CHINA DATA BROADCASTING HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)
Stock Code : 8016

Annual Report 2008

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") 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.

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

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

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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
Bermuda principal share registrar and transfer office	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited 46/F, Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	The Hongkong and Shanghai Banking Corporation Limited China Insurance Group Building 141 Des Voeux Road Central, Sheung Wan Hong Kong Fubon Bank (Hong Kong) Limited Fubon Bank Building 38 Des Voeux Road Central Hong Kong
Stock exchange	Growth Enterprise Market of The Stock Exchange of Hong Kong Limited
Stock code	8016
Website	www.cdb-holdings.com.hk
E-mail address	LEE@cdb-holdings.com.hk

Corporate Information

Board of Directors	
Executive Directors	Mr. YU Xiao Mr. TANG Yun Mr. David JI Long Fen Mr. WU Xiang Tao Mr. XIANG Chao Yang Mr. WANG Zhen Hua Ms. SHI Ping
Independent Non-executive Directors	Mr. Jonathan CHAN Ming Sun Mr. Robert IP Chun Chung Mr. SUN Dong Feng
Authorised representatives	Mr. TANG Yun Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.), ACIS & ACS
Compliance officer	Mr. TANG Yun
Qualified accountant	Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.), ACIS & ACS
Company secretary	Mr. LEE Wing Lun CPA (HKICPA & CPA Aust.), ACIS & ACS
Bermuda resident representative	Mr. John Charles Ross COLLIS
Bermuda deputy resident representative	Mr. Anthony Devon WHALEY
Audit Committee	Mr. Jonathan CHAN Ming Sun Mr. Robert IP Chun Chung Mr. SUN Dong Feng
Remuneration Committee	Mr. YU Xiao Mr. Robert IP Chun Chung Mr. SUN Dong Feng
Nomination Committee	Mr. YU Xiao Mr. Jonathan CHAN Ming Sun Mr. SUN Dong Feng
Auditor	SHINEWING (HK) CPA Limited 16/F, United Centre 95 Queensway Hong Kong

Chairman's Statement

FINANCIAL SUMMARY

- Revenue for the year ended 31 December 2008 was approximately 4 folds higher than the previous year, reaching approximately HK$1,325.0 million.

- A net profit of approximately HK$5.7 million for the year ended 31 December 2008 was generated from business.

BUSINESS REVIEW

During the year, the Group engaged in trading business in the consumer electronic industry (the "Trading Business"). The Group has accomplished an improved operating revenue of approximately HK$1,325.0 million and a net profit of approximately HK$5.7 million for the year ended 31 December 2008.

The Group's revenue for 2008 increased approximately 400% over that of 2007, which in fact consolidated the major turn-around after several loss-making years. Profit attributable to equity holders reached a milestone level.

As at 31 December 2008, the Group's gross margin was approximately 2.09% which represented a remarkable growth of 31.4% as compared with 2007. Total selling expenses increased dramatically due to the increase in freight as revenue increased and the increase in remuneration costs of sales staff. Total administrative expenses increased reasonably due to remarkable increase in revenue. Total finance costs also rose dramatically as the Company borrowed capitals for promotion the businesses during the year and the results showed that the Company's strategy was workable.

The Company raised a legal suit on 17 October 2008 at Shanghai in People's Republic of China ("PRC") against Apex Digital (Shanghai) Co., Limited (a subsidiary of former substantial shareholder, Apex Digital Inc. ("Apex Digital")) for the collection of the repayment of approximately HK$6,640,000 which happened by the end of year 2006. The court is in the progress of investigation and has not yet heard as at the date of report. The Company tried various measures for the collection of the service deposit of approximately HK$2,496,000 owed by Ms. Fei Liqiong (an American), there was no final settlement agreement reached as at the date of the report.

In relation to the application for the resumption of trading of the Company, the Stock Exchange continued reverting comments on the various affairs of the Company during the year. With the efforts of the Company and its advisors, the Company replied those comments from the Stock Exchange promptly and accordingly. But the progress is still reviewing by the Stock Exchange.

Chairman's Statement

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial and liquidity positions are healthy and stable. As at 31 December 2008, the aggregate outstanding borrowings with related companies of the Group were approximately HK$441,425,000 which were unsecured and interested bearing (2007: HK$19,500,000). Such fluctuation was within the normal pattern of operations of the Group. The Group's cash and bank balances amounted to approximately HK$119,032,000, together with trading receivables amounted to approximately HK$446,058,000. The Group's net current assets approximate to HK$8.0 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 and United States dollars. As the exchange rate between Hong Kong dollars and United States dollars is pegged, the Group believes its exposure to exchange risk is minimal.

EMPLOYMENT AND REMUNERATION POLICY

As at 31 December 2008, the total number of the Group's staff was 16. The total staff costs (including directors) amounted to approximately HK$6.0 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 2008, there were no outstanding share options. During the year under review, no share option had been granted nor exercised.

The Group did not experience any significant labour disputes or substantial change in the number of its employees that led to any disruption of normal business operations. The Directors consider the Group's relationship with its employees to be good.

CAPITAL STRUCTURE

The Group manages its capital structure to ensure optimal capital structure and shareholder returns, using the capital to promote the brand name products as ultimately increasing the market share in consumer industry. Further capital may be used to increase its horizon.

Capital of the Group comprises all components of equity, cash and bank balances and loan from a related company. The Group has granted the banking facilities to a subsidiary, the covenant has been expired and cleared as at the date of the report.

The usage of loan from a related company is used to support the daily operation.

Chairman's Statement

SIGNIFICANT INVESTMENTS

As at 31 December 2008, the Group did not have any significant investment.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND EXPECTED SOURCE OF FUNDING

The Group continued to consolidate its existing businesses while exploring new business opportunities that would enhance its existing businesses. As at 31 December 2008, the Group was considering various investment projects and options but had not made any decision for its pursuing.

CONTINGENT LIABILITIES

As at 31 December 2008, the Group did not have any material contingent liabilities.

OUTLOOK

As the Company has established stable clientele bases of supplier and customers, there is a minimal effect by the financial crisis to the operations of the Company. The Company is confident that the Trading Business in the consumer electronic industry will build up a steady and considerable income stream of the Group. Also the dispute has been settled, the management can concentrate in business activities and put more efforts to explore further business opportunities in the consumer electronic industry, such as trading of finished goods/parts and components of televisions, set top boxes, fridges, notebooks and other products. The Board believes that the business will keep on the track and will be better in the near future.

YU Xiao
Chairman

25 March 2009

Biographical Details in Respect of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. YU Xiao, aged 40, is the chairman of the Company. He is responsible for overseeing the strategies and directions of the Group. He holds a Bachelor Degree in National Economic Management from Sichuan University in the PRC and has more than 18 years of experience in financial and economic management.

Mr. TANG Yun, aged 43, 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 University of Electronic Science and Technology of China in the PRC and has more than 19 years of experience in engineering and marketing.

Mr. WU Xiangtao, aged 35, is responsible for import and export activities of the Group in PRC and Asia. He holds a Master Degree in Business Administration from Southwestern University of Finance and Economics and a Bachelor Degree in International Trade and Economics from Shandong University in the PRC and has more than 12 years of experience in import and export activities.

Mr. XIANG Chao Yang, aged 51, is responsible for the PRC legal matters of the Company. He obtained a Master Degree in Criminal Law of China from Sichuan University and a Bachelor Degree of Law from Southwest University of Political Science and Law in the PRC. He has more than 20 years of experience in law.

Mr. David JI Long Fen, aged 56, is responsible for the import and export activities of the Group in United States of America ("USA"). He graduated from the Department of Foreign Languages of Fudan University in Shanghai, the PRC and holds a Master Degree in Business Administration from Pacific States University in USA. He has more than 17 years of experience in the consumer electronics industry in 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 56, is responsible for sourcing of supplier and technical support of the Group. He obtained a Master Degree in Business Administration from Tianjin University in the PRC and has more than 32 years experience in industrial and foreign trade enterprises.

