CHINA RECYCLING ENERGY CORP
Form 10KSB/A
March 06, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

Commission file number: 333-120431

China Recycling Energy Corporation

(Known as "China Digital Wireless, Inc." prior to March 08, 2007)
(Name of Small Business Issuer in its Charter)

Nevada
(State or other jurisdiction of incorporation or organization)

90-0093373
(I.R.S. Employer Identification No.)

429 Guangdong Road
Shanghai, China 200001
(Address of principal executive offices)

N/A
(Zip Code)

Issuer's telephone number: (011) 86-21-6336-8686

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. £

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes R   No £

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB/A or any amendment to this Form 10-KSB/A. £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes £   No R

The issuer's revenues for its most recent fiscal year ended December 31, 2006 were US$ 2,889,436.

The aggregate market value of the voting common stock held by non-affiliates computed by reference to the price at which the common stock was sold, or the average bid and asked prices of such common stock, as of March 31, 2007, is $3,429,453. The number of shares of common stock outstanding as of March 31, 2006 was 17,147,268.

Transitional Small Business Disclosure Format (check one): Yes £   No R

CHINA RECYCLING ENERGY CORPORATION

(KNOWN AS "CHINA DIGITAL WIRELESS, INC." PRIOR TO MARCH 08, 2007)

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PART I

When we use the terms "we," "us," "our" and "the Company," we mean China Digital Wireless, Inc., a Nevada corporation, and its wholly-owned subsidiary, Sifang Holdings Co., Ltd., and Sifang Holdings Co., Ltd.'s wholly-owned subsidiary, Shanghai TCH Data Technology Co., Ltd. Since March 08, 2007, China Digital Wireless, Inc. has changed its name to "China Recycling Energy Corporation". However, since this Form 10KSB/A is for fiscal year ended December 31, 2006 when the name change has not occurred, we still use China Digital Wireless, Inc. as the full name of the reporting issuer on this Form 10KSB/A.

The information set forth in this Report on Form 10-KSB/A including, without limitation, that contained in Item 6, Management's Discussion and Analysis or Plan of Operation, contains "forward looking statements" within the meaning of
Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or our future financial performance, and involve risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential," or "continue," or the negative of such terms or other comparable terminology. These statements are only predictions. Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual future results will not be different from the expectations expressed in this report. In evaluating these statements, you should specifically consider various factors, including the risks outlined in the "Risk Factors" section below.

ITEM 1. DESCRIPTION OF BUSINESS

General

Our current operations include providing value added information services, cellular phone distribution and advertising services through our Chinese operating subsidiaries. In 2006 and first quarter of 2007, we also began to engage in recycling energy business, providing energy saving and recycling products and services.

Overview

Business History. We originally began operations as a Colorado corporation known as Boulder Brewing Company, or Boulder Brewing. We were incorporated in Colorado on May 8, 1980 and operated as a microbrewery of various beers. Boulder Brewing was unable to become profitable within any segment of its core business, became illiquid, and was forced to divest itself of all of its assets. Boulder Brewing became dormant without any operations or assets in the second quarter of 1990.

In September 2001, Boulder Brewing changed its state of incorporation from Colorado to Nevada and changed its name to Boulder Acquisitions, Inc., or Boulder Acquisitions. From the date of reincorporation until June 23, 2004 Boulder Acquisitions had no material operations or assets.

On June 23, 2004, we completed a stock exchange transaction with the shareholders of Sifang Holdings Co., Ltd. ("Sifang Holdings"). The exchange was consummated under Nevada and Cayman Islands law pursuant to the terms of a Securities Exchange Agreement dated as of June 23, 2004 by and among Boulder Acquisitions, Sifang Holdings and the shareholders of Sifang Holdings. Pursuant to the Securities Exchange Agreement, we issued 13,782,636 shares of our common stock to the shareholders of Sifang Holdings, representing approximately 89.7% of our post-exchange issued and outstanding common stock, in exchange for 100% of the outstanding capital stock of Sifang Holdings. We presently carry on the business of Sifang Holdings' wholly-owned subsidiary, Shanghai TCH Data Technology Co., Ltd., a corporation organized under the laws of the PRC, or TCH.

Effective August 6, 2004, we changed our name from Boulder Acquisitions, Inc. to China Digital Wireless, Inc.

On January 24, 2007, a group of individuals purchasers entered a share purchase agreement with a group of shareholders of the Company to purchase 12,911,835 shares of Company's common stocks owned by Sellers, $ 0.001 par value, for an aggregate purchase price of $ 490, 000.00. Purchasers are Guohua Ku, Hanqiao Zheng, Ping Sun, Qianping Huang, Xiaohong Zhang and Lixia Zhang. Sellers are Caihua Tai, Ming Mao, Ying Shi, Sixing Fu, Xiaodong Zhang, Tianqi Huang, Wei Huang, Jing Song, Ruijie Yu, and Weiping Jing, all of whom are shareholders of Company.

On March 8, 2007, we changed our name from China Digital Wireless, Inc. to China Recycling Energy Corporation.

Our business is primarily conducted through our wholly-owned subsidiary, Sifang Holdings and its wholly-owned subsidiary, TCH. TCH was established as a foreign investment enterprise in Shanghai under the laws of the PRC on May 25, 2004, with registered capital of $7.2 million.

Our current operations were originally a business division of Sifang Information. Sifang Information is a Shanghai-based privately owned enterprise established under the laws of the PRC on August 14, 1998. Sifang Information is engaged in the business of pager and mobile phone distribution and provides value added information services to the customers in the Shanghai metropolitan area. In March 2004, Sifang Information spun off its mobile phone distribution business and the majority of its value added information services business to TCH. As the acquiring entity under common control, TCH initially recognized all the assets and liabilities transferred at their carrying amounts in the accounts of Sifang Information at the date of transfer under the guidance of the Statement of Financial Accounting Standard ("SFAS") No. 141, Appendix D.

On May 26, 2004, Sifang Information exchanged 100% of the equity interest in TCH for 100% of the equity interest in Sifang Holdings. Since the ultimate owners of the three entities were the same owners and the three entities remained under common control, the ownership exchange transaction was accounted for at historical costs under the guidance of SFAS No. 141, Appendix D. Prior to May 26, 2004, there were no activities in Sifang Holdings. As a result of the exchange of ownership between TCH and Sifang Holdings, TCH's historical financial statements became the historical financial statements of Sifang Holdings.

As a result of the spin-off, TCH engages in the business of mobile phone distribution and provides pager and mobile phone users with access to certain value-added information reformatted by TCH. TCH purchases mobile phones from first tier distributors and sells them to retailers with a mark-up. In the process of providing value-added information services through monthly subscription agreements with various users, TCH purchases trading activity information from stock exchanges, comments and analysis on PRC stock markets provided by certain reputable security and investment companies, lottery information, weather forecast, and other value-added products and reformats the aforementioned information through decoding and recoding and then has the reformatted information transmitted by Sifang Information, via service contracts, to pager users. The value-added information is constantly saved on TCH's server in order for mobile phone users to dial in via China Mobile or China Unicom. By signing a monthly subscription agreement, wireless receiver users agree to make advance payments for our services for either three or six-month subscription periods.

In the spin-off process, the cost of sales included in the Company's financial statements is directly related to the product revenue and the cost of services is directly related to different types of service. The business taxes (similar to sales taxes in the U.S.) are related only to service revenue at a tax rate of approximately 3.3%. The selling expenses are allocated based on the relationship between expense and revenue (such as commission) and payroll records. The general and administrative expenses are allocated based on management hours spent and payroll records. The income tax provision has been calculated on a separate company basis and is in line with the historical actual income tax provision at the Sifang Information level assuming that all income taxes had been paid by Sifang Information and no income tax liability was in existence in the periods reported in the accompanying financial statements. Management believes that the costs, operating expenses, interest expense, and income tax provision included in the Company's financial statements are a reasonable representation of the costs and expenses that would have been incurred if the Company had performed these functions as a stand-alone company.

We launched a new digital media project to move into the media market in China in 2005. In conjunction with charitable organizations, we have installed donation boxes with digital TV incorporated on top of them in the main lobbies of commercial banks, hotels, malls and other public locations to call the public's attention to the charity and broadcast commercial advertisements.

Value-Added Information Services for Mobile Phone and Pager Users. We render value-added information services in China by purchasing content from third-party providers and reformatting that content. Our value-added information services enable wireless receiver (mobile phone and pager) users in China to access financial information and various entertainment-related services. We contract with our affiliated wireless service providers to transmit the reformatted content to customers of China's various network operators.

The primary focus of our value-added information services is to provide wireless receiver users in China with access to financial information. We derive the vast majority of our value-added information services revenue from our financial information business. Our financial information software, Sifang Gutong, allows our customers to access stock and currency exchange information and execute stock trades. We are one of the largest stock information and trading value-added information service providers in China.

We began providing our entertainment-related services, including icons, screen savers, multiplayer games, Western horoscopes, jokes, and sports and entertainment news during the latter part of 2003. These services are ancillary to our financial information services and they represent only a small portion of our value-added information services revenue at the present time.

Leveraging our experience and understanding of the wireless value-added services market in China, we have consistently purchased and reformatted content, applications and technologies that are popular in the Chinese wireless market. To further enhance and differentiate our services, we have entered into, and will continue to actively pursue, collaborative relationships with third parties to customize, market and provide access to their content through various wireless technologies to Chinese consumers. In addition, all of our services are promoted by our sales force and supported by our customer service team, each of which is strategically based in Shanghai.

In order to meet ownership requirements under Chinese law that restrict us, as a foreign company, from operating in certain industries such as value-added telecommunication and Internet services, we have entered into information service and cooperation agreements with two of our affiliates that are incorporated in the People's Republic of China ("PRC" or "China"): Shanghai Sifang Information Technology Co. ("Sifang Information") and Tianci. We hold no ownership interest in Sifang Information or Tianci. Sifang Information and Tianci contract with China Mobile Communications Corporation, or China Mobile, and China United Telecommunications Corporation, or China Unicom, respectively, to provide wireless value-added information services to wireless receiver customers in China via China Mobile and China Unicom. Sifang Information transmits those services to customers of China Mobile and China Unicom on behalf of itself and Tianci pursuant to a signed agreement between Sifang Information and Tianci.

Mobile Phone Distribution. We distribute various mobile phone brands in the Shanghai, China region. We distribute mobile phones manufactured primarily by SAMSUNG Electronics Co., Ltd. ("Samsung") and NOKIA Corporation ("Nokia"), and to a lesser extent, by Motorola, Inc. ("Motorola"). We began distributing Motorola mobile phones in early 2002, Samsung mobile phones in November 2002 and Nokia mobile phones in March 2005. We began discontinuing our Motorola mobile phone distribution business on June 30, 2004. We are a distributor, for the Shanghai region, of over ten different mobile phone models manufactured by Samsung and plan to increase our sales of Samsung mobile phones.

