and a Bachelor of Law degree from the Southwest University of Political Science and Law in the PRC. He has more than 18 years of experience in law.

Mr. David JI Long Fen, aged 54, is responsible for the import and export activities of the Group in USA. 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 15 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. WANG Zhenhua, aged 54, is responsible for sourcing of supplier and technical support of the Group. He obtained a Master of Business Administration degree from the Tianjin University in the PRC and has more than 30 years experience in industrial and foreign trade enterprises.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Up to 31 December 2006, no independent non-executive directors were appointed. On 12 February 2007, the Company appointed the following persons as independent non-executive directors.

Mr. Jonathan CHAN Ming Sun, aged 35, is the chairman of the Audit Committee and is responsible for reviewing the internal control system. Mr. Chan is an Associate Director of Go-To-Asia Investment Limited and an independent non-executive director of Sino Katalytics Investment Corporation. He obtained his Bachelor Degree of Commerce in Accounting and Computer Information System from the University of New South Wales, Australia. He is also a member of Hong Kong Institute of Certified Public Accountants and Certified Public Accountants, Australia. He has over 8 years of experience in investment and corporate finance.

Mr. Robert IP Chun Chung, aged 50, is the member of the Audit Committee and is responsible for reviewing the internal control system. Mr. Ip is a practising solicitor in Hong Kong and is a non-executive director of Poly (Hong Kong) Investment Limited. He obtained the Bachelor Degree of Arts from the University of Hong Kong and held a CPE diploma and diploma in Law from the College of Law, UK. He is also a member of the Law Society of Hong Kong and the Law Society of England and Wales. He has over 25 years of experience in legal aspects.

Mr. SUN Dongfeng, aged 39, is the member of the Audit Committee and is responsible for reviewing the internal control system. Mr Sun is a senior partner of Guantao Law Firm as well as a legal advisor for a numbers of companies. He graduated from the China University of Political Science and Law, and obtained a Master in Law in International Economics from the School of Law of the University of Canberra, Australia. He has over 10 years of experience in legal aspects.

BIOGRAPHICAL DETAILS IN RESPECT OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. LEE Wing Lun, aged 48, is the financial controller and company secretary of the Group and is responsible for the financial and accounting management and secretarial affairs of the Group. He 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 has over 12 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 has promulgated the Code on Corporate Governance Practices (the "CG Code") contained in appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules") which sets out corporate governance principles (the "Principles") and code provisions (the "Code Provisions").

The Company has applied most of the Principles and complied with most of the Code Provisions as far as possible and practicable. An explanation for any deviations is adhered.

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 2006.

BOARD OF DIRECTORS AND BOARD MEETING

The Board comprises of 6 members and their positions are as follows:

Executive Directors:

Mr. David JI Long Fen	
Mr. YU Xiao	(appointed on 1/11/2006)
Mr. TANG Yun	(appointed on 1/11/2006)
Mr. DU Jun	(appointed on 1/11/2006)
Mr. XIANG Chao Yang	(appointed on 1/11/2006)
Mr. WANG Zhenhua	(appointed on 19/12/2006)
Mr. Ancle HSU Ann Keh	(resigned on 29/9/2006)
Ms. Alice HSU Chu Yun	(resigned on 19/12/2006)

Profiles of Directors are set out on pages 6 to 7 of this annual report for the year ended 31 December 2006.

The directors, with relevant and sufficient experience and qualifications, have exercised due care, fiduciary duties to the significant issues of the Group. The directors have no relation to each other and all directors have no business relation with the Group.

The directors held 7 meetings and the attendance of the directors for the financial year ended 31 December 2006 is as follows:

Name of Directors	**Attendance**
Mr. David JI Long Fen	6/7
Mr. YU Xiao	2/3
Mr. TANG Yun	3/3
Mr. DU Jun	3/3
Mr. XIANG Chao Yang	2/3
Mr. WANG Zhenhua	0/0
Mr. Ancle HSU Ann Keh	0/1
Ms. Alice HSU Chu Yun	4/7

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 MANAGING DIRECTOR

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

Mr. David JI Long Fen held both positions before 11 November 2006. After that Mr. YU Xiao was appointed as chairman and Mr. TANG Yun was appointed as managing director. Despite the aforesaid, the Board will review such arrangement from time to time.

INDEPENDENT NON-EXECUTIVE DIRECTORS

There is no independent non-executive director appointed up to 31 December 2006. On 12 February 2007, the Company appointed Mr. Jonathan CHAN Ming Sun, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng as independent non-executive directors to comply with Rule 5.05 of the GEM Listing Rules.

The term of appointment is a twelve month service agreement with a fixed amount per annum.

REMUNERATION COMMITTEE

The Code Provision B.1.1 requires the establishment of a remuneration committee with specific written terms of reference.

The Company has not established a remuneration committee up to 31 December 2006, the board of the directors was authorised 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. On 14 February 2007, the Company has set up a remuneration committee in order to comply with the Code Provision.

AUDITOR'S REMUNERATION

The remuneration of the audit service rendered by the auditors of the Group were mutually agreed in view of the scope of services in the total amount of HK$800,000. During 2006, the auditors of the Company did not provide any non-audit services to the Company.