Ms. SHI Ping, aged 46, is responsible for the investment and business merger of the Group. She obtained a Master Degree in Managerial Economics from Nanyang Technology University in Singapore, a Master Degree in Industrial Management Engineering from Chengdu University of Science and Technology and a Bachelor Degree in Chemical Engineering from Hunan University in the PRC and has more than 23 years experience in economics and engineering management.

Biographical Details in Respect of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jonathan CHAN Ming Sun, aged 37, 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 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 10 years of experience in investment and corporate finance.

Mr. Robert IP Chun Chung, aged 52, 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 in Arts from University of Hong Kong and held a CPE Diploma and Diploma in Law from the College of Law, United Kingdom. He is also a member of the Law Society of Hong Kong and the Law Society of England and Wales. He has over 27 years of experience in legal aspects.

Mr. SUN Dongfeng, aged 41, 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 China University of Political Science and Law, and obtained a Master Degree of Law in International Economics from the School of Law of University of Canberra, Australia. He has over 12 years of experience in legal aspects.

SENIOR MANAGEMENT

Mr. LEE Wing Lun, aged 50, 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. Also Mr. Lee is an independent non-executive director of Vinco Financial Group Limited. He graduated from Australian National University with a Bachelor Degree in Commerce and held a Postgraduate Diploma in Corporate Administration from 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 14 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 Board considers that maintaining high standard of corporate governance and business ethics will serve the long term interest of the Company and of its shareholders. The principles adopted by the Board emphasise a quality board, sound internal control, accountability to shareholders and thus an ethical corporate culture established.

Pursuant to the Code on Corporate Governance Practices (the "CG Code") contained in appendix 15 to the GEM Listing Rules which sets out corporate governance principles (the "Principles") and code provisions (the Code Provisions), the Company has applied most of the Code Provisions as far as possible and practicable. An explanation for any deviation 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 than they have complied with the requirements as set out in the GEM Listing Rules for the year ended 31 December 2008.

BOARD OF DIRECTORS AND BOARD MEETING

The Board comprises of 10 members and their positions are as follows:

Executive Directors

Mr. David JI Long Fen	
Mr. YU Xiao	
Mr. TANG Yun	
Mr. DU Jun	(did not re-elect in AGM held on 28/4/2008)
Mr. XIANG Chao Yang	
Mr. WANG Zhenhua	
Ms. SHI Ping	
Mr. WU Xiangtao	(appointed on 21/5/2008)

Independent Non-Executive Directors

Mr. Jonathan CHAN Ming Sun
Mr. Robert IP Chun Chung
Mr. SUN Dongfeng

Profiles of Directors are set out on pages 8 to 9 of this annual report for the year ended 31 December 2008.

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.

Corporate Governance Report

During the year ended 31 December 2008, details of the attendance of the directors at the respective meetings were as follows:

Name of Directors	Board Meeting	Audit Committee Meeting	Nomination Committee Meeting	Remuneration Committee Meeting
Executive Director				
Mr. David JI Long Fen	0/9	N/A	N/A	N/A
Mr. YU Xiao	5/9	N/A	1/1	1/1
Mr. TANG Yun	9/9	N/A	N/A	N/A
Mr. DU Jun	2/7	N/A	N/A	N/A
Mr. XIANG Chao Yang	6/9	N/A	N/A	N/A
Mr. WANG Zhenhua	6/9	N/A	N/A	N/A
Ms. SHI Ping	7/9	N/A	N/A	N/A
Mr. WU Xiangtao	2/2	N/A	N/A	N/A
Independent Non-Executive Director				
Mr. Jonathan CHAN Ming Sun	6/9	5/5	1/1	N/A
Mr. Robert IP Chun Chung	3/9	2/5	N/A	0/1
Mr. SUN Dongfeng	5/9	5/5	0/1	1/1

The Board also approved matters by resolution 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.

During the meeting, the Board discussed and formulated the overall strategies of the Group, reviewed and monitored the business and financial performances. The quarterly, half-yearly and annual results and other significant matters were also discussed and decided.

The management is responsible for the daily operations of the Group. For significant matters that are specifically delegated by the Board, the management must report back to and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group.

CHAIRMAN AND MANAGING DIRECTOR

The 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.

During the year, 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.

Corporate Governance Report

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive directors is appointed to a twelve month auto-renewable service agreement with a fixed amount per annum. None of each has served the Group for more than nine years.

All independent non-executive directors have confirmed their independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers they are independent.

REMUNERATION COMMITTEE

The remuneration committee currently comprises two independent non-executive directors and one executive director. It is chaired by an executive director.

During the year, the Committee held a meeting and the details of attendance was set out on page 11 of the report.

AUDITOR'S REMUNERATION

The remuneration of the audit service rendered by the auditor of the Group was mutually agreed in view of the scope of services in the total amount of HK$790,000. The auditor and its affiliates also provided non-audit service (i.e. internal control system follow up review and issue of comfort letter on working capital sufficiency) to the Company which amounted to HK$450,000 during the period.

AUDIT COMMITTEE

The audit committee currently comprises three independent non-executive directors. At the discretion of the Committee, executive directors and/or senior management personnel, overseeing the Group's finance and internal control functions, may be invited to attend meetings.

During the year, the Committee held five meetings and the details of attendance was set out on page 11 of the report. The annual results for the year ended 31 December 2008 was reviewed by the Committee.

NOMINATION COMMITTEE

The nomination committee currently comprises two independent non-executive directors and one executive director. It is chaired by an executive director.

During the year, the Committee held a meeting and the details of attendance was set out on page 11 of the report.

PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The directors acknowledge their responsibility for the preparation of consolidated financial statements of the Group for the year ended 31 December 2008.

Corporate Governance Report

INTERNAL CONTROL

The Board has overall responsibilities for the establishment of, maintaining an adequate and effective internal control system and for reviewing its effectiveness to safeguard the Company's assets against unauthorized use or disposition, and to protect the interests of shareholders of the Company.

A follow up review of internal control system was conducted by SHINEWING Risk Services Limited ("SHINEWING") in February 2008, no material deficiencies have been identified during the assessment. The findings were as following:

(1) the Group has improved and implemented the procedures on the revenue and purchase cycles and ensures all the supporting documents thereto are adequate and complete.

(2) the Group has introduced new procedures and control policy to ensure proper internal communication within the Group on the payment terms to suppliers and from customers in respect of its revenue and purchase cycles.

(3) the Group has set up and implemented procedures to ensure good maintenance and possession of files on customers and suppliers in respect of its revenue and purchase cycles.

(4) the Group has adjusted its accounting policies in accordance with the Hong Kong Financial Reporting Standards to avoid transactions cutoff problem.

(5) the Group has formulated and implemented quality assurance procedures in revenue and purchase cycles.

(6) the Group has managed to segregate the duties between fixed assets cycles and financial reporting system.

(7) the Group has adjusted its accounting policies to ensure consistency within the companies in respect of its financial reporting cycles.

(8) the Group has formulated and implemented internal control procedures on inventory cycles and sales return.

SHINEWING confirmed that the Group has an adequate financial reporting system and internal control procedures. Both the internal control review report and the follow up internal control review report are documented for checking upon request.

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 2008.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 37 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The Group's profit for the year ended 31 December 2008 and the state of affairs of the Company and the Group at that date are set out in the consolidated financial statements on pages 26 to 74.

The board do not recommend the payment of any dividend in respect of the year (2007: Nil).