Most of the Samsung models we distribute are compatible with the GSM network and only a few Samsung models we distribute are compatible with the Code Division Multiple Access, or CDMA, network.

There are three main first-tier wholesalers of Samsung phones in China:
Shanghai Taili Communication Equipment Co., Ltd., Shenzhen Tianyin Communication Development Co., Ltd., and Guangzhou Yingtai Data Power Technology Co., Ltd. These wholesalers contract, through local branches, with sub-wholesalers to distribute each model in a defined area. We have contracts with Shanghai branch offices of the three main first-tier wholesalers, making us a sub-wholesaler distributor of nine Samsung mobile phone models in the Shanghai region.

We have rebate programs with Shanghai Taili Communication Equipment Co., Ltd. and Shenzhen Tianyin Communication Development Co., Ltd. whereby we are credited a certain portion of the sales price we paid to the first-tier wholesaler if we are able to fulfill certain sales volume prescribed by that first-tier wholesaler. As a result, we are entitled to receive certain rebates and credits for the inventory held and sold by us within a specified period of time as set by the first-tier wholesaler offering the rebate program.

Digital Advertising. We launched a new digital media project to move into the media market in China in 2005. In conjunction with charitable organizations, we have installed donation boxes with digital TV incorporated on top of them in the main lobbies of commercial banks, hotels, malls and other public locations to call the public's attention to the charity and broadcast commercial advertisements.

We have an agreement with China Charity Foundation ("CCF"), a national non-profit charitable organization, which enables us to install donation boxes for CCF in banks and other commercial locations throughout China that will also have the Company's out-of-home digital television advertising media platform attached. The completion of this agreement enables us to accelerate the placement of out-of-home digital television platforms, particularly in banks across China. We negotiate placement of the donation boxes and digital television media platform with banks and other commercial entities that wish to support the national charity. The China Banking Regulatory Commission ("CBRC") has previously agreed, pending completion of the agreement with CCF, to support and coordinate this effort with respect to approvals of donation box placements in banks throughout China. This agreement facilitates the continued placement of platforms with little or no direct costs. We believe that such costs may constitute as much as 30% of the direct costs of competitors based upon an analysis of publicly available information.

We have placed more than 850 multimedia donation boxes in the inbound area of Shanghai and other arranged spots will be rolled out in the public places with high traffic flow. Based on Shanghai, our strategy is to expand our network to penetrate other large and mid-sized developed cities throughout China. We believe the earnings potential from the advertising service will be a new source of profit in view of the upcoming Special Olympic World Summer Games in 2007 and World Exposition in 2010 to be held in Shanghai.

During the year ended December 31, 2005, TCH rendered advertisement designing and producing services to Shanghai Tianci Real Estate Co. Ltd. ("Tianci Real Estate") for publicity and promoting its apartment. Net advertising service revenue of $1,738,878 was derived from this service. TCH performed such services via an agent, Shanghai Sifang Media Co., Ltd. ("Sifang Media"), which is a related company that granted the license to provide advertising in China.

In January 2005, Sifang Media and TCH entered into the "Bank Digital TV's Cooperation Agreement", where TCH will assist in the promotion of TV ads for various customers, including Tianci Real Estate. TCH received a net fee of $2,620,044 for providing the service from January 2005 to December 2005. There was an "Advertisement Agency Contract" between Tianci Real Estate and Sifang Media, which expired in November 2005. In June and September 2005, Sifang Media, TCH and two unrelated customers, entered into certain agreements, where TCH will assist in the promotion of TV ads for these customers.

In the third quarter of 2006, the Ministry of Information Industry of the People's Republic of China initiated a nation-wide management specific plan as well as introduced a series of policies and measures to regulate the SP market. With the introduction of these policies and measures that set very strict rules on the provisions of information services provided by value-added service providers, our advertising service business was seriously affected. We generated only $ 334,844 revenue from the above-mentioned advertising services in 2006.

Energy Saving Products.

In December 2005, TCH entered into a series of agreements to purchase (i) 95% of the equity interests of Shanghai Kena Energy Saving Electric Co Ltd ("Kena") for an aggregate purchase price of RMB 28,500,000 (approximately $3,532,000); (ii) a related patent from one of the shareholders of Kena for RMB 11,000,000 (approximately $1,363,000); and (iii) related rights to make a patent application from one of the shareholders of Kena for RMB 11,000,000 (approximately $1,363,000). The purchase price for both the equity interests in Kena and the consideration for purchase of the patent and the right to apply for registration of the patent shall be paid by Sifang Information on behalf of TCH. On February 10, 2006, these agreements were amended to impose an additional condition on Mr. Zhang Naiyao, the transferor of the patent and holder of the right to make the patent application, that if he fails to provide the necessary technical assistance services to enable TCH to use the patented technology in producing products on a large scale that meet the standards set by the Company within one year, TCH shall have the right to demand the return of the relevant payment received by him in full and to terminate the agreement for the assignment of the patent and the right to apply for registration of the patent. The amendments also set forth the arrangement for payment of the purchase price between TCH and Sifang Information. The purchase price for both the equity interests in Kena and the consideration for purchase of the patent and the right to apply for registration of the patent shall be paid by Sifang Information on behalf of TCH. According to the amended agreements, the amount of the purchase consideration paid by Sifang Information on behalf of TCH will be applied to offset the trade and other receivables owed to TCH by Sifang Information.

Kena was established on April 26, 2005 and it specializes in the research, development and manufacture of energy-saving products, as well as illumination projects in China. The patent and patent application mentioned above relate to a "three phase transformer" which is used in connection with a power supply system and utilizes technology that allows manufacturers to produce transformers with high energy transfer efficiency at a low cost. This technology is expected to be available for mass production within one year.

Mr. Zhang Naiyao failed to meet the condition mentioned-above within the period prescribed. In 2006, we decided not to pursue the above-mentioned acquisition of Kena. All the agreements in connection with the Kena acquisition were terminated by TCH and Kena. We also reviewed the future economic value of the deposit for the anticipated business acquisition of Kena and determined that future undiscounted cash flows associated with this deposit were uncertain and may not be sufficient to recover their carrying values and so was fully written down as of December 31, 2006.

Other Energy Recycling and Saving Products.

In December 2006, TCH began to engage in other activities in the energy saving and recycling industry, including purchasing certain equipments, devices, hardware and software for the construction and installation of top gas recovery turbine system ("TRT") and other renewable energy products. TRT is an electricity generating system that utilizes the exhaust pressure and heat produced in the blast furnace of steel mill to generate electricity. It has significant commercial value for the steel mills. TCH plans to use the purchased properties as investment in several TRT projects that TCH expects to pursue with several large Chinese steel companies in year 2007.

On April 08, 2007, our Board of Directors approves and makes effective a TRT Project Joint-Operation Agreement ("Joint-Operation Agreement") which is conditionally entered on February 01, 2007 between Shanghai TCH Data Technology Co., Ltd. ("TCH") and Xi'an Yingfeng Science and Technology Co., Ltd.("Yingfeng"). Yingfeng is a Chinese company that is located in Xi'an, Shaanxi Province, China, and is engaging in the business of designing, selling, installing, and operating TRT systems and other renewable energy products.

Under the Joint-Operation Agreement, TCH and Yingfeng will jointly pursue a top gas recovery turbine project ("Project") which is to design, construct, install and operate a TRT system in Xingtai Iron and Steel Company, Ltd. ("Xingtai"). This project was originally initiated by a Contract to Design and Construct TRT System ("Project Contract") entered by Yingfeng and Xingtai on September 26, 2006. Due to Yingfeng's lack of capital in pursuing this Project alone, Yingfeng sought TCH's cooperation. After intensive and substantial inquiry and assessment, TCH agreed to pursue this project with Yingfeng in the joint-operation mode. Under the terms of the Joint-Operation Agreement, TCH provides various forms of investments and properties into the Project including cash, hardware, software, equipments, major components and devices. In return, TCH becomes entitled to all the rights, titles, benefits and interests that Yingfeng originally had under the Project Contract, including but not limited to the cash payment made by Xingtai on regular basis and other property rights and interests.

Yingfeng remains liable for providing all the manpower, expertise and skills to design, construct, install, maintain and operate the TRT system under the terms of the Project Contract and also takes responsibility to manage the properties that TCH possesses in this Project. As for consideration, TCH will make monthly payment of 30,000 RMB Yuan (approximately US $ 3,900) to Yingfeng as compensation for their effort in managing TCH's properties.

Prior to the approval by the Board of Registrant, TCH and Yingfeng have taken several preliminary actions in first quarter of 2007 in preparation for the full pursuit of the Project, including selecting and purchasing necessary components and software for TRT system, organizing and training the technician team for the Project and developing the construction and installation plan for the TRT system.

Financial Services.

Our primary focus with regard to value-added information services is the provision of financial information services utilizing our Sifang Gutong software. This software, developed by Chengao, utilizes the JAVA and BREW platforms. JAVA and BREW utilize the more advanced 2.5G technology standard, which enables high-capacity wireless data transmissions. As a result, services offered over these platforms are more sophisticated and offer users higher quality graphics and richer content and interactivity, commanding a premium price over our other services. Our Sifang Gutong software enables our mobile phone and pager customers to access quotes and retrieve customized investment-related information, as well as access our currency exchange information.

Sifang Gutong provides our mobile phone and pager customers with the ability to receive streaming real-time quotes, including stocks, most active issues, largest gainers and losers, and mutual funds for securities trading on the Shenzhen and Shanghai stock exchanges. Our Sifang Gutong software available to mobile phone users includes a stock trading function that enables our mobile phone customers to directly place orders to buy and sell securities listed on the two aforementioned stock exchanges. Our trading window corresponds with the hours that securities markets are open from 9:30 a.m. to 11:30 a.m., and from 1:00 p.m. to 3:00 p.m., Beijing Time.

We receive a continuous direct feed of detailed quote data, market information and news. Our customers can create customized lists of stocks for quick access to current trading information. Through our relationships with financial information companies such as Shanghai Stock Information Company, we also provide access to breaking news, charts, market commentary and analysis.

The value-added financial information we offer can only be accessed by a customer on whose mobile phone or pager the end-user portion of our Sifang Gutong software has been installed. We plan to pre-install the end-user portion of our Sifang Gutong software in all of the Samsung mobile phones that we distribute. With regard to mobile phones and pagers not distributed by us, we will provide installation of our Sifang Gutong software free of charge upon request.

Pursuant to the request of a Beijing retailer, we entered into an agreement with Chengao and Sifang Information whereby Chengao installs the end-user portion of our Sifang Gutong software into mobile phones owned by the retailer. The retailer sells these phones at a premium price to consumers. In return for the premium price, the consumers receive our value-added information services for six months free of charge. The retailer passes the premium back to Chengao, who retains a small installation fee and then passes the remainder on to us. This relationship helps us market our value-added information services and enables us to establish relationships with new customers.