AUDIT COMMITTEE

The audit committee principal duties are the review and supervision of the company's financial reporting process and internal control system. Up to 31 December 2006, there was no independent non-executive director, 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 appointed 3 candidates as audit committee members on 12 February 2007 in order to comply with the relevant requirement of the GEM Listing Rules.

NOMINATION COMMITTEE

Nomination committee of the Company is not considered 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 STATEMENTS

The directors acknowledge their responsibility for the preparation of audited consolidated financial statements of the Group and the auditors of the Company also set out their responsibilities in the Independent Auditor's Report in the Annual Report of the Company for the year ended 31 December 2006.

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 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 29 to the financial statements.

RESULTS AND APPROPRIATIONS

The Group's loss for the year ended 31 December 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 46.

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

SUMMARY OF FINANCIAL INFORMATION

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

Results

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	**22,928**	28,927	578,032	180,750	111,566
Cost of goods sold	**(28,496)**	(28,185)	(554,419)	(171,509)	(111,018)
Gross (loss)/profit	**(5,568)**	742	23,613	9,241	548
Other income	**22,426**	144	356	246	278
Selling expenses	**(1,087)**	(956)	(3,613)	–	(366)
Administrative expenses	**(6,256)**	(8,547)	(13,040)	(7,694)	(5,245)
Other operating (expenses)/income	**(25,385)**	(395)	(7,632)	14	136
(LOSS)/PROFIT FROM OPERATIONS	**(15,870)**	(9,012)	(316)	1,807	(4,649)
Finance cost	**(251)**	(354)	–	–	–
Gain on disposal of subsidiaries attributable to discontinued operations	**–**	–	6,612	–	–
(LOSS)/PROFIT BEFORE TAX	**(16,121)**	(9,366)	6,296	1,807	(4,649)
Tax	**(74)**	16	(5,933)	(44)	–
(LOSS)/PROFIT FOR THE YEAR	**(16,195)**	(9,350)	363	1,763	(4,649)
Attributable to:					
Equity holders of the Company	**(16,195)**	(9,350)	363	1,302	(4,006)
Minority interests	**–**	–	–	461	(643)
	(16,195)	(9,350)	363	1,763	(4,649)

Assets, Liabilities and Minority Interests

	31 December				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)			
Total Assets	**1,605**	42,222	36,875	89,884	27,766
Total Liabilities	**(10,814)**	(35,236)	(20,539)	(72,002)	(5,570)
Minority Interests	**–**	–	–	–	(5,599)
Total Equity	**(9,209)**	6,986	16,336	17,882	16,597

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 thereof, are set out in notes 22 and 23 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 the consolidated statement of recognised income and expense.

DISTRIBUTABLE RESERVES

At 31 December 2006, 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 90% of the total sales for the year and sales to the largest customer included therein amounted to approximately 34%. Purchases from the Group's five largest suppliers accounted for approximately 50% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 17%.

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. YU Xiao	(appointed on 1/11/2006)
Mr. David JI Long Fen	
Mr. TANG Yun	(appointed on 1/11/2006)
Mr. DU Jun	(appointed on 1/11/2006)
Mr. XIANG Chao Yang	(appointed on 1/11/2006)
Mr. WANG Zhenhua	(appointed on 19/12/2006)
Mr. Ancle HSU Ann Keh	(resigned on 29/9/2006)
Ms. Alice HSU Chu Yun	(resigned on 19/12/2006)

Independent non-executive directors:

There was no independent non-executive director appointed up to 31 December 2006. On 12 February 2007, the Company appointed Mr. Jonathan CHAN Ming Sun, Mr. Robert IP Chun Chung and Mr. SUN Dongfeng as independent non-executive directors to comply with the relevant requirement of the GEM Listing Rules.

In accordance with clause 86 of the Company's bye-laws, Mr. David JI Long Fen and Mr. XIANG Chao Yang will retire and, being eligible, will offer themselves 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 6 to 7 of the annual report.

DIRECTORS' SERVICE CONTRACTS

All directors (including directors proposed for re-election at the forthcoming annual general meeting and independent non-executive directors) have a yearly service contract with the Company.

Save as aforesaid, none of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries 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 2006, 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 pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares

Name of Director	Number of Shares	Capacity	Type of Interest	Approximate percentage of interest
Mr. David Ji Long Fen ("Mr. Ji") *(notes (a), (b) and (c))*	69,829,340	Interest of a controlled corporation	Corporate	21.96
	57,700,000	Beneficial owner	Personal	18.14

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 which is wholly owned by Mr. Ji as at 31 December 2006. Accordingly, Mr. Ji is deemed to be interested in the 69,829,340 shares owned by Apex Digital.

(b) In addition to Mr. Ji's deemed interest in the 69,829,340 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 127,590,340 shares.

(c) On 2 March 2007, Sichuan Investment Management Company Limited bought 69,829,340 shares and 13,180,000 shares from Apex Digital and Mr. Ji representing approximately 21.96% and 4.14% respectively at the consideration of HKD0.72 per share. After that, the total number of shares held by Mr. Ji has decreased to 44,520,000 representing approximately 14% of the Company's shares.