Report of the Directors

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				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**1,324,975**	320,949	22,928	28,927	578,032
Cost of sales	**(1,297,743)**	(315,952)	(28,496)	(28,185)	(554,419)
Gross profit/(loss)	**27,232**	4,997	(5,568)	742	23,613
Other income	**8,378**	184	22,426	144	356
Distribution and selling expenses	**(2,792)**	(272)	(1,087)	(956)	(3,613)
Administrative expenses	**(9,837)**	(8,252)	(6,256)	(8,547)	(13,040)
Other operating (expenses)/Income	**–**	–	(25,385)	(395)	(7,632)
Profit/(Loss) from operations	**22,981**	(3,343)	(15,870)	(9,012)	(316)
Finance cost	**(15,279)**	(61)	(251)	(354)	–
Gain on disposal of subsidiaries attributable to discontinued operations	**–**	–	–	–	6,612
Profit/(Loss) before Tax	**7,702**	(3,404)	(16,121)	(9,366)	6,296
Tax	**(2,000)**	(492)	(74)	16	(5,933)
Profit/(Loss) for the year	**5,702**	(3,896)	(16,195)	(9,350)	363
Attributable to:					
Equity holders of the Company	**5,702**	(3,896)	(16,195)	(9,350)	363

Report of the Directors

Assets and Liabilities

	31 December				
	2008	2007	2006	2005	2004
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Restated)	
Total Assets	**951,885**	104,897	1,605	42,222	36,875
Total Liabilities	**(959,288)**	(118,002)	(10,814)	(35,236)	(20,539)
Total Equity	**(7,403)**	(13,105)	(9,209)	6,986	16,336

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 18 to the consolidated 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 30 and 31 to the consolidated 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 Changes in Equity.

DISTRIBUTABLE RESERVES

At 31 December 2008, 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.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 86.4% of the total sales for the year and sales to the largest customer included therein amounted to approximately 54.7%. Purchases from the Group's five largest suppliers accounted for approximately 71.6% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 26.2%.

Whereas three customers were the subsidiaries of the substantial shareholder (ie. Sichuan Changhong Electric Co., Limited, "Changhong"), the sales accounted for approximately 24.4% of the total sales for the year. Also Changhong was one of the largest customer and supplier which accounted for approximately 54.7% and 18.6% of the total sales and purchases respectively.

Save as aforesaid, 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	
Mr. David JI Long Fen	
Mr. TANG Yun	
Mr. DU Jun	(did not re-elect in AGM held on 28/4/2008)
Mr. XIANG Chao Yang	
Mr. WANG Zhenhua	
Ms. SHI Ping	
Mr. WU Xiangtao	(appointed on 21/5/2008)

Independent non-executive directors:

Mr. Jonathan CHAN Ming Sun
Mr. Robert IP Chun Chung
Mr. SUN Dongfeng

In accordance with clause 86 of the Company's bye-laws, Mr. Jonathan CHAN Ming Sun, Mr. WANG Zhenhua and Ms. SHI Ping 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 8 to 9 of the annual report.

Report of the Directors

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 2008, 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")	44,520,000	Beneficial owner	Personal	14.00

Save as disclosed above, as at 31 December 2008, 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

As at 31 December 2008, 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 %
Changhong	Directly beneficially owned	95,368,000	29.99
Sichuan Investment Management Company Limited	Directly beneficially owned	83,009,340	26.10
Mr. Ji	Directly beneficially owned	44,520,000	14.00
Ms. Liu Ru Ying (note (a))	Through spouse	44,520,000	14.00

Note

(a) 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 44,520,000 shares in which Mr. Ji is interested.

Save as disclosed above, 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.

Report of the Directors

COMPETING INTEREST

Apex Digital is wholly owned by Mr. Ji from 10 April 2006. Apex Digital is principally engaged in the wholesaling business of consumer home electronics items under the name of "APEX Digital".

Changhong is a substantial shareholder of the Company which incorporated in the PRC and is listed in PRC Stock Exchange. Changhong is principally engaged in the wholesaling business of consumer home electronics items under the name of "Changhong".

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

CONTINUING CONNECTED TRANSACTIONS

(1) Year 2008

During the year 2008, the following continuing connected transactions were carried out by the Group.

(a) *Master Supply Agreement*

On 18 April 2007, the Company entered into framework agreement ("Master Supply Agreement") with Changhong in relation to the supply of electronic products and components to Changhong and its subsidiaries. The transactions amount under the Master Supply Agreement is subject to a cap of HK$2,106,000,000 for the year ended 31 December 2008. The transactions under the Master Supply Agreement are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

For the year ended 31 December 2008, the sale made under the Master Supply Agreement amounted to HK$1,075,991,679 in total. The Master Supply Agreement will be expired on 31 December 2009.

(b) *Master Purchase Agreement*

On 9 May 2007, the Company entered into framework agreement ("Master Purchase Agreement") with Changhong in relation to the purchase of consumer electronic products from Changhong and its subsidiaries. The transactions amount under the Master Purchase Agreement is subject to a cap of HK$468,000,000 for the year ended 31 December 2008. The transactions under the Master Purchase Agreement are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

For the year ended 31 December 2008, the purchase made under the Master Purchase Agreement amounted to HK$308,833,349 in total. The Master Purchase Agreement will be expired on 31 December 2009.

Report of the Directors

Confirmation of Independent Non-executive Directors

The Company's independent non-executive directors have reviewed the above continuing connected transactions and confirmed that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Confirmation from Auditor of the Company

The Board of Directors (the "Board") has received a confirmation from the auditor of the Company with respect to the above continuing connected transactions and the letter stated that for the year 2008, the above continuing connected transactions:

(i) have been approved by the Board;

(ii) have been entered into in accordance with the terms of the agreement governing the transactions; and

(iii) have not exceeded the cap amount announced by the Company.

(2) Year 2007

The Company did not comply with the disclosure requirements under GEM Listing Rules with respect to the transaction between the Group and Changhong and its subsidiaries in relation to the supply and purchase for the period from 31 January 2007 to May 2007 in the sum of HK$2,157,521 and HK$4,305,481 respectively. But these transactions were subsequently approved by the Company's board of directors on 31 May 2007 and disclosed in Company's announcement dated 26 July 2007. During the year 2007, the following continuing connected transactions were carried out by the Group.

(a) Master Supply Agreement

On 18 April 2007, the Company entered into framework agreement ("Master Supply Agreement") with Changhong in relation to the supply of electronic products and components to Changhong and its subsidiaries. The transactions amount under the Master Supply Agreement is subject to a cap of HK$903,357,000 for the year ended 31 December 2007. The transactions under the Master Supply Agreement are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Report of the Directors

For the year ended 31 December 2007, the sale made under the Master Supply Agreement amounted to HK$290,732,515 in total. The Master Supply Agreement will be expired on 31 December 2009.

(b) *Master Purchase Agreement*

On 9 May 2007, the Company entered into framework agreement ("Master Purchase Agreement") with Changhong in relation to the purchase of consumer electronic products from Changhong and its subsidiaries. The transactions amount under the Master Purchase Agreement is subject to a cap of HK$239,538,995 for the year ended 31 December 2007. The transactions under the Master Purchase Agreement are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

For the year ended 31 December 2007, the purchase made under the Master Purchase Agreement amounted to HK$47,274,813 in total. The Master Purchase Agreement will be expired on 31 December 2009.

Confirmation of Independent Non-executive Directors

The Company's independent non-executive directors have reviewed the above continuing connected transactions and confirmed that these transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Confirmation from Auditor of the Company

The Board has received a confirmation from the auditor of the Company with respect to the above continuing connected transactions and the letter stated that for the year 2007, the above continuing connected transactions:

(i) have been approved by the Board;

(ii) have been entered into in accordance with the terms of the agreement governing the transactions; and

(iii) have not exceeded the cap amount announced by the Company.

Report of the Directors

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 GEM Listing Rules.