Other Services. We also provide icons and screen savers, Western horoscopes, jokes and event-driven or entertainment news updates. These services represent only a small portion of our value-added information services revenues at the present time. However, we believe that providing wireless receiver users in China access to entertainment-related services increases our ability to retain our financial information subscribers and expand our subscriber base, and we expect the entertainment-related services portion of our value-added information services business will grow over time.

- Horoscopes. With this service, users can obtain daily Western horoscopes via their mobile phones or pagers.
- Jokes. We send users of this service a variety of jokes on demand or via automatic daily messages.
- News. We automatically send periodic SMS messages on recent event-driven news, sports (especially soccer), or entertainment events to subscribers of this service. Mobile phone users can also download desired information on demand. We obtain our news content from government affiliated media companies and other local media.

Content Relationships. Our content collaborators authorize the inclusion of their content in one or more of our value-added information services for a fixed fee which we pay directly to the provider. Our agreements with our content collaborators usually have a one-year term, and are non-exclusive. Currently, our key content collaborators are:

- Shanghai Stock Information Company.
- Shanghai Wanguo Stock Information Company.
- Shanghai Yibang Stock Information Company.
- Shanghai Shiji Stock Information Company.

Marketing Relationships. Sifang Information and Tianci, our affiliated value-added mobile phone service providers, have marketing relationships with China Mobile and China Unicom. We sell and market our services principally through China Mobile and China Unicom. We also sell and market through Sifang Information's Web site, www.sifang.net, and promotional events, direct marketing, media advertising and other activities.

We sell all of our paging value-added information services through our affiliated value-added paging service provider, Sifang Information. We market our paging value-added information services through traditional media outlets, including newspapers and magazines, and directly to end-users.

Operator Channels. General. All of our paging value-added information services are provided through the paging network owned by Sifang Information. We contract directly with the pager users to collect all fees generated from our value-added information services. We have an information service and cooperation agreement with Sifang Information that provides us exclusive access to their paging network for ten years. This agreement is automatically renewable for additional one year terms unless we decide to terminate. All of our mobile phone value-added information services are provided to mobile phone users by Sifang Information through the networks of China Mobile and China Unicom. Previously, mobile phone users paid for our services by purchasing pre-paid services cards. Now, our services are billed to mobile phone customers in one of two ways: (1) certain of our customers pay for our services in advance when they purchase our services and a mobile phone together in a premium package (through our relationship with Chengao and Sifang Information), and (2) our other customers (who do not purchase our services as part of any such premium package) are billed by the mobile operators, who collect the fees for our services, including both our data access and short message services, from their mobile phone subscribers. The mobile operators then pass those fees (net of fees charged by the mobile operator) to our affiliated value-added service providers, Sifang Information and Tianci, who in turn pass those fees to us in return for a small fee pursuant to the terms of information service and cooperation agreements between us and each of them.

Our management team utilizes our experience in China to develop close ties with the key personnel of the mobile operators at the central and provincial levels. As of December 31, 2006, we had ten sales professionals strategically located in provinces and municipalities concentrated in the eastern and southern regions of China to work closely with the mobile operators at the local level, where pricing and important marketing and operational decisions are made. Our sales network enables us to work closely with operators to facilitate the approval required for new service offerings and for related pricing and to enjoy enhanced marketing and promotional support. We are also able to gain insight into developments in the local markets and the competitive landscape, as well as new market opportunities. Our sales professionals are well-incentivized; most of their compensation is tied to usage of our services in the applicable region.

Coordinated Marketing Campaigns. Our affiliated wireless service providers cooperate in marketing campaigns with China Mobile and China Unicom. These network operators distribute literature marketing us and our affiliates.

Non-Operator Channels. We also focus on non-mobile operator sales and marketing activities, such as:

- promoting Sifang Information's Web site, www.sifang.net, to potential users as a fun, easy-to-access place to request our wireless content and applications,
- engaging in direct marketing to mobile phone users by, for example, including advertising inserts in users' bills from Shanghai Mobile and Shanghai Unicom,
- engaging in direct marketing to stock market investors by, for example, including advertising inserts in investors' bills from brokerage companies such as GF Securities Co., Ltd., Guotai Junan Securities Co., Ltd., Everbright Securities Co., Ltd. and Guoxin Securities Co., Ltd.,
- utilizing our database of users to create targeted marketing campaigns,
- advertising in traditional media outlets such as newspapers and magazines, and
- we plan to pre-install the Samsung mobile phones we distribute with the end-user portion of our Sifang Gutong software, and place brochures touting our stock information, stock trading and currency exchange services in the packaging of those phones, before distributing them to retailers.

Customer Research. Our sales, marketing and product development activities are supported by our five-member customer research department. This department focuses our sales efforts in the following three distinct phases:

Customer Acquisition. Our customer research department analyzes the success rates of various national and local marketing campaigns in which we are involved, including by user segment and cost per user, in order to determine which campaigns are the most effective. Using phone surveys, focus groups and analyses of usage patterns, the department also considers demographic and other market factors to identify product mixes and product categories which are suitable for the current market environment.

Customer Conversion. To enhance our ability to convert one-time or occasional customers into regular users of our services, our customer research department analyzes customer and product churn rates across the market, average revenue per user data and other information. In this way, it can identify different customer segments and develop targeted marketing campaigns for those segments, including cross-selling and up-selling marketing campaigns.

Customer Retention. Our customer research department evaluates ways to maximize user interest in our services through, for example, providing feedback to our product developers to improve product features based on customer information and bundling older services with newly launched services. It also creates various reward programs designed to enhance customer loyalty.

Customer Services. We pride ourselves in providing high quality customer service. Our dedicated customer service center based in Shanghai provides our users real-time support and is staffed by 20 full-time professionals. The center currently operates everyday from 7:00 a.m. to 10:00 p.m. We strive to achieve the fastest response times and highest customer satisfaction levels in the industry.

Competitive Landscape

There are currently three broad categories of wireless service providers in China:

- Portal service providers, which have established expertise in Internet content and have subsequently branched into mobile space. The portals serve as content aggregators offering a variety of wireless value-added services. These national portal operators include Sohu, NetEase, Sina, and Tom.com.
- Dedicated service providers, whose businesses focus on offering a variety of wireless content directly to mobile users. These providers include Linktone, Newpalm and Mtone Wireless.
- Niche service providers, which focus on a particular market segment or application that often builds on a pre-existing sector competency. These providers include Tencent, Enorbus, and Solute. We belong in this category because of our focus on financial information services.

We may also face competition from international wireless service providers.

As the mobile operators are becoming more selective in choosing their service providers to promote high quality content, ensure high levels of customer service and limit the number of providers with which they have to deal, scale is becoming more important, and we believe the industry will likely experience consolidation with the leading nationwide providers gaining more market share at the expense of smaller local providers. Nationwide providers may also acquire some of their smaller competitors to gain access to local relationships with the mobile operators in China or new product expertise.

We estimate that we compete with between ten to twenty other sub-wholesalers for the rights to distribute Samsung phones in the Shanghai region. The three main competitive factors the wholesalers consider in granting a sub-wholesaler the rights to distribute a particular model include:

Available Cash Flow. Sub-wholesalers must be able to pay for the mobile phones they desire to purchase from first-tier wholesalers. First-tier wholesalers will be hesitant to grant rights to distribute a particular model to a sub-wholesaler if that sub-wholesaler does not have sufficient capital to make large purchases. We believe that having adequate cash flow gives us a competitive advantage.

Relationships with Retailers. The wholesalers look to the types of relationships sub-wholesalers have with large retailers when deciding which sub-wholesaler to utilize. We have strong relationships with three large retailers in Shanghai and sell approximately 65% of our mobile phones to these three retailers.

Relationships with Wholesalers. We have relationships with the three major wholesalers of Samsung phones in China and have been sub-wholesalers for those three wholesalers for more than a year.

Our Business Strategy

Our main objective is to maintain and strengthen our position as a provider of wireless value-added information services in the Shanghai region. In order to achieve this objective, we plan to, among other things, increase the number of subscribers to our value-added information services by increasing the number of mobile phones we distribute and pre-installing those phones with the end-user portion of our Sifang Gutong software.

We launched an "out-of-home" digital television advertising business in January 2005. However, we have decided to shift our focus away from the digital advertising business in light of the lack of demand for out-of-home digital advertising in China. We believe that the lack of demand is caused by several factors, including the availability of other more traditional advertising outlets such as television, radio and newspapers, and the reduction of advertising fees due to the merger of media companies. In addition, there are an increasing number of competitors in the media industry, resulting in intense market competition. Key strategies for achieving our goals are to:

- Continue to expand and diversify our portfolio of wireless value-added information services, including new SMS, 2.5G and other next generation services such as those compatible with 3G;
- Increase investment in sales, marketing and branding, both in conjunction with network operators and through independent activities, in order to promote customer awareness of our wireless value-added information and advertising services in China;
- Continue to strengthen our relationships with China Mobile and China Unicom by increasing our sales presence at the national and local levels and through joint marketing and promotion activities;
- Expand our marketing channels by continuing to develop integrated marketing campaigns with traditional media outlets and other media companies; and

Employees

The following table summarizes the functional distribution of our employees as of December 31, 2005 and 2006:

	December 31	
	2005	2006
Business Development	10	10
Customer	20	20
Human Resources	2	2
Legal and Administrative	2	2
Products Development	25	25
Customer Research	5	5
Finance	3	3
Investor Relations	2	1
Sales and Marketing	25	20
Technical Support	10	5
Total	109	93

All of our personnel are employed full-time and none of them are represented under collective bargaining agreements. We consider our relations with our employees to be good.

Wireless Technology Standards in China

Several different wireless technology standards have been developed which operate at different frequencies with both analog and digital radio signals. First generation wireless telephone systems employ analog technology, while newer systems employ digital technology. Digital wireless technology, commonly referred to as second generation technology, or 2G, multiplies the number of users that can be served by the same band of spectrum using analog technology. The wireless technologies most relevant in China currently include:

- **Global System for Mobile Communications, or GSM** initially developed in order to facilitate unification and integration of telecommunications within the European Union has become widespread throughout most Asian countries. GSM technology breaks audio signals into sequential pieces of data of a defined length, places each piece into an information conduit at specific intervals and then reconstructs the pieces at the end of the conduit. A key component of the GSM system is the SIM card. Data stored on the card identifies the subscriber to the mobile network as well as the service authorized for that subscriber. Since the identity of the subscriber is held on the card, any mobile phone can be used in conjunction with the SIM card.
- **Code Division Multiple Access, or CDMA** a digital technology standard which has been used in commercial operation by several operators in certain countries such as the United States and Korea. Unlike GSM, CDMA technology is a continuous transmission technology which uses a coding system to mix discrete audio signals together during transmission and then separates those signals at the end of transmission.