Save as disclosed in this paragraph, as at 31 December 2006, 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.

REPORT OF THE DIRECTORS

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 2006, 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 substantial shareholder	Capacity	Number of Shares	Approximate percentage of interest %
Sichuan Changhong Electric Co. Limited	Beneficial owner	95,368,000	29.99
Apex Digital *(note (a) and (d))*	Beneficial owner	69,829,340	21.96
United Delta *(note (a) and (d))*	Interest of a controlled corporation	69,829,340	21.96
Mr. Ji *(notes (a), (b) and (d))*	Interest of a controlled corporation	69,829,340	21.96
	Beneficial owner	57,700,000	18.14
Ms. Liu Ru Ying *(note (c) and (d))*	Family interest	127,529,340	40.10
Mr. Xu Gao Hui	Beneficial owner	22,350,000	7.03

Notes:

(a) Apex Digital is controlled by Mr. Ji and United Delta, a private corporation incorporated in the USA which is wholly owned by Mr. Ji as at 31 December 2006. Accordingly, Mr. Ji is deemed to be interested in the 69,829,340 shares owned by Apex Digital.

(b) In addition to Mr. Ji's deemed interest in the 69,829,340 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 127,529,340 shares.

(c) 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 127,529,340 shares in which Mr. Ji is interested.

(d) On 2 March 2007, Sichuan Investment Management Company Limited bought 69,829,340 shares and 13,180,000 shares from Apex Digital and Mr. Ji representing approximately 21.96% and 4.14% respectively at the consideration of HKD0.72 per share. After that, the total number of shares held by Mr. Ji has decreased to 44,520,000 representing approximately 14% of the Company's shares.

Save as disclosed above, as at 31 December 2006, 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. Ancle HSU Ann Keh ("Mr. Hsu"), a present executive director and a former director of the Company, and is controlled by Mr. Ji and United Delta, which is equally owned by Mr. Ji and Mr. Hsu before 10 April 2006. 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 year under review.

AUDIT COMMITTEE

All of independent non-executive directors resigned on 20 December 2004 due to personal reasons. During the year ended 31 December 2006, the Company had no independent non-executive directors. Therefore, the Company did not have an audit committee to review and supervise the Group's financial reporting procedures and internal control until 12 February 2007. On 12 February 2007, the Company appointed 3 candidates as audit committee members to comply with the GEM Listing Rules.

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 2006, 2005 and 2004 were audited by Messrs. RSM Nelson Wheeler, Certified Public Accountants, who retire and being eligible offer themselves for re-appointment.

On behalf of the Board
YU Xiao
Chairman

Hong Kong
25 July 2007

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)

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the consolidated financial statements of China Data Broadcasting Holdings Limited (the "Company") set out on pages 20 to 46, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of recognised income and expense and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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. Except for the limitation in the scope of our work as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

(1) Prior year's audit scope limitations

Our opinion on the financial statements of the Group for the year ended 31 December 2005 (the "2005 Financial Statements") was disclaimed because of the significance of the possible effect of the limitations on the scope of our audit, details of which are set out in our report of the auditors dated 31 August 2006. Accordingly, we were then unable to form an opinion as to whether the 2005 Financial Statements gave a true and fair view of the state of affairs of the Group as at 31 December 2005 and of the results and cash flows of the Group for the year then ended.

Those scope limitations of last year which may affect the opening balances as at 1 January 2006 include insufficient information and explanation that we considered necessary for the purpose of our audit and our limitation to determine whether proper books of accounts have been kept regarding the following items:

(i) valuation of defective inventories;

(ii) validity of professional fee and service deposits;

(iii) recoverability of unsettled service deposit;

(iv) validity of expenses charged by Apex Digital (Shanghai) Co., Ltd. ("Apex (Shanghai)");

(v) recoverability of amount due from Apex (Shanghai); and

(vi) disclosure of contingent liabilities and, the completeness of expenses and amount due to Apex Digital Inc. ("ADI") and related liabilities.

Any adjustments found to be necessary to the opening balances of the financial statements of the Group for the year ended 31 December 2006 would have a consequential effect on the net assets of the Group as at 31 December 2005, and of the results of the Group for the current year and prior year and the related disclosures thereof in the financial statements.

(2) Waiver of an amount due to a substantial shareholder

As detailed in note 18(b) to the financial statements, pursuant to a waiver agreement ("Waiver Agreement") among the substantial shareholders, Sichuan Changhong Electric Co., Limited ("Changhong") and ADI, and an executive director of the Company, ADI agreed to waive an amount under the Waiver Agreement, of approximately HK$22,254,000, due by the Group and a claim for a freight charge paid by ADI on behalf of the Group of approximately HK$23.5 million which was disclosed as contingent liabilities in the Group's financial statements of 2005. As the consideration of the aforesaid waivers, Changhong, in return, agreed to waive a receivable of approximately HK$22,254,000 due from ADI as a partial settlement of a legal claim filed by Changhong against ADI to the United States District Court for certain disputed receivables. In view of the above, the Group recognised an income from waiver of the amount due to a substantial shareholder for the year ended 31 December 2006 and concluded no disclosures regarding the relevant contingent liabilities as at 31 December 2006 is required. The Waiver Agreement is governed by and construed in accordance with the Hong Kong law. We have not been provided with a legal opinion as to whether this agreement is enforceable in the United States of America regarding the clause of partial settlement of a legal claim filed in the United States District Court. As a result, we are unable to satisfy ourselves as to the proper recognition and disclosure of the income from the waiver of the amount due to a substantial shareholder for the year ended 31 December 2006 and the completeness of the disclosure of the contingent liabilities and amount due to the substantial shareholder as at 31 December 2006.