AUDITOR

The financial statements of the Group for the year ended 31 December 2008 were audited by Messrs. SHINEWING (HK) CPA Limited who shall retire and, being eligible, offer themselves for re-appointment.

For and on behalf of the Board

YU Xiao
Chairman

Hong Kong
25 March 2009

Independent Auditor's Report

信永中和
ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

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

We have audited the consolidated financial statements of China Data Broadcasting Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 74, which comprise the consolidated balance sheet as at 31 December 2008, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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 the consolidated 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 consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

EMPHASIS OF MATTERS

Without qualifying our opinion, we draw attention to note 2 to the consolidated financial statements which indicate that as at 31 December 2008, the Group had capital deficiency of approximately HK$7,403,000. These conditions as set out in note 2 to the consolidated financial statements indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Pang Wai Hang
Practising Certificate Number: P05044

Hong Kong
25 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	NOTES	**2008** **HK$'000**	2007 HK$'000
Turnover	8	**1,324,975**	320,949
Cost of sales		**(1,297,743)**	(315,952)
Gross profit		**27,232**	4,997
Other income	9	**8,378**	184
Distribution and selling expenses		**(2,792)**	(272)
Administrative expenses		**(9,837)**	(8,252)
Finance costs	11	**(15,279)**	(61)
Profit/(loss) before tax		**7,702**	(3,404)
Income tax expenses	13	**(2,000)**	(492)
Profit/(loss) for the year	15	**5,702**	(3,896)
Earnings/(loss) per share			
Basic	17	**1.79 cents**	(1.23 cents)

Consolidated Balance Sheet

As at 31 December 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-current asset			
Plant and equipment	18	**77**	146
Current assets			
Inventories	19	**2,169**	–
Trade and bills receivables	20	**446,058**	60,362
Trade deposits paid	21	**383,961**	18,190
Prepayments, deposits and other receivables	22	**486**	471
Amounts due from related companies	23	**102**	65
Pledged bank deposits	24	**80,015**	–
Bank balances and cash	24	**39,017**	25,663
		951,808	104,751
Current liabilities			
Trade and bills payables	25	**255,946**	32,970
Other payables	26	**7,635**	3,586
Customer deposits	27	**19,271**	56,465
Amount due to a director	28	**5**	5
Tax liabilities		**6,475**	5,477
Borrowings	29	**654,455**	–
		943,787	98,503
Net current assets		**8,021**	6,248
Total assets less current liabilities		**8,098**	6,394
Capital and Reserves			
Share capital	30	**7,950**	7,950
Share premium and reserves		**(15,353)**	(21,055)
		(7,403)	(13,105)
Non-current liability			
Borrowings	29	**15,501**	19,499
		8,098	6,394

The consolidated financial statements on pages 26 to 74 were approved and authorised for issue by the Board of Directors on 25 March 2009 and are signed on its behalf by:

Director	*Director*
YU XIAO	**TANG YUN**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Share capital *HK$'000*	Share premium *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2007	7,950	28,537	(45,696)	(9,209)
Loss for the year and total recognised income and expense for the year	–	–	(3,896)	(3,896)
At 31 December 2007	7,950	28,537	(49,592)	(13,105)
Profit for the year and total recognised income and expense for the year	–	–	5,702	5,702
At 31 December 2008	7,950	28,537	(43,890)	(7,403)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES		
Profit/(loss) before tax	**7,702**	(3,404)
Adjustments for:		
Depreciation for plant and equipment	**100**	77
Interest income	**(1,303)**	(177)
Finance costs	**15,279**	61
Operating cash flows before movements in working capital	**21,778**	(3,443)
Increase in inventories	**(2,169)**	–
Increase in trade and bills receivables	**(385,696)**	(60,362)
Increase in trade deposits paid	**(365,771)**	(18,190)
(Increase)/decrease in prepayments, deposits and other receivables	**(15)**	307
Decrease in amounts due from substantial shareholders	**–**	67
Increase in amounts due from related companies	**(37)**	(65)
Increase in trade and bills payables	**222,976**	31,410
Increase/(decrease) in other payables	**4,049**	(717)
(Decrease)/increase in customer deposits	**(37,194)**	56,465
Decrease in amount due to a director	**–**	(18)
Cash (used in)/generated from operations	**(542,079)**	5,454
Hong Kong Profits Tax (paid)/refunded	**(1,002)**	57
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(543,081)**	5,511
INVESTING ACTIVITIES		
Interest received	**1,303**	177
Purchases of plant and equipment	**(31)**	(137)
NET CASH GENERATED FROM INVESTING ACTIVITIES	**1,272**	40

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	HK$'000	*HK$'000*
FINANCING ACTIVITIES		
Loan from a related company	**441,425**	–
Net funds arisen from discounted bills with recourse	**228,531**	–
Increase in pledged bank deposits	**(80,015)**	–
Repayment of loan from a substantial shareholder	**(19,499)**	–
Interest paid	**(15,279)**	(61)
Loan raised from a substantial shareholder	**–**	19,499
NET CASH GENERATED FROM FINANCING ACTIVITIES	**555,163**	19,438
NET INCREASE IN CASH AND CASH EQUIVALENTS	**13,354**	24,989
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**25,663**	674
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**39,017**	25,663

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

1. GENERAL INFORMATION

China Data Broadcasting Holdings Limited (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 functional currency of the Company was originally Hong Kong dollars. The directors are of the opinion that the transactions denominated in United States dollars ("USD") increased significantly over the year. The directors have therefore determined that the functional currency of the Company is changed to USD during the year.

The consolidated financial statements are presented in Hong Kong dollars ("HKD") which is different from the functional currency of the Company, being USD. As the Company is a public company with the shares listed on the Stock Exchange with most of its investors located in Hong Kong, the directors consider that Hong Kong dollars is preferable in presenting the operating result and financial position of the Group.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 37 to the consolidated financial statements.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2008, the Group had capital deficiency of approximately HK$7,403,000. Nevertheless, these consolidated financial statements have been prepared on a going concern basis because one of its substantial shareholders, Sichuan Changhong Electric Co., Ltd., had undertaken to provide continuing financial support to the Group to enable the Group to meet in full its financial obligations as they fall due in the foreseeable future. In addition, Changhong (Hong Kong) Trading Limited, a related company of the Company, had agreed on 2 March 2009 to extend the unsecured loan of approximately HK$15,501,000, as disclosed in note 29 to the consolidated financial statements to 3 July 2010 or one year after resumption of trading of Company's shares in Stock Exchange, whichever is the later.

These financial statements do not include any adjustments that would result in the failure of the Group to obtain future funding. Had the going concern basis not been used, adjustments would have to be made to reduce 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 as current assets. The effects of these adjustments have not been reflected in the financial statements.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are or have become effective.

Hong Kong Accounting Standard ("HKAS") 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Interpretation ("Int") 11	HKFRS 2: Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of adoption of these new and revised HKFRSs are as follows:

Amendments to HKAS 39 and HKFRS 7-Reclassification of Financial Assets

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing it in the near term if specified criteria are met. A debt instrument classified as held for trading not classified by designation or as available-for-sale not classified by designation may be reclassified as a loan or receivable if the asset meets the definition of a loan or receivable and the entity has the intention and ability to hold it for the foreseeable future or until maturity.

Financial assets that are not eligible for classification as loans and receivables, may be transferred from held for trading to available-for-sale or to held-to-maturity (in the case of debt instrument), only in rare circumstances.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above.

The amendments are effective from 1 July 2008. As the Group does not intend to reclassify any of its financial instruments, the amendments have had no impact on these consolidated financial statements.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HK(IFRIC)-INT 11 HKFRS 2 – Group and Treasury Share Transactions

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation has had no effect on these consolidated financial statements.

HK(IFRIC)-INT 12 – Service Concession Arrangements

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. As the Group currently has no such arrangements, the interpretation has had no effect on these consolidated financial statements.