Prior to the commercial rollout of third generation, or 3G, networks, 2.5G technology standards have been developed for both the GSM and CDMA technologies to offer higher data transmission speeds, enabling the use of more data intensive products. Current 2.5G wireless technologies include:

- **General Packet-Switched Radio Service, or GPRS** offers faster data transmission with speeds ranging from 56 kilobits per second, or Kbps, to 114 Kbps via a GSM network. GPRS supports a wide range of bandwidths and is particularly suited for sending and receiving small bursts of data, such as e-mail and Web browsing, as well as large volumes of data. GPRS also makes it possible for users to make telephone calls and transmit data simultaneously.

- **CDMA 1x RTT** an advanced CDMA-based technology which allows transmission of data at speeds of up to 144 Kbps, compared to a maximum of 64 Kbps for second generation CDMA networks.

3G represents several technology standards developed by The International Telecommunications Union. Third generation technology has been developed for both the GSM standard and CDMA standard.

Wireless value-added services can be offered through all of these technology standards and most commonly include:

- **Short Messaging Services, or SMS** a service that enables a user to send and receive text messages comprised of words or numbers or an alphanumeric combination. SMS was created when it was incorporated into the GSM standard.
- **Wireless Application Protocol, or WAP** a software protocol standard that defines a standardized means of transmitting Internet-based content and data to handheld devices such as mobile phones and pagers with secure access to e-mail and text-based Web pages. WAP supports most wireless networks including GSM and CDMA.
- **Multimedia Messaging Services, or MMS** a method of transmitting graphics, video clips, sound files and short text messages over wireless networks using the WAP protocol. MMS, however, is not the same as e-mail in that MMS is based on the concept of multimedia messaging. An MMS message is coded so that the images, sounds and text are displayed in a predetermined order as one singular message. Furthermore, MMS does not support attachments as e-mail does.
- **JAVA** a general programming environment that creates applications for the Internet or any other distributed networks. JAVA applications are intended to be independent of the hardware platform.

Market Overview

Wireless Value-Added Services as a Revenue Driver for the Mobile Operators

As the wireless market in China continues to develop, an increasing portion of the mobile operators' users have relatively low per capita incomes. These subscribers generally yield lower levels of average revenue per user, or ARPU, because they are primarily users of pre-paid services. In addition, China's wireless market is becoming increasingly competitive, as demonstrated by the recent CDMA promotions by China Unicom, as well as the intra-city wireless offerings by China's two fixed-line operators, China Telecom and China Netcom, which offer users limited mobile services within a city based on Personal Handyphone Service or Personal Access System technology. In addition, China Telecom, China Netcom and possibly other parties are expected to be awarded two wireless licenses, although the timing of such grants is unclear. Both China Telecom and China Netcom are large, established companies with significant assets and the entry by them or other companies into the Chinese wireless market could lead to further competition among the mobile operators. Due to these pressures on the traditional voice-related businesses of the mobile operators, SMS and other wireless value-added services have become a key differentiator and increasingly important driver for the growth prospects of China Mobile and China Unicom. We believe wireless value-added services will play a key role in the mobile operators' competitive positioning when attracting and retaining users as well as in their efforts to reverse declining ARPU levels.

Against this competitive backdrop, the market for wireless value-added services in China has expanded significantly and is expected to continue to grow at a fast pace. Currently, SMS services continue to represent the bulk of the wireless value-added services market in China. This market is increasingly shifting towards next generation technologies, with mobile operators upgrading their networks to GPRS and CDMA 1x RTT and users upgrading to next generation mobile phones that can operate with technologies such as MMS and WAP. China Mobile and China Unicom have recognized this opportunity and are collaborating with select service providers, including us, to further develop 2.5G applications and services.

Operators' Wireless Value-Added Services Initiatives in China

China Mobile was the first to enter the market by introducing a popular trial SMS program in connection with the Sydney Olympic Games in August 2000. China Mobile later established its Monternet(TM) platform in November 2000. China Unicom started its Uni-Info platform in May 2001. Monternet(TM) and Uni-Info offer mobile phone users a single access point to order and pay for wireless value-added services.

From the inception of Monternet(TM) and Uni-Info, China Mobile and China Unicom have outsourced almost all content and applications for their platforms, meaning that these operators, much like NTT DoCoMo and SK Telecom, rely almost entirely upon third-party service providers to drive their network traffic, supply attractive wireless services and increase revenue from their wireless value-added services. In turn, the operators focus on the operation of their networks. For their part, wireless value-added service providers in China rely on the two operators, China Mobile and China Unicom, for the network distribution of their content and services, billing and collection, and remittance of revenues. Both operators have established similar fee arrangements.

In addition to their working relationships with third-party service providers, China's mobile operators will likely form closer alliances with mobile phone vendors in order to standardize user friendly access to and functionality for wireless value-added services in all mobile phones.

Government Regulation

The following is a summary of the principal governmental laws and regulations that are or may be applicable to wireless service providers like us in China. The scope and enforcement of many of the laws and regulations described below are uncertain. We cannot predict the effect of further developments in the Chinese legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement of laws, particularly with regard to wireless value-added services, which is an emerging industry in China.

Regulation of Telecommunication Services

The telecommunications industry, including certain wireless value-added services, is highly-regulated in China. Regulations issued or implemented by the State Council, the Ministry of Information Industries, and other relevant government authorities cover many aspects of telecommunications network operation, including entry into the telecommunications industry, the scope of permissible business activities, interconnection and transmission line arrangements, tariff policy and foreign investment.

The principal regulations governing the telecommunications services business in China include:

- Telecommunications Regulations (2000), or the Telecom Regulations. The Telecom Regulations categorize all telecommunications businesses in China as either infrastructure telecommunications businesses or value-added telecommunications businesses. The latter category includes SMS and other wireless value-added services. Under the Telecom Regulations, certain services are classified as being of a value-added nature and require the commercial operator of such services to obtain an operating license, including telecommunication information services, online data processing and translation processing, call centers and Internet access. The

Telecom Regulations also set forth extensive guidelines with respect to different aspects of telecommunications operations in China.

- Regulations for the Administration of Foreign-Invested Telecommunications Enterprises (2002), or the FI Telecom Regulations. The FI Telecom Regulations set forth detailed requirements with respect to capitalization, investor qualifications and application procedures in connection with the establishment of a foreign-invested telecom enterprise. Under the FI Telecom Regulations, a foreign entity is prohibited from owning more than 50% of the total equity in any value-added telecommunications business in China, subject to certain geographic limitations.
- Administrative Measures for Telecommunications Business Operating License (2001), or the Telecom License Measures. Under the Telecom License Measures, an approved value-added telecommunications service provider must conduct its business in accordance with the specifications recorded on its Telecom Business Operating License.
- In the third quarter of 2006, the Ministry of Information Industry of the People's Republic of China initiated a nation-wide management specific plan as well as introduced a series of policies and measures to regulate the SP market. With the introduction of these policies and measures that set very strict rules on the provisions of information services provided by value-added service providers, our advertising service business was seriously affected. We generated only $ 334,844 revenue from the above-mentioned advertising services in 2006.

In addition to regulations promulgated at the national level by the Chinese government, the Shanghai municipal government has issued provisional regulations requiring SMS service providers to obtain licenses from or register with the local Ministry of Information Industries branch office before providing SMS service within the city. At this time, it is unclear whether national regulations will be promulgated regulating SMS services.

Our affiliates, Sifang Information and Tianci, each have a value-added telecommunication services license issued by the Shanghai Municipal Telecommunications Administration Bureau, which is the local office of the Ministry of Information Industries. Each has also been granted an inter-provincial value-added telecommunication license by the Ministry of Information Industries.

Other Laws and Their Application

Regulation of Internet Content Services. As a wireless value-added information services provider, we do not engage in the Internet portal business which typically involves the provision of extensive Internet content services, including Chinese language Web navigational and search capabilities, content channels, web-based communications and community services and a platform for e-commerce, such as auction houses. Sifang Information registered with the Shanghai Telecommunication Administration Bureau in January 2001 to provide commercial services at the www.sifang.net web site.

As a commercial ICP provider, Sifang Information is prohibited from posting or displaying any content that:

- opposes the fundamental principles determined in China's Constitution;
- compromises state security, divulges state secrets, subverts state power or damages national unity;
- harms the dignity or interests of the state;
- incites ethnic hatred or racial discrimination or damages inter-ethnic unity;

- sabotages China's religious policy or propagates heretical teachings or feudal superstitions;
- disseminates rumors, disturbs social order or disrupts social stability;
- propagates obscenity, pornography, gambling, violence, murder or fear or incites the commission of crimes;
- insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or
- includes other content prohibited by laws or administrative regulations.

Failure to comply with these prohibitions may result in the closing of Sifang Information's Web site.

Regulation of News Dissemination through SMS Services. Pursuant to a circular issued by the Shanghai Communications Administration, distribution of news content through wireless applications like SMS must be approved by relevant government agencies. Both Sifang Information and Tianci have all necessary approvals.

Regulation of Advertisements. The State Administration of Industry and Commerce, or the SAIC, is the government agency responsible for regulating advertising activities in China. The SAIC has not promulgated regulations specifically aimed at wireless advertising through a media other than the Internet, such as through SMS services. One provisional regulation issued by Shanghai municipal government prohibits service providers from sending SMS advertisements without the client's consent.

As part of our non-mobile operator marketing activities, we have developed integrated marketing campaigns with traditional media outlets such as magazines and newspapers and multinational corporations through certain cross-selling efforts with companies, including Motorola and Samsung. If the SAIC were to treat our integrated marketing campaigns or other activities as being advertising activities, we would need to apply to the local SAIC for an advertising license to conduct wireless advertising business (through SMSs, for example). We can give no assurance that such application would be approved by the SAIC. Failure to obtain such approval could result in penalties including being banned from engaging in online advertising activities, confiscation of illegal earnings and fines.

Foreign Exchange Controls. The principal regulations governing foreign exchange in China are the Foreign Exchange Control Regulations (1996) and the Administration of Settlement, Sale and Payment of Foreign Exchange Regulations (1996), or the Foreign Exchange Regulations. Under the Foreign Exchange Regulations, Renminbi is freely convertible into foreign currency for current account items, including the distribution of dividends. Conversion of Renminbi for capital account items, such as direct investment, loans and security investment, however, is still subject to the approval of the State Administration of Foreign Exchange, or SAFE.

Under the Foreign Exchange Regulations, foreign-invested enterprises are required to open and maintain separate foreign exchange accounts for capital account items (but not for other items). In addition, foreign-invested enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business after providing valid commercial documents and, in the case of capital account item transactions, obtaining approval from SAFE.

Intellectual Property and Proprietary Rights

We rely primarily on a combination of copyright laws and contractual restrictions to establish and protect our intellectual property rights. We require our employees to enter into agreements requiring them to keep confidential all information relating to our customers, methods, business and trade secrets during and after their employment with us. Our employees are required to acknowledge and recognize that all inventions, trade secrets, works of authorship, developments and other processes, whether or not patentable or copyrightable, made by them during their employment are our property. They also sign agreements to substantiate our sole and exclusive right to those works and to transfer any ownership that they may claim in those works to us.