(3) Inventories written off

As detailed in note 16 to the financial statement, included in the inventories written off of approximately HK$10,822,000 for the year ended 31 December 2006 is an amount of approximately HK$2,431,000 which represented short-shipped defective goods which could not be traced. We have not been provided with sufficient evidence for us to verify the completeness and existence of these short-shipped defective goods prior to the writing off of the inventories. As a result, we are unable to satisfy ourselves that the inventories of approximately HK$2,431,000 written off and the inventories are properly recognised and disclosed and we are also unable to determine whether there are any unrecorded sales for the year ended 31 December 2006 and related receivables as at 31 December 2006.

(4) Agency fee expenses

Included in the selling expenses of the consolidated income statement for the year ended 31 December 2006 are agency fees paid to three sales agents with an aggregate amount of approximately HK$942,000. 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.

(5) Contingent liabilities

As disclosed in note 25 to the financial statement, the Group had contingent liabilities relating to a claim for patent infringement. As the amount of damages claimed was not stated in the writ and the directors of the Company are unable to determine the extent of the claim and the related costs therefore, we have not been provided with sufficient evidence to determine the extent and possibility of the claim against the Group and whether any legal and professional fees should be provided for the year then ended. 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 2006 and related liabilities as at 31 December 2006.

(6) Going concern

The Group incurred a loss of approximately HK$16,195,000 for the year ended 31 December 2006 and had net current liabilities and net liabilities of approximately HK$9,295,000 and HK$9,209,000 respectively as at 31 December 2006. In addition, as a result of the limitation as set out in point (5) above concerning the uncertain outcome of the contingent liabilities relating to a claim for patent infringement, the future settlement of this claim may have an effect on the net liabilities of the Group as at 31 December 2006, and the results of the Group for the year then ended. However, it is not possible at this stage to quantify the effects, if any, of the resolution of this uncertainty.

The above-mentioned conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial statements have been prepared on a going concern basis, the validity of which depends upon financial support of a substantial shareholder of the Company, Changhong, at a level sufficient to finance the working capital requirements of the Group. Changhong has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The financial statements do not include any adjustments that would result from the failure to the going concern basis. We consider that the material uncertainty has been adequately disclosed in the financial statements.

However, we have not been provided with sufficient evidence to satisfy ourselves as to whether the going concern basis made by the directors in preparing the financial statements on a going concern basis, as set out in note 2 to the financial statements, are appropriate. Accordingly, we were unable to satisfy ourselves as to the appropriateness of the going concern basis, which may have a consequential significant effect on the results of the Group for the year and the net liabilities of the Group as at 31 December 2006.

Any adjustments or changes relating to the above matters may affect the Group'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 to the above matters might have a significant consequential effect on the net liabilities as at 31 December 2006, the net results for the year and the related disclosures in the financial statements.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of affairs of the Group as at 31 December 2006 and the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards, In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

REPORT ON OTHER MATTERS

In respect alone of the limitations on our work as described in the basis for disclaimer of opinion paragraphs:

- 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

25 July 2007

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000
TURNOVER	7	**22,928**	28,927
Cost of goods sold		**(28,496)**	(28,185)
Gross (loss)/profit		**(5,568)**	742
Other income	8	**22,426**	144
Selling expenses		**(1,087)**	(956)
Administrative expenses		**(6,256)**	(8,547)
Other operating expenses	10	**(25,385)**	(395)
Loss from operations		**(15,870)**	(9,012)
Finance costs – interest expenses		**(251)**	(354)
Loss before tax		**(16,121)**	(9,366)
Tax	11	**(74)**	16
Loss for the year	12	**(16,195)**	(9,350)
Loss per share			
Basic	14	**(5.09 cents)**	(2.94 cents)
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
Non-current assets			
Fixed assets	15	**86**	125
Current assets			
Inventories	16	**–**	22,180
Trade receivables	17	**–**	4,666
Service deposits paid		**–**	5,616
Prepayments, deposits and other receivables		**778**	377
Due from substantial shareholders	18	**67**	–
Due from a director	21	**–**	390
Due from a subsidiary of a substantial shareholder		**–**	1,624
Bank and cash balances	19	**674**	7,244
		1,519	42,097
Current liabilities			
Trade payables	20	**1,560**	5,095
Accruals and other payables		**4,303**	3,366
Due to a director	21	**23**	–
Due to a substantial shareholder	18	**–**	21,847
Current tax liabilities		**4,928**	4,928
		10,814	35,236
Net current (liabilities)/assets		**(9,295)**	6,861
NET (LIABILITIES)/ASSETS		**(9,209)**	6,986
Capital and reserves			
Share capital	22	**7,950**	7,950
Reserves		**(17,159)**	(964)
TOTAL EQUITY		**(9,209)**	6,986

Approved by the Board of Directors on 25 July 2007.