HK(IFRIC)-INT 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists. As the Group currently has no defined benefit scheme, the interpretation has had no effect on these consolidated financial statements.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvement to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments) `	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 (Revised)	First-time Adoption of HKFRSs[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Int 9 and HKAS 39 (Amendments)	Embedded Derivatives[7]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 July 2009.
4 Effective for annual periods beginning on or after 1 July 2008.
5 Effective for annual periods beginning on or after 1 October 2008.
6 Effective for transfers of assets from customers received on or after 1 July 2009.
7 Effective for annual periods ending on or after 30 June 2009.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKAS 1 (Revised), "Presentation of Financial Statements"

HKAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements (including changes to the titles of the main statements). The revised standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this revised standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. This revised standard also requires an entity to include three "statements of financial position" (currently called the "balance sheet") whenever the entity applies an accounting policy retrospectively or makes a retrospective restatement, or when it makes a reclassification. The revised standard does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group expects to adopt HKAS 1 (Revised) on or after 1 January 2009.

HKAS 23 (Revised), "Borrowing Costs"

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

HKAS 27 (Revised), "Consolidated and Separate Financial Statements"

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 Cash Flows Statements, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rate, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 3 (Revised), "Business Combinations"

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. These changes, include, but are not limited to (i) introducing an option to measure non-controlling interests (currently minority interests) at fair value; (ii) recognising gains or losses from remeasuring to the fair value the interest in the acquiree held by the entity immediately before the business combination, in a step acquisition; (iii) expensing acquisition costs as incurred; (iv) recognising the fair value of contingent considerations at the acquisition date with subsequent changes generally reflected in the consolidated income statement; and (v) separately accounting for pre-existing relationships between the acquirer and acquiree.

The Group expects to adopt HKAS 27 (Revised) and HKFRS 3 (Revised) on or after 1 January 2009. The changes introduced by these revised standards must be applied prospectively and will affect future acquisitions, loss of control and transactions with minority interests.

The directors of the Company are not yet in a position to determine whether HKFRSs (Amendments) and HKFRS 1 (Revised) would have a significant impact on how the results and financial position of the Group are prepared and presented.

The directors of the Company anticipate that, other than as disclosed in above, HKFRSs (Amendments) and HKFRS 1 (Revised), the application of these standards, amendments or interpretations will have no material impact on how the results and financial position of the Group are prepared and presented.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include 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.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs, and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, amounts due from related companies, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses. (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets (Continued)

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and bills receivables and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30-120 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial assets is reduced by the impairment loss directly for all financial assets with the exception of trade and bills receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance amount are recognised in profit or loss. When trade and bills receivables or other receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

Effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables, amount due to a director and borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amounts of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from sales of goods is recognised when the goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value, are included in profit or loss for the period.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the leases transfer substantially all the risk and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Taxation

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments 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.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment losses on tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effects is material.

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.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are 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.

(a) Estimated impairment of receivables

Management regularly reviews the recoverability and/or age of receivables. Appropriate impairment for estimated irrecoverable amounts are recognised in the consolidated 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.

(b) 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.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

6. CAPITAL RISK MANAGEMENT

The Group manages its capital structure to ensure optimal capital structure and shareholder returns, using the capital to promote the brand name products as ultimately increasing the market share in consumer industry. Further capital may be used to increase its horizon. The Group's overall strategy remains unchanged from prior year.

The Group monitors capital by maintaining cash flows from operating activities, investing activities and financing activities. Capital of the Group comprises all components of equity, bank balances and cash and borrowings.

The usage of borrowings is used to support the daily operation.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2008 *HK$'000*	2007 *HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**565,240**	86,110
Financial liabilities		
At amortised cost	**930,994**	56,060

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and bills receivables, other receivables, amounts due from related companies, pledged bank deposits, bank balances and cash, trade and bills payables, other payables, amount due to a director and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk. Approximately 3% (2007: 98%) of the Group's sales and purchases are denominated in currencies other than the functional currency of the group entity making the sales and purchases.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		**Liabilities**	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
USD	**–**	102,690	**–**	108,934
HKD	**1,206**	–	**5,091**	
Euro ("EUR")	**16,668**	331	**15,850**	–
Australian Dollars ("AUD")	**20,491**	7	**19,529**	–

The Group does not currently have a foreign currency hedging policy in respect of foreign currency assets and liabilities as the directors consider the fluctuation in exchange rate of HKD/EUR/AUD (2007: USD/EUR/AUD) to be insignificant. The Group will monitor its foreign currency exposure closely and will consider hedging significant currency exposure should the need arise.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Sensitivity analysis

The Group is mainly exposed to the currency of HKD/EUR/AUD (2007: USD/EUR/AUD).

The following table details the Group's sensitivity to a 10% (2007: 5%) increase and decrease in USD (2007: HKD) against the relevant foreign currencies. 10% (2007: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. As a result of the volatile financial market in 2008, the management adjusted the sensitively rate from 5% to 10% for the purpose of assessing foreign currency risk. The sensitivity analysis includes only outstanding foreign currency denominated monetary items, and adjusts their translation at the year end for a 10% (2007: 5%) change in foreign currency rates. The sensitivity analysis includes external loans where the denomination of the loan is in a currency other than the functional currency of the Group. A positive number below indicates an increase in post-tax profit where USD (2007: HKD) strengthen 10% (2007: 5%) against the relevant currency. For a 10% (2007: 5%) weakening of USD (2007:HKD) against the relevant currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	HKD Impact		EUR Impact		AUD Impact		USD Impact	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Profit or loss	**389**	–	**(82)**	(17)	**(96)**	(1)	**–**	297

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Interest rate risk

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. Management does not anticipate significant impact resulted from the change in interest rates on interest-bearing assets.

The Group's interest-rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings at fixed rate in USD expose the Group to fair value interest-rate risk. During 2008 and 2007, the Group's borrowings at variable rate were denominated in USD.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the balance sheet date were outstanding for the whole year. A 100 basis point (2007: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

The management adjusted the sensitivity rate from 50 basis points to 100 basis points for assessing interest rate risk after considering the impact of the volatile financial market conditions after the third quarter of 2008.

As at 31 December 2008, if interest rates on USD-denominated borrowings had been 100 basis points higher/lower with all other variables held constant, profit after tax for the year would have been approximately HK$4,414,000 (2007: nil) decrease/increase, mainly as a result of higher/lower interest expense on floating rate borrowings.

Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

The Group has concentration of credit risk as 81% (2007: 92%) of the total trade receivables was due from the Group's largest customer which include a substantial shareholder of the Company and companies under its control.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk (Continued)

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverables amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalent deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group had capital deficiency of approximately HK$7,403,000 as at 31 December 2008. To deal with such impact on liquidity of the Group, one of its substantial shareholders, Sichuan Changhong Electric Co., Ltd. had undertaken to provide continuing financial support to the Group to enable the Group to meet in full its financial obligations as they fall due in the foreseeable future. In addition, Changhong (Hong Kong) Trading Limited had agreed on 2 March 2009 to extend an unsecured loan of approximately HK$15,501,000 to 3 July 2010 or one year after resumption of trading of Company's shares in Stock Exchange, whichever is the later.

The Group currently relies on borrowings as a significant source of liquidity.