While we actively take steps to protect our proprietary rights, such steps may not be adequate to prevent the infringement or misappropriation of our intellectual property. This is particularly the case in China where the laws may not protect our proprietary rights as fully as in the United States. Infringement or misappropriation of our intellectual property could materially harm our business. Sifang Information has registered the following Internet and WAP domain name www.sifang.net.

Shanghai Sifang Communication Company ("Sifang Communication") has registered one trademark with China's Trademark Office. That trademark is our logo, a square (the English translation of "Sifang" is "square"). China's trademark law utilizes a "first-to-file" system for obtaining trademark rights. As a result, the first applicant to file an application for registration of a mark will preempt all other applicants. Prior use of unregistered marks, except "well known" marks, is generally not a basis for legal action in China. We may not be able to successfully defend or claim any legal rights in any trademarks for which we apply in the future.

Pursuant to a license agreement between our affiliate, Sifang Communication, and us, we have the right to use our registered trademark, our square logo, whenever necessary. We also acquired all of Sifang Information's interest in the Sifang Gutong software pursuant to the terms of the spin-off of Sifang Information's business divisions focusing on value-added information services and distribution of mobile phones. We have the right to use the word "Sifang" and to market ourselves through www.sifang.net with regard to both of the spun-off divisions.

Many parties are actively developing and seeking patent protection for wireless services-related technologies. We expect these parties to continue to take steps to protect these technologies, including seeking patent protection. There may be patents issued or pending that are held by others and that cover significant parts of our technology, business methods or services. Disputes over rights to these technologies are likely to arise in the future. We cannot be certain that our products do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others.

Terminated 2006 Acquisition

In December 2005, TCH entered into a series of agreements to purchase (i) 95% of the equity interests of Shanghai Kena Energy Saving Electric Co Ltd ("Kena") for an aggregate purchase price of RMB 28,500,000 (approximately \$3,532,000); (ii) a related patent from one of the shareholders of Kena for RMB 11,000,000 (approximately \$1,363,000); and (iii) related rights to make a patent application from one of the shareholders of Kena for RMB 11,000,000 (approximately \$1,363,000). The purchase price for both the equity interests in Kena and the consideration for purchase of the patent and the right to apply for registration of the patent shall be paid by Sifang Information on behalf of TCH. On February 10, 2006, these agreements were amended to impose an additional condition on Mr. Zhang Naiyao, the transferor of the patent and holder of the right to make the patent application, that if he fails to provide the necessary technical assistance services to enable TCH to use the patented technology in producing products on a large scale that meet the standards set by the Company within one year, TCH shall have the right to demand the return of the relevant payment received by him in full and to terminate the agreement for the assignment of the patent and the right to apply for registration of the patent. The amendments also set forth the arrangement for payment of the purchase price between TCH and Sifang Information. The purchase price for both the equity interests in Kena and the consideration for purchase of the patent and the right to apply for registration of the patent shall be paid by Sifang Information on behalf of TCH. According to the amended agreements, the amount of the purchase consideration paid by Sifang Information on behalf of TCH will be applied to offset the trade and other receivables owed to TCH by Sifang Information.

Kena was established on April 26, 2005 and it specializes in the research, development and manufacture of energy-saving products, as well as illumination projects in China. The patent and patent application mentioned above relate to a "three phase transformer" which is used in connection with a power supply system and utilizes technology that allows manufacturers to produce transformers with high energy transfer efficiency at a low cost. This technology is expected to be available for mass production within one year.

Mr. Zhang Naiyao failed to meet the condition mentioned-above within the period prescribed. In 2006, we decided not to pursue the above-mentioned acquisition of Kena. All the agreements in connection with the Kena acquisition were terminated by TCH and Kena. We also reviewed the future economic value of the deposit for the anticipated business acquisition of Kena and determined that future undiscounted cash flows associated with this deposit were uncertain and may not be sufficient to recover their carrying values and so was fully written down as of December 31, 2006.

RISK FACTORS

In addition to the other information contained in this annual report, including the documents we incorporate by reference, you should consider the following factors that may affect our future results and financial condition before investing in our securities. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this report to conform such statements to actual results or to changes in our expectations.

Risks Related to Our Business

We depend upon contractual arrangements with our affiliated value-added mobile phone service providers, Sifang Information and Tianci, for the success of our business. These arrangements may not be as effective in providing operational control as direct ownership of these businesses and may be difficult to enforce.

Because we conduct our business only in China, and because we are restricted by the Chinese government from owning telecommunications or Internet operations in China, we depend on our affiliated value-added mobile phone service providers, Sifang Information and Tianci, in which we have no direct ownership interest, but with which we have entered into information service and cooperation agreements, to provide those services to mobile phone users in China through contractual agreements with the mobile operators, China Mobile and China Unicom. These arrangements may not be as effective in providing control over our value-added information services to mobile phone users in China as would be direct ownership of these businesses. For example, Sifang Information or Tianci could fail to take actions required to operate our business, such as entering into service contracts with China Mobile or China Unicom. Moreover, a portion of the fees for our services are paid by the mobile operators directly to Sifang Information and Tianci, which are then obligated to transfer all of those fees to us, in return for a small fee. If Sifang Information or Tianci fails to perform their obligations under these agreements, we may have to rely on legal remedies under Chinese law, which we cannot assure you would be effective or sufficient.

In the opinion of our Chinese counsel, Sifang Information and Tianci each possess such licenses, permits, certificates, authorities and approvals, issued by appropriate governmental agencies or bodies in the People's Republic of China, as are necessary to conduct its business as presently conducted as well as to perform its obligations under any contracts between it and China Mobile and China Unicom, respectively. In addition, in the opinion of Chinese Legal Group (Shanghai), TCH is not in breach of or in default under any laws of the People's Republic of China or any approval, consent, waiver, authorization, exemption, permission, endorsement or license granted by any People's Republic of China governmental agencies. There are, however, substantial uncertainties regarding the interpretation and application of current and future Chinese laws and regulations, as discussed below.

We depend on one software developer for a significant portion of our software development, as well as for important marketing relationships.

We rely on Shanghai Chengao Industrial Co., Ltd., or Chengao, to develop a significant portion of our software, including our Sifang Gutong software. We also rely on Chengao to provide us with an important marketing relationship regarding the mobile phone version of our Sifang Gutong software. If we lose our relationship with Chengao, we could have a difficult time finding a suitable replacement in the short term. Our corporate structure could be deemed to be in violation of current or future Chinese laws and regulations which could adversely affect our ability to operate our business effectively or at all.

In connection with China's entry into the World Trade Organization, or WTO, foreign investment in telecommunications and Internet services in China was liberalized to allow for 30.0% foreign ownership in value-added telecommunication and Internet services in 2002, 49.0% in 2003, and 50.0% thereafter. In order to meet these ownership requirements, we have entered into information service and cooperation agreements with Sifang Information and Tianci. We do not have any direct ownership interest in Sifang Information or Tianci. The original shareholder structure of Sifang Holdings was identical to the current shareholder structure of Sifang Information, and each of Sifang Information and Tianci are beneficially owned 69% by Tai Caihua, our president and the chairman of our board of directors. It is possible that the relevant Chinese authorities could, at any time, assert that any portion or all of TCH's, Sifang Information's, or Tianci's existing or future ownership structure and businesses violate existing or future Chinese laws, regulations or policies. It is also possible that the new laws or regulations governing the telecommunication or Internet sectors in China that have been adopted or may be adopted in the future will prohibit or restrict foreign investment in, or other aspects of, TCH's, Sifang Information's or Tianci's current or proposed businesses and operations. In addition, these new laws and regulations may be retroactively applied. In any such case, we could be required to restructure our operations, which could adversely affect our ability to operate our business effectively or at all.

We depend on China Mobile and China Unicom for delivery of our value-added information services to mobile phone users in China, and the termination or alteration of Sifang Information's and Tianci's various contracts with either of them or their provincial or local affiliates could materially and adversely impact our business.

Our affiliated value-added mobile phone service providers, Sifang Information and Tianci, contract with the two principal mobile phone operators in China, China Mobile and China Unicom, to offer our wireless value-added information services to mobile phone users through these mobile phone operators, which service nearly all of China's approximately 282 million mobile phone subscribers. Given their dominant market position, our affiliated value-added mobile phone service providers' negotiating leverage with these operators is limited. If our affiliated value-added mobile phone service providers' various contracts with either operator are terminated or adversely altered, it may be impossible for our affiliated value-added mobile phone service providers to find appropriate replacement operators with the requisite licenses and permits, infrastructure and customer base to offer our services, and our business would be significantly impaired.

Our value-added information services are provided to mobile phone users in China pursuant to contracts Sifang Information and Tianci have with China Mobile and China Unicom and their provincial or local affiliates. Each of these contracts is non-exclusive, and has a limited term (generally one year). Our affiliates usually renew these contracts or enter into new ones when the prior contracts expire, but on occasion the renewal or new contract can be delayed by periods of one month or more. The terms of these contracts vary, but the operators are generally entitled to terminate them in advance for a variety of reasons or, in some cases, for no reason in their discretion. For example, several of our affiliates' contracts with the mobile operators can generally be terminated if:

- our affiliate fails to achieve performance standards which are established by the applicable operator from time to time,
- our affiliate breaches its obligations under the contracts, which include, in many cases, the obligation not to deliver content that violates the operator's policies and applicable law,
- the operator receives high levels of customer complaints about our affiliate's services, or
- the operator sends written notice to our affiliate that it wishes to terminate the contract at the end of the applicable notice period.

Our affiliates may also be compelled to alter their arrangements with these mobile operators in ways which adversely affect our business. China Mobile and China Unicom have unilaterally changed their policies as applied to third-party service providers in the past, and may do so again in the future. We may not be able to adequately respond to negative developments in the contractual relationships between our affiliates and China Mobile or China Unicom in the future because we do not have a contractual relationship with China Mobile or China Unicom.

Our business could be adversely affected if China Mobile or China Unicom or both begin providing their own wireless value-added services.

Our wireless value-added information services business may be adversely affected if China Mobile or China Unicom or both decide to begin providing their own wireless value-added services to mobile phone users. In that case, we would face enhanced competition, and our services could be fully or partially denied access to their networks.

We depend in part on China Mobile and China Unicom to maintain accurate records and to continue to pay our affiliated value-added wireless service providers.

We depend in part on China Mobile and China Unicom to maintain accurate records of the fees paid by mobile phone users and to pay our affiliated value-added wireless service providers. Specifically, the mobile operators provide our affiliates with monthly statements that do not provide itemized information regarding which of our services are being paid for. Our business and results of operation could be adversely affected if these mobile phone companies miscalculate the revenue generated from our services and our affiliates' portion of that revenue, or refuse to pay our affiliates altogether.

Our revenues and cost of services are affected by billing and transmission failures which are often beyond our control.