TANG Yun
Director

DU Jun
Director

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the year ended 31 December 2006

	Share capital	Share premium	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	7,950	28,537	(20,151)	16,336
Loss for the year	–	–	(9,350)	(9,350)
At 31 December 2005	7,950	28,537	(29,501)	6,986
At 1 January 2006	7,950	28,537	(29,501)	6,986
Loss for the year	–	–	(16,195)	(16,195)
At 31 December 2006	7,950	28,537	(45,696)	(9,209)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(16,121)**	(9,366)
Adjustments for:			
Depreciation		**43**	575
Interest income		**(121)**	(138)
Waiver of an amount due to a substantial shareholder		**(22,254)**	–
Interest expenses		**251**	354
Bad debts written off		**33**	–
Allowance for inventories		**108**	–
Allowance for service deposit paid		**2,496**	–
Allowance for an amount due from a substantial shareholder		**5,281**	–
Allowance for an amount due from a subsidiary of a substantial shareholder		**6,645**	–
Inventories written off		**10,822**	–
Impairment losses of fixed assets		**–**	395
		(12,817)	(8,180)
Decrease/(Increase) in inventories		**11,250**	(21,555)
Decrease in trade receivables		**4,666**	13,047
Decrease/(Increase) in service deposits paid		**3,120**	(5,616)
Increase in prepayments, deposits and other receivables		**(434)**	(175)
Decrease/(Increase) in an amount due from/(to) a director		**413**	(390)
Increase in due from a subsidiary of a substantial shareholder		**(5,021)**	(1,624)
Decrease in trade payables		**(3,535)**	(8,776)
Increase in accruals and other payables		**686**	2,308
(Increase)/Decrease in amounts due from/(to) substantial shareholders		**(4,941)**	21,895
Cash used in operations		**(6,613)**	(9,066)
Interest received		**121**	138
Hong Kong profits tax paid		**(68)**	(122)
Overseas profits tax paid		**(6)**	(898)
Net cash used in operating activities		**(6,566)**	(9,948)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		**(4)**	(2)
Decrease in time deposits with original maturity of more than three months		**–**	56
Decrease in pledged deposits		**–**	180
Net cash (used in)/generated from investing activities		**(4)**	234

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(6,570)**	(9,714)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**7,244**	16,958
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**674**	7,244
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank and cash balances	*19*	**610**	7,182
Time deposits with original maturity of less than three months when acquired	*19*	**64**	62
		674	7,244

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 Unit 3701, 37/F., West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong. 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 29 to the financial statements.

2. GOING CONCERN BASIS

The Group incurred a loss for the year of approximately HK$16,195,000 for the year ended 31 December 2006 and as at 31 December 2006 the Group had net current liabilities and net liabilities of approximately HK$9,295,000 and HK$9,209,000 respectively. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of a substantial shareholder of the Company, Sichuan Changhong Electric Co., Ltd. ("Changhong"), at a level sufficient to finance the working capital requirements of the Group. Changhong has agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. ADOPTION OF NEW AND REVISED HKFRSs

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 2006. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. 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.

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance 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 of the Stock Exchange 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 involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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.

(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 from this translation policy are included in the income statement.

(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 foreign currency translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Foreign currency translation *(Continued)*

(iii) Translation on consolidation (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation 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.

(c) Fixed assets

Fixed assets are stated at 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 period in which they are incurred.

Depreciation of fixed assets is calculated at rates sufficient to write off their costs less their 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 residual values, useful lives and depreciation method 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. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

(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.

4. 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 receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(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. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(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.

(k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the sales of goods are recognised on the transfer of significant 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

(m) Taxation

Income tax represents the sum of the current tax 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, unused tax losses or unused tax credits 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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Taxation *(Continued)*

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.

(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 receivable. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Segment reporting *(Continued)*

Segment revenue, expenses, 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.

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.

(p) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets other than inventories and receivables 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 (net of amortisation or depreciation) 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.

5. CRITICAL JUDGEMENTS AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the accounting policies, management has made the following judgement that has the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

(a) Going concern basis

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of a substantial shareholder of the Company, at a level sufficient to finance the working capital requirements of the Group. Details are explained in note 2 to financial statements.

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) Allowances for inventories

Management reviews the net realisable values and/or age of inventories and makes allowance for obsolete and slow moving inventory items identified with reference to existing market environment, the sales performance in previous years and estimated market value. Specific allowance for inventories is only made if the estimated market value of the inventories is lower than its carrying value.

(b) Allowances for receivables

Management regularly reviews the recoverability and/or age of receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

In determining whether impairment for bad and doubtful debts is required, the Group takes into consideration the current creditworthiness, the past collection history, age status and likelihood of collection. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original effective interest rate and its carrying value. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment may be required.

(c) Income taxes

The Group is subject to income taxes in different 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.

6. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency 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 currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) 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.

(c) 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.

(d) 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.