The management will closely monitor the cash flow generated from operations and the Group's needs for different types of external financing and will negotiate for proper facilities and consider proper means of equity financing as appropriate.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk (Continued)

The following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Repayable on demand or less than 1 month	1-3 months	Over 3 months but less than 1 year	1-5 years	Total undiscounted cash flows	Carrying amount at 31/12/2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008						
Non-derivative financial liabilities						
Trade and bills payables	**233,045**	**18,403**	**4,498**	**–**	**255,946**	**255,946**
Other payables	**5,087**	**–**	**–**	**–**	**5,087**	**5,087**
Amount due to a director	**5**	**–**	**–**	**–**	**5**	**5**
Borrowings	**59,483**	**174,007**	**434,154**	**15,860**	**683,504**	**669,956**
	297,620	**192,410**	**438,652**	**15,860**	**944,542**	**930,994**

	Repayable on demand or less than 1 month	1-3 months	Over 3 months but less than 1 year	1-5 years	Total undiscounted cash flows	Carrying amount at 31/12/2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007						
Non-derivative financial liabilities						
Trade and bills payables	18,131	14,839	–	–	32,970	32,970
Other payables	–	3,586	–	–	3,586	3,586
Amount due to a director	5	–	–	–	5	5
Borrowings	–	–	–	19,499	19,499	19,499
	18,136	18,425	–	19,499	56,060	56,060

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

7. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair values of financial assets and liabilities

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

8. TURNOVER

The Group's turnover represents the invoiced value of goods sold, net of discounts and sales related taxes.

9. OTHER INCOME

	2008	2007
	HK$'000	*HK$'000*
Bank interest income	**1,303**	177
Compensation income from a subsidiary of a substantial shareholder	**6,341**	–
Exchange gain, net	**653**	–
Others	**81**	7
	8,378	184

10. 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 related parts and components.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

10. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	2008 HK$'000	2007 HK$'000
People's Republic of China	993,835	277,107
Europe	159,706	6
Australia	71,926	13,603
Hong Kong	49,410	809
Middle East	21,787	–
Africa	11,824	–
Other Asian District	7,355	29,424
United States of America ("USA")	3,176	–
South America	4,982	–
Other	974	–
	1,324,975	320,949

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

	Segment assets	
	2008 HK$'000	2007 HK$'000
Hong Kong	951,802	104,787
USA	83	110
	951,885	104,897

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

10. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments *(Continued)*

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

	Capital expenditure	
	2008	2007
	HK$'000	*HK$'000*
Hong Kong	**31**	137

11. FINANCE COSTS

	2008	2007
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within 5 years	**5,711**	–
Loan from a related company wholly repayable within 5 years	**9,568**	61
	15,279	61

12. DIVIDEND

No dividend was paid or proposed during 2008, nor has any dividend been proposed since the balance sheet date (2007: Nil).

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

13. INCOME TAX EXPENSES

	2008	2007
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
– Current tax	**2,046**	550
– Over-provision in prior years	**(46)**	(58)
	2,000	492

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

The tax charge for the year can be reconciled to the profit (loss) per the consolidated income statement is as follows:

	2008	2007
	HK$'000	*HK$'000*
Profit (loss) before taxation	**7,702**	(3,404)
Tax at the domestic income tax rate of 16.5% (2007: 17.5%)	**1,271**	(596)
Tax effect of income not taxable for tax purpose	**(11)**	(14)
Tax effect of expenses not deductible for tax purpose	**30**	5
Tax effect of other temporary differences not recognised	**6**	–
Tax effect of tax losses not recognised	**750**	1,155
Over-provision in prior years	**(46)**	(58)
Income tax expense	**2,000**	492

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

14. DEFERRED TAXATION

At 31 December 2008, the Group had unused tax losses and other deductible temporary differences of approximately HK$23,471,000 (2007: HK$18,926,000) and HK$36,000 (2007: nil) respectively available for offset against future profits. No deferred tax asset in respect of other deductible temporary differences and unused tax loss has been recognised due to the unpredictability of future profit streams. The unused tax losses may be carried forward indefinitely.

15. PROFIT (LOSS) FOR THE YEAR

Profit (loss) for the year has been arrived at after charging:

	2008	2007
	HK$'000	*HK$'000*
Depreciation for plant and equipment	**100**	77
Auditor's remuneration	**790**	680
Cost of inventories recognised as an expense	**1,307,964**	315,952
Staff costs (including directors' emoluments *(note 16)*)		
– Salaries and related staff costs	**5,822**	4,000
– Retirement benefits scheme contributions	**136**	68
	5,958	4,068

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

16. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of emoluments paid by the Group to the directors during the year are as follows:

For the year ended 31 December 2008

	Fees HK$'000	Salaries and allowances HK$'000	Retirement benefits scheme contributions HK$'000	Total HK$'000
Executive directors				
Mr. David Ji Long Fen ("Mr. Ji")	–	515	–	515
Mr. Du Jun *(Note (b))*	–	108	3	111
Ms. Shi Ping	36	–	–	36
Mr. Tang Yun	–	612	12	624
Mr. Wang Zhenhua	36	–	–	36
Mr. Xiang Chao Yang	–	480	–	480
Mr. Yu Xiao	36	–	–	36
Mr. Wu Xiangtao *(Note (a))*	–	395	10	405
Independent non-executive directors				
Mr. Jonathan Chan Ming Sun	120	–	–	120
Mr. Robert Ip Chun Chung	120	–	–	120
Mr. Sun Donfeng	120	–	–	120
	468	2,110	25	2,603

Note (a): Appointed on 21 May 2008
Note (b): Retired on 28 April 2008

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

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

(a) Directors' emoluments *(Continued)*

For the year ended 31 December 2007

	Fees *HK$'000*	Salaries and allowances *HK$'000*	Retirement benefits scheme contributions *HK$'000*	Total *HK$'000*
Executive directors				
Mr. David Ji Long Fen ("Mr. Ji")	85	472	–	557
Mr. Du Jun	–	243	5	248
Ms. Shi Ping *(Note (a))*	15	–	–	15
Mr. Tang Yun	–	594	6	600
Mr. Wang Zhenhua	62	–	–	62
Mr. Xiang Chao Yang	–	480	–	480
Mr. Yu Xiao	70	–	–	70
Independent non-executive directors				
Mr. Jonathan Chan Ming Sun *(Note (b))*	105	–	–	105
Mr. Robert Ip Chun Chung *(Note (b))*	105	–	–	105
Mr. Sun Donfeng *(Note (b))*	105	–	–	105
Total for 2007	547	1,789	11	2,347

Note (a): Appointed on 2 October 2007
Note (b): Appointed on 12 February 2007

Notes To The Consolidated Financial Statements

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

(b) Employee's emoluments

The five highest paid individuals in the Group during the year included four (2007: three) directors whose emolument is included in the analysis presented above. The emoluments of the remaining one (2007: two) individuals are set out below:

	2008	2007
	HK$'000	*HK$'000*
Salaries and allowances	**458**	791
Retirement benefits scheme contributions	**12**	24
	470	815

The emoluments of the remaining individuals for both years fall within the band of less than HK$1,000,000.

No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office for both years. None of the directors have waived or agreed to waive any emoluments for both years.

17. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share is based on the profit for the year of approximately HK$5,702,000 (2007: loss for the year of approximately HK$3,896,000), and the weighted average number of ordinary shares of 318,000,000 (2007: 318,000,000) in issue during the year.

No diluted earnings (loss) per share is presented for both years as the Company did not have any dilutive potential ordinary shares in existence during the both years.

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18. PLANT AND EQUIPMENT

	Furniture, fixtures and equipment *HK$'000*	Leasehold improvements *HK$'000*	Total *HK$'000*
COST			
At 1 January 2007	207	304	511
Additions	36	101	137
At 31 December 2007 and 1 January 2008	243	405	648
Additions	7	24	31
At 31 December 2008	250	429	679
DEPRECIATION			
At 1 January 2007	121	304	425
Charge for the year	44	33	77
At 31 December 2007 and 1 January 2008	165	337	502
Charge for the year	45	55	100
At 31 December 2008	210	392	602
CARRYING VALUES			
At 31 December 2008	40	37	77
At 31 December 2007	78	68	146

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

18. PLANT AND EQUIPMENT *(Continued)*

The above items of plant and equipment are depreciated on a straight-line basis over the estimated useful lives after taking into account their estimated residual values as below:

Furniture, fixtures and equipment	5 years
Leasehold improvements	5 – 6.25 years

19. INVENTORIES

	2008 HK$'000	2007 HK$'000
Finished goods	**2,169**	–

20. TRADE AND BILLS RECEIVABLES

Included in the balance are amounts due from subsidiaries of a substantial shareholder of the Company of approximately HK$75,665,000 (2007: HK$38,200,000) and amount due from a substantial shareholder of the Company of approximately HK$320,949,000 (2007: HK$12,193,000).