Our affiliates do not collect fees for our services owed to them by China Mobile and China Unicom in a number of circumstances, including if:

- the delivery of our service to a customer is prevented because his or her phone is turned off for an extended period of time, the customer's prepaid phone card has run out of value or the customer has ceased to be a customer of the applicable operator,
- China Mobile or China Unicom experiences technical problems with their networks which prevent the delivery of our services to the customer,
- we experience technical problems with our technology platform that prevent delivery of our services,
- our affiliates experience technical problems with their technology platforms that prevent delivery of our services, or
- the customer refuses to pay for our service due to quality or other problems.

These situations are known in the industry as billing and transmission failures, and we do not recognize any revenue for services which are characterized as billing and transmission failures. The failure rate can vary among the operators, and by province, and also has fluctuated significantly in the past. If actual billing and transmission failures exceed our estimates, our revenues could be materially adversely affected.

China Mobile and China Unicom may impose higher service or network fees on our affiliated value-added service providers if we are unable to satisfy customer usage and other performance criteria.

Fees for our wireless value-added information services are charged on a monthly subscription or per use basis. Based on our contractual arrangement and those of our wireless value-added service providers, we rely on China Mobile and China Unicom to bill and collect fees for our services from mobile phone users.

China Mobile and China Unicom generally charge our affiliated value-added service providers service fees of 15% and 30% of the revenues generated by their services, respectively. To the extent that the number of messages sent by Sifang Information over China Mobile's network exceeds the number of messages their customers send to it, Sifang Information must pay per message network fees, which decrease in several provinces as the volume of customer usage of our services increases. The number of messages sent by Sifang Information will exceed those sent by end-users, for example, if a user sends Sifang Information a single message to order a game but Sifang Information in turn must send that user several messages to confirm his or her order and deliver the game itself. Tianci's service fees owed to China Unicom could also rise if Tianci fails to meet certain customer usage, revenue and other performance criteria. We cannot be certain that our affiliates will be able to continue to satisfy these criteria in the future or that the mobile operators will keep the criteria at their current levels. Any increase in China Mobile's or China Unicom's network fees and service charges could reduce our gross margins.

China Mobile and China Unicom may terminate their relationships with our affiliates if our affiliates fail to achieve minimum customer usage, revenue and other criteria.

Our business could be adversely affected if our affiliated value-added mobile phone service providers fail to achieve minimum customer usage, revenue and other criteria imposed or revised by China Mobile and China Unicom at their discretion from time to time. China Mobile and China Unicom, through their national and local offices, have historically preferred to work only with a small group of the best performing wireless value-added service providers, based upon the uniqueness of the service offered by each provider, total number of users, usage and revenue generated in the applicable province or municipality, the rate of customer complaints, and marketing expenditures in the applicable province or municipality.

The services our affiliated value-added mobile phone service providers offer and the prices they charge are subject to approval by China Mobile and China Unicom, and if requested approvals are not granted in a timely manner, our business could be adversely affected.

Our affiliated value-added mobile phone service providers must obtain approval from China Mobile and China Unicom with respect to each service that they propose to offer to their customers and the pricing for each such service. In addition, any changes in the pricing of our affiliates' existing services must be approved in advance by these operators. There can be no assurance that such approvals will be granted in a timely manner or at all. Moreover, under some of our affiliates' contracts with the operators, prices cannot be changed more than once every six months and prices must be within fixed parameters, depending on the service. Any failure of our affiliates to obtain, or any delay in obtaining, such approvals could place us at a competitive disadvantage in the market and adversely affect our business.

We operate in a rapidly evolving industry, which makes it difficult for investors to evaluate our business.

We began commercially offering wireless value-added information services to mobile phone and pager users in China in January 2002, and since that time, the technologies and services used in the wireless value-added information services industry in China have developed rapidly. As a result of this rapid and continual change in the industry, the prospects of our value-added information service business should be considered in light of the risks and difficulties frequently encountered by businesses in an early stage of development. These risks include our ability to:

- attract and retain users for our wireless value-added information services,
- expand the content and services that we offer and, in particular, develop and aggregate innovative new content and service offerings,
- respond effectively to rapidly evolving competitive and market dynamics and address the effects of mergers and acquisitions among our competitors,
- build relationships with strategic partners, and
- increase awareness of our brand and user loyalty.

Due to these factors, there can be no certainty that we will maintain or increase our current share of the highly competitive wireless value-added information services market in which we operate.

The success of much of our wireless value-added information services is significantly dependent on our ability to obtain and reformat desirable content and technology from third parties.

We obtain much of our content, including financial information, games, logos, music, news and other information, from third parties. Furthermore, we expect that we will develop and purchase technology in connection with our development of next generation services such as MMS, JAVA and BREW. As the market for wireless value-added information services develops, content and technology providers may attempt to increase their profits from distribution arrangements by demanding greater fees or a share of revenues, which would adversely affect our financial performance. Many of our arrangements with content and technology providers are non-exclusive, have a term of one year, and are subject to renewal. If our competitors are able to obtain such content in a similar or superior manner or to develop, purchase or license the same technologies, it could adversely affect the popularity of our services and our negotiating leverage with third-party providers.

If we fail to establish and maintain economically attractive relationships with content and technology providers and to thereafter successfully reformat their products, we may not be able to attract and retain customers or maintain or improve our financial performance.

We depend on our Sifang Gutong software continuing to be compatible with new mobile phone models.

There can be no assurance that our Sifang Gutong software will be compatible with new mobile phones developed by manufacturers such as Samsung. If the software is no longer compatible, we will be forced to engage Chengao or an alternative software developer to develop software that is compatible with the new mobile phones or we will have to develop the software ourselves. If we are unable to either engage a software developer or develop software in house that is compatible with new mobile phones, we will lose a significant portion of our value-added information services revenue, including all of the pre-charged subscription fee revenues we receive pursuant to our information services and cooperation agreement among us, Chengao, and Sifang Information.

We face intense competition from other service providers.

The Chinese markets for wireless value-added and advertising services are intensely competitive. We believe there were more than 800 wireless value-added service providers (including the three groups discussed below) as of June 30, 2004. We compete directly or indirectly with three groups of wireless value-added service providers in China:

- portal service providers, which have established expertise in Internet content and have subsequently branched into mobile space. The portals serve as content aggregators offering a variety of wireless value-added services,
- dedicated service providers, whose businesses focus on offering a variety of wireless content directly to mobile phone users, and
- niche service providers, which focus primarily on a particular market segment or application that often builds on a pre-existing sector competency.

We have faced direct or indirect competition from all three groups since our entry into this market. Moreover, there are low barriers to entry for new competitors in the wireless value-added services market. As a result, our existing or potential competitors may in the future achieve greater market acceptance and gain additional market share, which in turn could reduce our revenues. There is increasing number of competitors in the media industry and the reduction of advertising fees, resulting in intense market competition. Our advertising services have also facing direct or indirect competitions from other more traditional advertising outlets such as television, radio and newspapers.

Most of our value-added information services revenues are derived from the Shanghai municipal area and surrounding provinces, and the termination or alteration of our affiliates' contracts with the mobile operators, or a general economic downturn in those areas, could have a particularly adverse effect on our business.

Per capita income levels and mobile phone penetration rates (i.e., the number of mobile subscribers divided by the population of China) in China are generally higher in the coastal and southern provinces, and most of our revenues are derived from those areas, including the municipality of Shanghai and the provinces of Beijing and Jiangsu. If our affiliates' contracts with the mobile operators with respect to those areas are terminated or adversely modified, or if there is a general economic downturn in those areas, it could have a particularly adverse effect on our business.

Rapid growth and a rapidly changing operating environment strain our limited resources.

As our value-added information services customer base increases, we will need to increase our investment in our technology infrastructure, facilities and other areas of operations, in particular our product development, customer service and sales and marketing departments, which are important to our future success. If we are unable to manage our growth and expansion effectively, the quality of our services and our customer support could deteriorate and our business may suffer. Our future success will depend on, among other things, our ability to:

- develop and quickly introduce new services, adapt our existing services and maintain and improve the quality of all of our services, particularly as new mobile technologies such as 3G are introduced,
- expand the percentage of our value-added information services revenues which are recurring and are derived from monthly subscription based services,
- continue to enter into and maintain relationships with desirable content providers,
- continue training, motivating and retaining our existing employees and attract and integrate new employees, including our senior management, most of whom have been with our company for less than one year,
- develop and improve our operational, financial, accounting and other internal systems and controls, and
- maintain adequate controls and procedures to ensure that our periodic public disclosure under applicable laws, including U.S. securities laws, is complete and accurate.

Any failures of the mobile telecommunications network, the Internet or our technology platform may reduce use of our services.

Both the continual accessibility of China Mobile's and China Unicom's mobile networks and the performance and reliability of China's Internet infrastructure are critical to our ability to attract and retain our value-added information services customers. Moreover, our business depends on our ability to maintain the satisfactory performance, reliability and availability of our technology platform. The servers which constitute the principal system hardware for our operations are located in one location in Shanghai. Any server interruptions, break-downs or system failures, including failures caused by sustained power shutdowns, floods or fire causing loss or corruption of data or malfunctions of software or hardware equipment, or other events outside our control that could result in a sustained shutdown of all or a material portion of the mobile networks, the Internet or our technology platform, could adversely impact our ability to provide our services to our value-added information services customers and decrease our revenues.

Computer viruses and hacking may cause delays or interruptions on our systems and may reduce use of our services and harm our reputation.

Computer viruses and hacking may cause delays or other service interruptions on our systems. "Hacking" involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment. In addition, the inadvertent transmission of computer viruses could expose us to a material risk of loss or litigation and possible liability. We may be required to expend significant capital and other resources to protect our systems against the threat of such computer viruses and hacking and to rectify any damage to our systems. Moreover, if a computer virus or hacking which affects our systems is highly publicized, our reputation could be materially damaged and usage of our services may decrease.

We may be held liable for information we purchase and reformat.

We may face liability for defamation, negligence, copyright, patent or trademark infringement and other claims based on the reformatted content to which we provide access through our wireless value-added information services. For example, SMS news updates provided by us could possibly be deemed to contain state secrets in violation of applicable Chinese law. In addition, third parties could assert claims against us for losses incurred in reliance on information distributed by us. We may incur significant costs in investigating and defending these claims, even if they do not result in liability.

We may not be able to adequately protect our intellectual property, and we may be exposed to infringement claims by third parties.

We rely on contractual restrictions on disclosure to protect our intellectual property rights. Monitoring unauthorized use of our information services is difficult and costly, and we cannot be certain that the steps we take will effectively prevent misappropriation of our technology and content. Our management may determine in the future to make application for copyright, trademark or trade secret protection if management determines that such protection would be beneficial and cost-effective.

From time to time, we may have to resort to litigation to enforce our intellectual property rights, which could result in substantial costs and diversion of our resources. In addition, third parties may initiate litigation against us for alleged infringement of their proprietary rights. In the event of a successful claim of infringement and our failure or inability to develop non-infringing technology or content or license the infringed or similar technology or content on a timely basis, our business could suffer. Moreover, even if we are able to license the infringed or similar technology or content, license fees that we pay to licensors could be substantial or uneconomical.