7. TURNOVER

The Group's turnover which represents the invoiced value of goods sold and after allowances for goods returned and trade discounts is as follows:

	2006	2005
	HK$'000	*HK$'000*
Gross amount	**23,563**	53,466
Less: Goods returned	**(635)**	(24,539)
Net amount	**22,928**	28,927

8. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Interest income	**121**	138
Waiver of an amount due to a substantial shareholder *(note 18(b))*	**22,254**	–
Others	**51**	6
	22,426	144

9. SEGMENT INFORMATION

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

(a) Business segments

The Group has been operating in a single business segment, that is trading of consumer electronic products and the related parts and components.

(b) Geographical segments

The following is an analysis of the Group's sales by geographical location of customers:

	2006	2005
	HK$'000	*HK$'000*
Europe	**12,826**	6,389
United States of America ("USA")	**5,237**	19,593
India	**3,128**	–
Hong Kong	**906**	552
People's Republic of China	**831**	2,393
Total	**22,928**	28,927

The following is an analysis of the carrying amount of segment assets, analysed by the geographical area in which the assets are located:

	Segment assets	
	2006	2005
	HK$'000	*HK$'000*
Hong Kong	**1,484**	13,504
USA	**121**	28,718
Total	**1,605**	42,222

The following is an analysis of capital expenditure, analysed by the geographical area in which the assets are located:

	Capital expenditure	
	2006	2005
	HK$'000	*HK$'000*
Hong Kong	**4**	2

10. OTHER OPERATING EXPENSES

	2006 *HK$'000*	2005 *HK$'000*
Bad debts written off	**33**	–
Allowance for inventories	**108**	–
Allowance for service deposit paid	**2,496**	–
Allowance for an amount due from a substantial shareholder *(note 18(b))*	**5,281**	–
Allowance for an amount due from a subsidiary of a substantial shareholder	**6,645**	–
Inventories written off *(note 16)*	**10,822**	–
Impairment losses of fixed assets	**–**	395
	25,385	395

11. TAX

	2006 *HK$'000*	2005 *HK$'000*
Hong Kong Profits Tax		
– Current tax	**58**	–
– Under/(Over)-provision in prior years	**10**	(16)
Elsewhere		
– Current	**6**	–
	74	(16)

Hong Kong Profits Tax has been provided at a rate of 17.5% on the estimated assessable profit for the year ended 31 December 2006. No Provision for Hong Kong Profits Tax has been made for the year ended 31 December 2005 as the Group did not generate any assessable profits arising in Hong Kong during that year.

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 2006. No provision for elsewhere Profits Tax is required since the Group has no assessable profit for the year ended 31 December 2005.

11. TAX *(Continued)*

A reconciliation of the tax expense/(credit) applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense/(credit) 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:

2006

	Hong Kong		USA		Total	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
(Loss)/Profit before tax	**(16,231)**		**110**		**(16,121)**	
Tax at the statutory tax rate	**(2,841)**	**(17.5)**	**47**	**42.8**	**(2,794)**	**(17.3)**
Income not subject to tax	**(3,899)**	**(24.0)**	**–**	**–**	**(3,899)**	**(24.2)**
Expenses not deductible for tax	**4,914**	**30.2**	**2**	**1.8**	**4,916**	**30.5**
Deferred tax assets not recognised	**62**	**0.4**	**–**	**–**	**62**	**0.4**
Tax losses not recognised	**1,822**	**11.2**	**–**	**–**	**1,822**	**11.3**
Under-provision in prior year	**10**	**0.1**	**–**	**–**	**10**	**0.1**
Utilisation of tax losses not previously recognised	**–**	**–**	**(43)**	**(39.0)**	**(43)**	**(0.3)**
Income tax expense	**68**	**0.4**	**6**	**5.6**	**74**	**0.5**

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 assets not recognised	27	0.4	–	–	27	0.3
Tax losses not recognised	580	9.1	39	1.3	619	6.7
Over-provision in prior years	(16)	(0.3)	–	–	(16)	(0.2)
Income tax credit	(16)	(0.3)	–	–	(16)	(0.2)

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

	2006	2005
	HK$'000	*HK$'000*
Unused tax losses	**16,727**	6,424

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$ Nil (2005: HK$115,000) that will expire after ten years from the year of assessment they relate to. Other unused tax losses may be carried forward indefinitely.

12. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Cost of inventories sold	**28,496**	28,185
Depreciation	**43**	575
Exchange losses, net	**33**	18
Minimum lease payments under operating leases in respect of land and buildings	**683**	463
Auditor's remuneration	**800**	600
Staff costs (including directors' remuneration *(note 13)*):		
Salaries and related staff costs	**2,636**	1,882
Pension scheme contributions	**36**	51
	2,672	1,933

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

For the year ended 31 December 2006, the emoluments of each director were as follows:

	Fees	**Salaries and allowances**	**Bonus for past contribution**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Name of director				
Mr. David JI Long Fen ("Mr. Ji")	–	939	–	939
Mr. YU Xiao *(note (a))*	–	–	–	–
Mr. TANG Yun *(note (a))*	–	85	–	85
Mr. DU Jun *(note (a))*	–	29	–	29
Mr. XIANG Chao Yang *(note (a))*	–	68	–	68
Mr. WANG Zhenhua *(note (b))*	–	13	–	13
Mr. Ancle HSU Ann Keh *(note (c))*	–	–	–	–
Ms. Alice HSU Chu Yun *(note (d))*	–	–	78	78
Total for 2006	–	1,134	78	1,212

Notes:
(a) Appointed on 1 November 2006
(b) Appointed on 19 December 2006
(c) Resigned on 29 September 2006
(d) Resigned on 19 December 2006

For the year ended 31 December 2005, no directors received any directors' fees and emoluments.