The Group allows an average credit period of 30-120 days (2007: 30-90 days) to its trade customers. The following is an aged analysis of trade receivables at the reporting date:

	2008 HK$'000	2007 HK$'000
Within 30 days	**119,089**	14,796
31 – 60 days	**180,268**	22,172
61 – 90 days	**102,393**	17,558
91 – 180 days	**44,245**	5,836
Over 180 days	**63**	–
	446,058	60,362

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20. TRADE AND BILLS RECEIVABLES *(Continued)*

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed twice a year. 91% (2007: 80%) of the trade and bills receivables that are neither past due nor impaired have the best credit scoring attributable under the external credit scoring system used by the Group.

Included in the Group's trade and bills receivable balance are debtors with aggregate carrying amount of approximately HK$107,145,000 (2007: HK$9,966,000) which were past due at the balance sheet date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. The Group does not hold any collateral over these balances.

Included in trade and bills receivables are the following amounts denominated in currencies other than the functional currency of the Group:

At 31 December 2008:	***'000***
EUR	**1,488**
AUD	**3,709**
HKD	**2**

At 31 December 2007:	*'000*
USD	7,739

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20. TRADE AND BILLS RECEIVABLES *(Continued)*

Ageing of trade and bills receivables which are past due but not impaired:

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**19,338**	4,617
31 – 60 days	**5,251**	3,128
61 – 90 days	**40,673**	2,221
91 – 180 days	**41,820**	–
Over 180 days	**63**	–
Total	**107,145**	9,966

21. TRADE DEPOSITS PAID

Included in the balance is the amount paid to a substantial shareholder of the Company of approximately HK$2,514,000 (2007: HK$9,393,000) and amount paid to subsidiaries of a substantial shareholder of the Company of approximately HK$382,644,000 (2007: nil).

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

At 31 December 2008, included in prepayments, deposits and other receivables is the amount of approximately HK$21,000 (2007: nil) which is denominated in currency other than the functional currency of the Group.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

23. AMOUNTS DUE FROM RELATED COMPANIES

Amounts due from related companies disclosed pursuant to section 161B of the Companies Ordinance are as follows:

Name of related companies	Terms	Balance at 31/12/2008 HK$'000	Balance at 31/12/2007 HK$'000	Maximum amount outstanding during the year HK$'000
Apex Digital Inc. ("ADI") *(Note a)*	Unsecured, interest free and repayable on demand	65	65	65
Guangdong Changhong Electronics Co., Ltd. *(Note b)*	Unsecured, interest free and repayable on demand	3	–	3
四川長虹民生物流有限責任公司 *(Note b)*	Unsecured, interest free and repayable on demand	30	–	30
Apex Digital (Shanghai) Co., Ltd *(Note b)*	Unsecured, interest free and repayable on demand	4	–	4
At the balance sheet date		102	65	

At 31 December 2008, the amounts of approximately HK$102,000 (2007: nil) are denominated in currency other than the functional currency of the Group.

Notes:

a. Mr. Ji, a director of the Company, had beneficial interest in ADI.

b. Sichuan Changhong Electric Co., Ltd., a substantial shareholder of the Company, is the parent company of these companies.

Notes To The Consolidated Financial Statements

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24. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

	2008	2007
	HK$'000	*HK$'000*
Pledged bank deposits	**80,015**	–
Bank balances and cash	**39,017**	25,597
Short-term time deposits	**–**	66
	119,032	25,663

Bank balances bears interest at floating rates based on daily bank deposits rates.

Short-term time deposits for the year ended 31 December 2007 with a maturity of three months or less carry interest at market rates of approximate 3.15%.

Included in pledged bank deposits and bank balances and cash are the following amounts denominated in currencies other than the functional currency of the Group:

At 31 December 2008:	***'000***
HKD	**1,081**
AUD	**78**
EUR	**40**

At 31 December 2007:	*'000*
USD	3,082
AUD	1
EUR	33

Pledged bank deposits as at 31 December 2008 were pledged to secure bank borrowings as set out in note 29 and carried interest at market rates ranging from 0.13% to 1.05%. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

25. TRADE AND BILLS PAYABLES

Included in the balance are amounts due to a subsidiary of a substantial shareholder of the Company of approximately HK$24,987,000 (2007: HK$2,944,000) and amount due to a substantial shareholder of the Company of approximately HK$77,308,000 (2007: nil). The ageing analysis of trade and bills payables, based on the date of receipt of goods, is as follows:

	2008	2007
	HK$'000	*HK$'000*
Within 30 days	**39,750**	15,861
31 – 60 days	**154,690**	10,485
61 – 90 days	**21,373**	1,940
91 – 180 days	**36,866**	3,124
181 – 365 days	**1,707**	–
Over 1 year	**1,560**	1,560
	255,946	32,970

Included in trade and bills payables are the following amounts denominated in currencies other than the functional currencies of the Group:

At 31 December 2008:	***'000***
EUR	**1,450**
AUD	**3,635**

At 31 December 2007:	*'000*
USD	4,227

26. OTHER PAYABLES

Included in the balance are amounts due to a subsidiary of a substantial shareholder of the Company of approximately HK$4,114,000 (2007: nil).

At 31 December 2008, included in other payables is the amount of approximately HK$5,085,000 (2007: nil) denominated in currency other than the functional currency of the Group.

Notes To The Consolidated Financial Statements

For the year ended 31 December 2008

27. CUSTOMER DEPOSITS

For the year ended 31 December 2007, included in the amount was a balance with a substantial shareholder of approximately HK$38,011,000 (2008: nil).

28. AMOUNT DUE TO A DIRECTOR

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

29. BORROWINGS

	2008	2007
	HK$'000	*HK$'000*
Loan from a related company	**441,425**	–
Loan from a substantial shareholder	**–**	19,499
Bank loans on bills discounted with recourse	**228,531**	–
	669,956	19,499
Secured	**228,531**	–
Unsecured	**441,425**	19,499
	669,956	19,499
Carrying amount repayable:		
On demand or within one year	**654,455**	–
More than one year, but not exceeding two years	**15,501**	19,499
	669,956	19,499
Less: Amounts due within one year shown under current liabilities	**(654,455)**	–
	15,501	19,499

Loans from a related company were advanced by Changhong (Hong Kong) Trading Limited, a subsidiary of substantial shareholder of the Company, in which Mr. Du Jun and Mr. Yu Xiao have interest as common directors. The balances were unsecured, bearing interest at fixed rates ranging from 4.55% to 4.6% per annum.

Notes To The Consolidated Financial Statements

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29. BORROWINGS *(Continued)*

At 31 December 2007, the carrying amount of borrowings denominated in currency other than the functional currency of the Group is:

	'000
USD	2,500

The amount of loan from a substantial shareholder as at 31 December 2007 was unsecured, interest free and has been fully settled in year ended 31 December 2008.

At 31 December 2008, the Group's secured bank borrowings were secured by bills receivable of approximately HK$230,623,000 (2007: nil) and pledged bank deposits of approximately HK$80,015,000 (2007: nil).

30. SHARE CAPITAL

	2008 ***HK$'000***	2007 *HK$'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

Details of the Company's share option schemes are set out in note 31.