Our ability to generate revenues could suffer if the Chinese market for wireless value-added services does not develop as anticipated.

The wireless value-added services market in China has evolved rapidly over the last four years, with the introduction of new services, development of consumer preferences, market entry by new competitors and adaptation of strategies by existing competitors. We expect each of these trends to continue, and we must continue to adapt our strategy to successfully compete in our market.

In particular, we currently offer a wide range of wireless value-added information services for mobile phones using 2.5G technologies. There can be no assurance, however, that these 2.5G technologies and any services compatible with them will be accepted by consumers or promoted by the mobile operators.

Moreover, there are numerous other technologies in varying stages of development, such as third generation mobile technologies, which could radically alter or eliminate the market for SMS or 2.5G services.

Accordingly, it is extremely difficult to accurately predict consumer acceptance and demand for various existing and potential new offerings and services, and the future size, composition and growth of this market. Furthermore, given the limited history and rapidly evolving nature of our market, we cannot predict the price that wireless subscribers will be willing to pay for our services or the services of our affiliated value-added service providers or whether subscribers will have concerns about security, reliability, cost and quality of service associated with wireless services. If acceptance of our wireless value-added information services is different than anticipated, our ability to maintain or increase our revenue and profits could be materially and adversely affected.

The popularity of our services which operate with next generation technology standards are necessarily dependent on the market penetration of mobile phones that are compatible with those standards, which is beyond our control.

Mobile phone users can access our MMS, WAP, JAVA, BREW and other services which operate with next generation technology standards only if they purchase mobile phones that are compatible with those standards. In particular, mobile phones that are 2.5G-compatible have historically been significantly more expensive in China than mobile phones using older technology such as GSM. Although the prices of 2.5G-compatible mobile phones have been dropping rapidly in recent quarters, we cannot be certain whether this trend will continue or the extent to which existing users will be willing to upgrade their mobile phones to obtain the latest technology. The pricing, marketing and other factors which affect the sales of more sophisticated mobile phones are all outside of our control, and weak sales of mobile phones for which we have developed services could adversely affect our business.

The telecommunication laws and regulations in China are evolving and subject to interpretation and will likely change in the near future. If we are found to be in violation of current or future Chinese laws or regulations, we could be subject to severe penalties.

Although wireless value-added services are subject to general regulations regarding telecommunication services, we believe that currently there are no Chinese laws at the national level explicitly governing wireless value-added services, such as our services related to MMS, WAP, JAVA, and BREW, and no Chinese government authority has been specifically designated to regulate these services. Many providers of wireless value-added services have obtained various value-added telecommunication services licenses, such as the licenses possessed by our Chinese affiliates, Sifang Information and Tianci. These value-added telecommunication licenses were issued by the local Shanghai Municipal Telecommunications Administration Bureau, and may not be sufficient to offer wireless value-added services on a national basis. Sifang Information and Tianci are in the process of applying with the Ministry of Information Industries for an inter-provincial value-added telecommunication license in accordance with the Ministry's general regulations regarding telecommunication services. However, we cannot predict whether either will be granted that license. Moreover, we cannot be certain that any local or national value-added telecommunication license requirements will not conflict with one another or that any given license will be deemed sufficient by the relevant governmental authorities for the provision of this category of service. It is also possible that new national legislation might be adopted to regulate such services.

If we or our affiliates are found to be in violation of any existing or future Chinese laws or regulations regarding wireless value-added services or Internet access, the relevant Chinese authorities have the power to, among other things:

- levy fines;
- confiscate our income or the income of our affiliated value-added service providers;
- revoke our business license or the business licenses of our affiliated value-added service providers;
- shut down our servers or the servers of our affiliated value-added service providers or block any Web sites that we or our affiliated value-added service providers may operate;
- require us to discontinue any portion or all of our wireless value-added information services business; or
- require our affiliated value-added service providers to discontinue any portion or all of their wireless value-added services business.

The Chinese government, China Mobile or China Unicom may prevent us from distributing, and we may be subject to liability for, content that any of them believe is inappropriate.

China has enacted regulations governing telecommunication service providers, Internet access and the distribution of news and other information. In the past, the Chinese government has stopped the distribution of information over the Internet that it believes violates Chinese law, including content that is obscene, incites violence, endangers national security, is contrary to the national interest, or is defamatory. In addition, our affiliated value-added service providers may not publish certain news items, such as news relating to national security, without permission from the Chinese government. Furthermore, the Ministry of Public Security has the authority to cause any local Internet service provider to block any Web site maintained outside China at its sole discretion.

China Mobile and China Unicom also have their own policies regarding the distribution of inappropriate content by wireless value-added service providers and have recently punished certain providers for distributing content deemed by them to be obscene. Such punishments have included censoring of content, delaying payments of fees by the mobile operators to the offending service provider, forfeiture of fees owed by the mobile operators to the offending service provider and suspension of the service on the mobile operators' networks. Accordingly, even if our affiliated wireless value-added service providers comply with Chinese governmental regulations relating to licensing and foreign investment prohibitions, if the Chinese government, China Mobile or China Unicom were to take any action to limit or prohibit the distribution of information or to limit or regulate any current or future content or services available to users, our revenues could be reduced and our reputation harmed.

The Chinese government is expected to grant licenses to offer wireless services in China to China Telecom, China Netcom and possibly other parties with which our affiliated wireless value-added service providers have not yet developed close relationships. If those parties receive licenses and are successful in the market but our affiliates are unable to develop cooperative relationships with them, our business could be adversely affected.

It is also possible that China Telecom, China Netcom and any other parties receiving wireless licenses may decide to offer wireless value-added services created by them, rather than by third-party service providers such as our affiliated wireless value-added service providers. In that case, our business could be adversely affected.

Government regulation of the telecommunications and Internet industries may become more complex.

Government regulation of the telecommunications and Internet industries is highly complex. New regulations could increase our costs of doing business and prevent us from efficiently delivering our services. These regulations may stop or slow down the expansion of our wireless value-added information services customer base and limit access to our services. In the third quarter of 2006, the Ministry of Information Industry of the People's Republic of China initiated a nation-wide management specific plan as well as introduced a series of policies and measures to regulate the SP market. With the introduction of these policies and measures that set very strict rules on the provisions of information services provided by value-added service providers, the advertising service business of us was seriously affected. We generated very little revenue from the value-added advertising services in 2006 and determined that future undiscounted cash flows associated with the assets involved in the advertisement services provided to Tianci Real Estate were uncertain, and may not be sufficient to recover their carrying values and so these assets were written down to zero as of December 31, 2006.

Also in 2006, we decided not to pursue the acquisition of Kena under a series of agreements signed in 2005. All the agreements in connection with the Kena acquisition were terminated by TCH and Kena. We also reviewed the future economic value of the deposit for the anticipated business acquisition of Kena and determined that future undiscounted cash flows associated with this deposit were uncertain and may not be sufficient to recover their carrying values and so was fully written down as of December 31, 2006.

The above-mentioned situation forced us to take certain actions and continues to implement changes designed to improve the Company's financial results and operating cash flows. The action involves change of business operations from the mobile phone distribution business and provision of information value-added services to sales of energy-saving products. The place of business is also going to reallocate from Shanghai to Shaanxi Province.

We are dependent on three main first-tier wholesalers to supply all of our mobile phones.

Our performance depends on whether we can continue to secure contracts with the three first-tier wholesalers of Samsung mobile phones on whom we rely. We have no long-term purchase contracts or other contracts that provide continued supply, pricing or access to new mobile phone models and any of the first-tier wholesalers on whom we rely could discontinue selling to us at any time. We may not be able to acquire new Samsung and Nokia models in the future and we may not be able to acquire the models that we need in sufficient quantities or on terms that are acceptable to us in the future. As a result, our revenues may decrease.

Our performance is dependent on the popularity of Samsung's and Nokia's mobile phone models.

We primarily distribute mobile phones manufactured by Samsung and Nokia. Thus we are dependant on Samsung's and Nokia's ability to create and deliver high quality mobile phone models in a cost effective and timely manner. Nokia is the market leader in worldwide mobile phone industry and rapidly growing mobile phone market in China. Samsung is a leading world-class competitor of mobile phones based on both the CDMA network and the GSM network in China. There can be no assurance that Samsung and Nokia will continue to create high quality mobile phone models that are popular with consumers. As a result, our revenues may decrease. In addition, our success depends on our ability to anticipate and respond to changing mobile phone model trends and consumer demands in a timely manner. The models we distribute must appeal to a broad range of consumers whose preferences cannot always be predicted with certainty and may change between sales seasons. If we misjudge which mobile phone models will be popular or the market for the models we distribute, our sales may decline or we may be required to sell our models at lower prices.

We rely on cash flow to purchase mobile phones from wholesalers, and any significant decrease in cash flow could have a negative impact on our ability to meet customer demand.

It is important that we have sufficient cash flow to purchase enough mobile phones from the first-tier wholesalers on whom we rely. If our cash flow decreases significantly, we will not be able to purchase a sufficient quantity of inventory to meet our customers' demands, which would have a negative impact on our sales, and may cause the first-tier wholesalers on whom we rely to look to other sub-wholesalers to distribute their mobile phones. This development would have a negative impact on our revenues.

Our customers are under no obligation to do business with us, and if they terminate or materially reduce their relationship with us it would adversely impact our business.

One of the factors the first-tier wholesalers on whom we rely consider when determining who they will use as a sub-wholesaler is the sub-wholesaler's relationship with retailers. Currently approximately 72% of our mobile phone sales are made to five retailers. We have no long-term sales contracts or other contracts that provide continued selling or pricing and any of the retailers we supply could discontinue buying from us at any time. If we lose our relationships with our five largest retailers, we will have a difficult time finding new large retailers to purchase our Samsung and Nokia mobile phones and may lose our relationships with the first-tier wholesalers on whom we rely. This would have a negative impact on our business.

We face certain risks relating to customer service, and any resulting problems could adversely affect our sales.

Any material disruption or slowdown in our order processing systems resulting from labor disputes, mechanical problems, human error or accidents, fire, natural disasters, or comparable events could cause delays in our ability to receive and distribute orders and may cause orders to be lost or to be shipped or delivered late. As a result, customers may cancel orders or refuse to receive goods on account of late shipments, which would result in a reduction in our net sales and could result in increased administrative and shipping costs.

We face risks associated with the concentration of our distribution operations in one location.

We conduct all of our distribution operations from one facility in Shanghai, China. Any disruption in the operations at our distribution center could have a negative impact on our business.

We face competition from distributors selling other mobile phone models.

Despite the fact that we distribute nine Samsung mobile phone models and two Nokia's mobile phone models in the Shanghai, China region, we face competition from distributors of different models of mobile phones manufactured by Samsung and Nokia in the Shanghai region and from distributors of phones manufactured by companies other than these two brands that distribute in the Shanghai region.