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

The five highest paid individuals in the Group during the year included one (2005: Nil) director whose emolument is reflected in the analysis presented above. The emoluments of the remaining four (2005: five) individuals, which included an individual who was appointed as director of the Company on 19 December 2006, are set out below:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries and allowances	**1,223**	1,480
Performance related incentive payments	**–**	68
Retirement benefit scheme contributions	**30**	38
	1,253	1,586

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 by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

14. LOSS PER SHARE

The calculation of basic loss per share is based on the loss for the year of approximately HK$16,195,000 (2005: HK$9,350,000), and the weighted average number of ordinary shares of 318,000,000 (2005: 318,000,000) in issue during the year.

No diluted loss per share is presented for the year ended 31 December 2006 as the Company did not have any dilutive potential ordinary shares in existence during the year.

No diluted loss per share has been presented for the year ended 31 December 2005 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.

15. FIXED ASSETS

	Furniture, fixtures and equipment HK$'000	Leasehold improvements HK$'000	Total HK$'000
Cost			
At 1 January 2005	1,386	304	1,690
Additions	2	–	2
At 31 December 2005	1,388	304	1,692
At 1 January 2006	1,388	304	1,692
Additions	4	–	4
Written off	(1,185)	–	(1,185)
At 31 December 2006	207	304	511
Accumulated depreciation and impairment			
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
At 1 January 2006	1,265	302	1,567
Charge for the year	41	2	43
Written off	(1,185)	–	(1,185)
At 31 December 2006	121	304	425
Carrying amount			
At 31 December 2006	86	–	86
At 31 December 2005	123	2	125

16. INVENTORIES

	2006 ***HK$'000***	2005 *HK$'000*
Goods for sale	–	22,180

The inventories as of 31 December 2005 included defective goods at costs of approximately HK$22,072,000 which were returned from a customer of the Group during the year ended 31 December 2005 and the goods were received by a substantial shareholder of the Group, Apex Digital Inc. ("ADI"), on behalf of the Group. During the current year, ADI further received defective goods with costs of approximately HK$30,000, on behalf of the Group, from the customer. In total, the aggregate costs of the returned defective goods were approximately HK$22,102,000.

16. INVENTORIES *(Continued)*

During the year ended 31 December 2006, ADI, on behalf of the Group, entered into an agreement with the supplier of the above-mentioned goods to repair the defective goods free of charge on the condition that ADI would purchase certain products from the supplier. However, the supplier had only received defective goods with costs of approximately HK$19,671,000 during the year. The balance of approximately HK$2,431,000 was short-shipped and could not be traced. Out of the defective goods received by the supplier, approximately HK$11.3 million was considered as repairable. These repairable defective goods were then repaired and sold with a consideration of approximately HK$5.2 million during the current year.

The remaining defective goods of approximately HK$8,391,000 was considered as non-repairable. Therefore, the directors of the Company are in the opinion that these inventories together with the short-shipped defective goods with aggregate costs of approximately HK$10,822,000 would have no realisable value and concluded to write off these inventories and charged to the income statement for the current year (note 10).

17. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on cash on delivery.

The aging analysis of trade receivables as at the balance sheet date, based on invoice date, is as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 3 months	–	4,463
Over 1 year	–	203
	–	4,666

18. DUE FROM/(TO) SUBSTANTIAL SHAREHOLDER(S)

	2006	2005
	HK$'000	*HK$'000*
Changhong	**2**	–
ADI	**65**	(21,847)
	67	(21,847)

18. DUE FROM/(TO) SUBSTANTIAL SHAREHOLDER(S) *(Continued)*

(a) The amount due from Changhong is unsecured, interest free and repayable on demand.

(b) The amount due from ADI is unsecured, interest free and repayable on demand which mainly represented the balance between a waiver of an amount granted by ADI and an allowance for partial receivable balance approved by the directors of the Company.

(i) Pursuant to a waiver agreement ("Waiver Agreement") among Changhong, ADI and Mr. Ji dated 18 December 2006, ADI agreed to waive an amount under the Waiver Agreement, of approximately HK$22,254,000, due by the Group. ADI also agreed to waive a claim for a freight charge paid by ADI on behalf of the Group of approximately HK$ 23.5 million which was disclosed as contingent liabilities in the Group's financial statements of 2005. As the consideration of the aforesaid waivers, Changhong, in return, agreed to waive a receivable of approximately HK$22,254,000 due from ADI as a partial settlement of a legal claim filed by Changhong against ADI to the United States District Court for certain disputed receivables. The aforesaid Waiver Agreement is governed by and construed in accordance with the Hong Kong law.