Notes To The Consolidated Financial Statements

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31. SHARE OPTION SCHEME

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 2008 and 2007, no option under the Scheme had been granted to any person, nor was there any outstanding option granted under the Scheme in issue.

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32. BALANCE SHEET OF THE COMPANY

	2008 *HK$'000*	2007 *HK$'000*
Non-current assets		
Plant and equipment	**37**	67
Investments in subsidiaries	**100**	100
	137	167
Current assets		
Prepayments, deposits and other receivables	**389**	456
Amounts due from subsidiaries	**14**	4
Bank balances and cash	**794**	1,017
	1,197	1,477
Current liabilities		
Other payables	**620**	880
Amounts due to subsidiaries	**13,222**	9,759
	13,842	10,639
Net current liabilities	**(12,645)**	(9,162)
Net liabilities	**(12,508)**	(8,995)
Capital and reserves		
Share capital	**7,950**	7,950
Reserves *(Note a)*	**(20,458)**	(16,945)
Capital deficiency	**(12,508)**	(8,995)

Notes To The Consolidated Financial Statements

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32. BALANCE SHEET OF THE COMPANY *(Continued)*

Note a:

Movements of reserves during the year are as follows:

	Share premium HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2007	28,537	(24,167)	4,370
Loss for the year	–	(21,315)	(21,315)
At 31 December 2007	28,537	(45,482)	(16,945)
Loss for the year	–	(3,513)	(3,513)
At 31 December 2008	28,537	(48,995)	(20,458)

33. OPERATING LEASE COMMITMENTS

The Group as lessee:

	2008 ***HK$'000***	2007 *HK$'000*
Minimum lease payments under operating lease during the year	**1,095**	987

As at the respective balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and staff quarters falling due as follows:

	2008 ***HK$'000***	2007 *HK$'000*
Within one year	**853**	1,319
In the second to fifth years, inclusive	**–**	810
	853	2,129

Leases are negotiated and rentals are fixed for terms of 2 years (2007: 2 years).

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34. RETIREMENT BENEFIT SCHEME

The Group has joined the Mandatory Provident Fund Scheme ("MPF Scheme") for all of its employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme. For the year ended 31 December 2008, contributions of the Group under the MPF Scheme amounted to HK$136,000 (2007: HK$68,000).

Notes To The Consolidated Financial Statements

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35. RELATED PARTY TRANSACTIONS

(a) 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:

Name of company	Nature of transaction	*Notes*	2008 HK$'000	2007 HK$'000
Substantial shareholder				
Sichuan Changhong Electric Co., Ltd. ("Changhong")	Sales of goods	*(ii)*	**725,004**	218,190
	Purchase of goods	*(ii)*	**241,175**	37,572
	Management fee paid		**190**	–
Subsidiaries of Changhong				
Guangdong Changhong Electronics Co., Ltd.	Sale commission paid		**11**	21
Changhong Electric (Australia) Pty., Ltd.	Sales of goods	*(ii)*	**71,926**	13,603
Guangdong Changhong Electronics Co., Ltd.	Sales of goods	*(ii)*	**209,480**	40,555
Sichuan Changhong Component Technology Co., Ltd.	Sales of goods	*(ii)*	**3,264**	2,456
Sichuan Changhong Network Technologies Co., Ltd.	Sales of goods	*(ii)*	**41,464**	15,927
Changhong Europe Electric S.R.O.	Sales of goods	*(ii)*	**16,174**	–
Sichuan COC Display Devices Co., Ltd.	Sales of goods	*(ii)*	**7,840**	–
P.T. Changhong Electric Indonesia	Sales of goods	*(ii)*	**613**	–
P.T. Changhong Elektrindo Utama	Sales of goods	*(ii)*	**199**	–
Guangdong Changhong Digital Technology Co., Ltd.	Sales of goods	*(ii)*	**27**	–
Guangdong Changhong Electronics Co., Ltd.	Purchase of goods	*(ii)*	**33,943**	10
Sichuan Changhong Component Technology Co., Ltd.	Purchase of goods	*(ii)*	**25,495**	6,842
Zhangshan Changhong Electric Co., Ltd.	Purchase of goods	*(ii)*	**–**	2,721
Sichuan Changhong Network Technologies Co., Ltd.	Purchase of goods	*(ii)*	**3,278**	–
Hefei Meiling Co., Ltd.	Purchase of goods	*(ii)*	**4,698**	–
Sichuan Changhong Newenergy Technology Co. Ltd.	Purchase of goods	*(ii)*	**193**	–
Europe office of Sichuan Changhong Electric Co., Ltd.	Purchase of goods	*(ii)*	**51**	–
Changhong (Hong Kong) Trading Ltd.	Sale commission paid	*(i)*	**6**	121
	Purchase of goods	*(i)*	**–**	128
	Interest expenses paid	*(i)*	**9,568**	61
Guangdong Changhong Electronics Co., Ltd.	Compensation income received		**6,341**	–

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35. RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

Notes:

(i) Mr. Du Jun and Mr.Yu Xiao, directors of the Company, have beneficial interest in this company.

(ii) The Company entered into the Master Supply Agreement and the Master Purchase Agreement with Changhong in respect of the sales and purchase of various electronic products and components on 18 April 2007 and 9 May 2007 respectively. According to these agreements, the relevant electronic products and components to be sold to or purchased from Changhong or any of its subsidiaries for the supply or purchase of the relevant electronic products and components are to be made at prices with reference to the market prices and credit terms subject to normal commercial practices.

(b) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2008	2007
	HK$'000	*HK$'000*
Short-term benefits	**3,036**	2,767
Post-employment benefits	**37**	23
	3,073	2,790

The remuneration of directors and key executives is determined by the remuneration committee having regarded to the performance of individuals and market trends.

36. CONTINGENT LIABILITIES

On 12 June 2006, Koninkljke Philips Electronics N.V. and United States Philips Corporation (the "plaintiffs") issued a writ of summons to the United States District Court, Central District of California, against eight parties (the "defendants"), 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 former-executive director of the Company, Mr. Ancle Hse Ann Keh, a former substantial shareholder, Apex Digital Inc, United Delta Inc and an individual. The defendants were claimed damages for patent infringement for the distribution of unlicensed DVD products within USA.

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36. CONTINGENT LIABILITIES *(Continued)*

On 2 August 2007, a settlement has been reached between the plaintiffs and the defendants and the proceedings were dismissed without prejudice. Pursuant to the terms of the settlement, one of the defendants, Apex Digital Inc needs to pay a total amount of US$3,284,000 to the plaintiffs by installments on or before June 2008. Subsequently, the Group has signed an agreement with Apex Digital Inc (which is wholly-owned by Mr. Ji, director of the Company) that Apex Digital Inc has agreed to bear all the payments and legal professional fees incurred. Up to the balance sheet date, Apex Digital Inc has paid the amount of US$1,750,000 to the plaintiffs. Notwithstanding that the amount has not been fully settled according to the terms of settlement, Apex Digital Inc repays the amount by installments continuously subsequent to the balance sheet date and the directors of the Company are not aware of any further action taken by plaintiffs. Accordingly, no provision has been provided for the year ended 31 December 2008.

37. SUBSIDIARIES

Particulars of the subsidiaries of the Company as at 31 December 2008 are as follows:

Name	Place of incorporation/ registration and operation	Issued and fully paid up ordinary share capital/ 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	–	Inactive
Changhong Overseas Development Limited	Hong Kong	HK$100,000	100	–	Trading of consumer electronic products and related parts and components
Apex Digital, LLC	USA	US$365,190	–	100	Inactive
Apex Digital Inc. Limited	Hong Kong	HK$2	–	100	Trading of consumer electronic products and related parts and components

None of the subsidiaries had issued any debt securities at the end of the year.