In connection to the contribution from Changhong to the release of payable due to ADI as mentioned above, Changhong then entered into an agreement with the Company on 19 December 2006 whereby Changhong waived his claim to the Group under this contribution. In view of the above, the Group recognised an income from waiver of an amount due to the substantial shareholder of approximately HK$22,254,000 in the current year (note 8).

(ii) After the net off the above-mentioned income from waiver of an amount due to the substantial shareholder, the Group has a net receivable balance of approximately HK$5,346,000 due from ADI. The directors of the Company are of the opinion that the Group is uncertain whether the balance could be recovered in full and decided to make a provision on majority of the balance of approximately HK$5,281,000 (note 10).

(c) 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, representing 51.95% and 18.14% respectively of the Company's issued share capital, to 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. On 8 September 2006, ADI has transferred its partial ownership of 95,368,000 ordinary shares in the Company, representing 29.99% of the Company's issued share capital to Changhong.

Because of the above-mentioned transfer of the issued shares of the Company, as at 31 December 2006, ADI became a substantial shareholder of the Company. The comparative figures of the amount due from holding company, ADI, as at 31 December 2005 has been reclassified as amount due from a substantial shareholder in order to conform with the current year's presentation.

19. BANK AND CASH BALANCES

	2006	2005
	HK$'000	*HK$'000*
Bank and cash balances	**610**	7,182
Time deposits	**64**	62
	674	7,244

Bank and cash balances 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.

20. TRADE PAYABLES

The aging analysis of trade payables, based on the date of receipt of goods, is as follows:

	2006	2005
	HK$'000	*HK$'000*
Within 3 months	**–**	5,095
Over 1 year	**1,560**	–
	1,560	5,095

21. DUE (TO)/FROM A DIRECTOR

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

	2006	2005
	HK$'000	*HK$'000*
At balance sheet date	**(23)**	390
Maximum aggregate receivable amount during the year	**390**	390

22. SHARE CAPITAL

Shares

	2006	2005
	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 23.

23. 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 shareholder meetings.

During the years ended 31 December 2006 and 2005, no options under the scheme had been granted to any person.

24. BALANCE SHEET OF THE COMPANY

	2006	2005
	HK$'000	*HK$'000*
Investments in subsidiaries	**100**	–
Prepayments, deposits and other receivables	**201**	235
Due from a subsidiary	**16,205**	16,205
Due from a director	**–**	390
Bank and cash balances	**143**	70
Accruals and other payables	**(1,050)**	(725)
Due to subsidiaries	**(3,279)**	(2,005)
NET ASSETS	**12,320**	14,170
Capital and reserves		
Share capital	**7,950**	7,950
Reserves	**4,370**	6,220
TOTAL EQUITY	**12,320**	14,170

25. CONTINGENT LIABILITIES

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 Digital Inc. Limited and Apex Digital, LLC, an executive director of the Company, Mr. Ji, an ex-executive director of the Company, Mr. Ancle HSU Ann Keh, a substantial shareholder, ADI, a beneficial shareholder, United Delta Inc., and an individual (collectively known as the "Defendants"). ADI verbally agreed to appoint a legal representative and handle the legal claim on behalf of the Group. The Defendants were claimed against 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 not aware of the extent of the claim and any legal and professional fees incurred and paid by ADI on its behalf. Therefore, the directors are unable to estimate the liability under the claim and the relevant costs at this stage.

26. LEASE COMMITMENTS

At 31 December 2006, the total future minimum lease payments under a non-cancellable operating lease are payable as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**465**	657
In the second to fifth years, inclusive	**–**	465
	465	1,122

Operating lease payments represent rentals payable by the Group for its office. Leases are negotiated for a term of 2 years and rentals are fixed over the lease terms and do not include contingent rentals.

27. RELATED PARTY TRANSACTIONS

In addition to those related party transactions and balances disclosed elsewhere in the financial statements, the Group has the following transactions with related parties during the year:

(a) ADI provided support regarding human resources, sales and purchasing, logistics and customer services to Apex Digital Inc. Limited and Apex Digital, LLC for no consideration.

(b) Apex (Shanghai) provided testing service on repaired goods to Apex Digital Inc. Limited for no consideration.

(c) The Group sold certain goods to ADI free of charge. The costs of the relevant goods was approximately HK$11,000.

28. POST BALANCE SHEET EVENT

On 2 March 2007, ADI transferred its remaining ownership of 69,829,340 ordinary shares in the Company, representing 21.96% of the Company's issued share capital to 四川川投資產管理有限責任公司 ("Sichuan Investment"). On the same date, Mr. Ji also transferred his partial ownership of 13,180,000 ordinary shares in the Company, representing 4.14% of the Company's issued share capital to Sichuan Investment.

29. SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2006 are as follows:

Name	Place of incorporation/ registration and operation	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 Inc.	British Virgin Islands	US$1	100	–	Provision of administrative services to the Group
Changhong Overseas Development Limited	Hong Kong	HK$100,000	100	–	Not yet commenced business
Apex Digital, LLC	USA	US$365,190	–	100	Trading of consumer electronic products and related parts and components
Apex Digital Inc. Limited	Hong Kong	HK$2	–	100	Trading of consumer electronic products and related parts and components

30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 25 July 2007.