Competition is based on a variety of factors including maintenance of product quality, competitive pricing, delivery efficiency, customer service and satisfaction levels and the ability to anticipate technological changes and changes in customer preferences. The first-tier wholesalers on whom we rely or Samsung and/ or Nokia may acquire, startup, or expand their own distribution systems to sell directly to our customers.

We are dependent on advertising contracts, some of which are short term. If these contracts are terminated or completed without replacement, our results of operations would be materially adversely affected.

We are dependent upon "Bank Digital TV's Cooperation Agreement" and the Advertisement Agency Contract, where TCH will assist in the promotion of TV ads for various customers, including Tianci Real Estate, a related party. With the introduction of the policies and measures adopted by China's Ministry of Information Industry in 2006 that set very strict rules on the provisions of information services provided by value-added service providers, our advertising services was seriously affected. The Advertisement Agency Contract between Tianci Real Estate and Sifang Media was not renewed after it was terminated in November 2005. As the result, the Company determined that future undiscounted cash flows associated with the assets involved in the advertisement services were uncertain, and may not be sufficient to recover their carrying values and so these assets were written down to zero as of December 31, 2006. TCH received a net fee of [$NIL] from Tianci Real Estate during the years ended December 31, 2006, which was a significant decrease compare to the net fee of $1,879,965 received from Tianci Real Estate during the year ended December 31, 2005.

As to the services that TCH provided through Sifang Media to assist in the promotion of TV ads for the customers of Sifang Media, for the same reason described above, TCH received a net fee of $334,844 for providing the service via Sifang Media during the fiscal year of 2006, which is also a significant decease compared to $881,633 received during the fiscal year of 2005 respectively.

We depend on key personnel for the success of our business. Our business may be severely disrupted if we lose the services of our key executives and employees or fail to add new senior and middle managers to our management.

Our future success is heavily dependent upon the continued service of our key executives, particularly Tai Caihua, our president and chairman of our board of directors, Fu Sixing, our chief executive officer, Qian Fang, our chief financial officer, and Huang Tianqi, our chief technology officer. Each of our executive officers has entered into a non-competition agreement with TCH. We also rely on a number of key technology staff for the operation of our company. Our future success is also dependent upon our ability to attract and retain qualified senior and middle managers to our management team. If one or more of our current or future key executives or employees are unable or unwilling to continue in their present positions, we may not be able to easily replace them, and our business may be severely disrupted. In addition, if any of these key executives or employees joins a competitor or forms a competing company, we could lose customers and suppliers and incur additional expenses to recruit and train personnel. Each of our executive officers has entered into non-competition agreements with TCH. We do not maintain key-man life insurance for any of our key executives.

We also rely on a number of key technology staff for the operation of our company. Given the competitive nature of our industry, the risk of key technology staff leaving our company is high and could disrupt our operations.

Our management does not devote full-time efforts to the Company and our management may have potential conflicts of interest.

Our executive officers spend approximately 30% of their time managing Sifang Information. Thus, they do not devote full-time effort to the Company. In addition, as discussed in Item 12, "Certain Relationships and Related Transactions", the Company has had numerous significant transactions with businesses controlled by, and with people who are related to, the officers and directors of the Company. Our management may thus have potential conflicts of interest.

We have limited business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products, and do not, to our knowledge, offer business liability insurance. As a result, we do not have any business liability insurance coverage for our operations. Moreover, while business disruption insurance is available, we have determined that the risks of disruption and cost of the insurance are such that we do not require it at this time. Any business disruption, litigation or natural disaster might result in substantial costs and diversion of resources.

A downturn in the Chinese economy may slow down our growth and profitability.

The growth of the Chinese economy has been uneven across geographic regions and economic sectors. There can be no assurance that growth of the Chinese economy will be steady or that any downturn will not have a negative effect on our business. Our profitability, will decrease if expenditures for wireless value-added services decrease due to a downturn in the Chinese economy. More specifically, increased penetration of wireless value-added services in the less economically developed central and western provinces of China will depend on those provinces achieving certain income levels so that mobile phones and related services become affordable to a significant portion of the population.

The uncertain legal environment in China could limit the legal protections available to you.

The Chinese legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In the late 1970s, the Chinese government began to promulgate a comprehensive system of laws and regulations governing economic matters. The overall effect of legislation enacted over the past 20 years has significantly enhanced the protections afforded to foreign invested enterprises in China. However, these laws, regulations and legal requirements are relatively recent and are evolving rapidly, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to foreign investors, such as the right of foreign invested enterprises to hold licenses and permits such as requisite business licenses.

Any recurrence of Avian influenza, or another widespread public health problem, could adversely affect our business and results of operations.

A renewed outbreak of Avian influenza or another widespread public health problem in China, where all of our revenue is derived, and in Shanghai, where our operations are headquartered, could have a negative effect on our operations. Our operations may be impacted by a number of health-related factors, including the following:

- quarantines or closures of some of our offices which would severely disrupt our operations,
- the sickness or death of our key officers and employees, and
- a general slowdown in the Chinese economy.

Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations.

Changes in China's political and economic policies could harm our business.

The economy of China has historically been a planned economy subject to governmental plans and quotas and has, in certain aspects, been transitioning to a more market-oriented economy. Although we believe that the economic reform and the macroeconomic measures adopted by the Chinese government have had a positive effect on the economic development of China, we cannot predict the future direction of these economic reforms or the effects these measures may have on our business, financial position or results of operations. In addition, the Chinese economy differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development, or OECD. These differences include:

- economic structure;
- level of government involvement in the economy;
- level of development,
- level of capital reinvestment;
- control of foreign exchange;
- methods of allocating resources; and
- balance of payments position.

As a result of these differences, our business may not develop in the same way or at the same rate as might be expected if the Chinese economy were similar to those of the OECD member countries.

Restrictions on currency exchange may limit our ability to receive and use our revenues effectively.

Because almost all of our future revenues may be in the form of Renminbi, any future restrictions on currency exchanges may limit our ability to use revenue generated in Renminbi to fund any future business activities outside China or to make dividend or other payments in U.S. dollars. Although the Chinese government introduced regulations in 1996 to allow greater convertibility of the Renminbi for current account transactions, significant restrictions still remain, including primarily the restriction that foreign-invested enterprises may only buy, sell or remit foreign currencies, after providing valid commercial documents, at those banks authorized to conduct foreign exchange business. In addition, conversion of Renminbi for capital account items, including direct investment and loans, is subject to governmental approval in China, and companies are required to open and maintain separate foreign exchange accounts for capital account items. We cannot be certain that the Chinese regulatory authorities will not impose more stringent restrictions on the convertibility of the Renminbi, especially with respect to foreign exchange transactions.

The value of our securities will be affected by the foreign exchange rate between U.S. dollars and Renminbi.

The value of our common stock will be affected by the foreign exchange rate between U.S. dollars and Renminbi. For example, to the extent that we need to convert U.S. dollars into Renminbi for our operational needs and should the Renminbi appreciate against the U.S. dollar at that time, our financial position and the price of our common stock may be adversely affected. Conversely, if we decide to convert our Renminbi into U.S. dollars for the purpose of declaring dividends on our common stock or for other business purposes and the U.S. dollar appreciates against the Renminbi, the U.S. dollar equivalent of our earnings from our subsidiaries in China would be reduced.

Risks Related to our Common Stock

The market price for our common stock may be volatile.

The market price for our common stock is likely to be highly volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results,
- announcements of new services by us or our competitors,
- changes in financial estimates by securities analysts,
- conditions in the wireless value-added services market,
- changes in the economic performance or market valuations of other companies involved in wireless value-added services or distribution of mobile phones,
- announcements by our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments,
- additions or departures of key personnel,
- potential litigation, or
- conditions in the mobile phone market.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

Shareholders could experience substantial dilution.

We may issue additional shares of our capital stock to raise additional cash for working capital. If we issue additional shares of our capital stock, our shareholders will experience dilution in their respective percentage ownership in the company.

We have no present intention to pay dividends.

Neither during the preceding two fiscal years nor during the year ended December 31, 2005 did we pay dividends or make other cash distributions on our common stock, and we do not expect to declare or pay any dividends in the foreseeable future. We intend to retain any future earnings for working capital and to finance current operations and expansion of our business.

A large portion of our common stock is controlled by a small number of shareholders.

A large portion of our common stock is held by a small number of shareholders. As a result, these shareholders are able to influence the outcome of shareholder votes on various matters, including the election of directors and extraordinary corporate transactions including business combinations. In addition, the occurrence of sales of a large number of shares of our common stock, or the perception that these sales could occur, may affect our stock price and could impair our ability to obtain capital through an offering of equity securities. Furthermore, the current ratios of ownership of our common stock reduce the public float and liquidity of our common stock which can in turn affect the market price of our common stock.

We may be subject to "penny stock" regulations.

The Securities and Exchange Commission, or SEC, has adopted rules that regulate broker-dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than $5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange or system). Penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document prepared by the SEC, which specifies information about penny stocks and the nature and significance of risks of the penny stock market. A broker-dealer must also provide the customer with bid and offer quotations for the penny stock, the compensation of the broker-dealer, and our sales person in the transaction, and monthly account statements indicating the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the trading activity in the secondary market for stock that becomes subject to those penny stock rules. These additional sales practice and disclosure requirements could impede the sale of our securities. Whenever any of our securities become subject to the penny stock rules, holders of those securities may have difficulty in selling those securities.

Where You Can Find More Information

We file annual, quarterly and special reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site at http://www.sec.gov. You may also read and copy any document we file at the SEC's public reference room in Washington, D.C. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

ITEM 2. DESCRIPTION OF PROPERTY

We currently occupy two office spaces in the Shanghai region. We lease the first office space, located at 429 Guangdong Road, Shanghai, People's Republic of China 200001, for approximately $50,000 a year. This office space contains our corporate headquarters, and is approximately 250 square meters. We own the second office space, located at 689 Laoshandong Road, Shanghai, People's Republic of China 200120, which houses our administration, technical team and servers, and is approximately 800 square meters. We believe that these two properties are adequately covered by insurance. In addition, we believe that we will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate our future expansion plans.

ITEM 3. LEGAL PROCEEDINGS

The Company is not currently involved in any material pending legal proceedings

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Our common stock is traded on the NASD's Over-the-Counter Bulletin Board under the symbol "CHDW." ("CREG" after March 8, 2007). On August 6, 2004 we changed our name from Boulder Acquisitions, Inc. to China Digital Wireless, Inc. and changed our symbol from "BAQI" to "CHDW." On March 8, 2007, we changed our name from China Digital Wireless, Inc. to China Recycling Energy Corporation, and changed our symbol from "CHDW" to "CREG". On March 31, 2007, the last reported sales price for our common stock was $0.20 per share.

The following table sets forth, for quarters indicated, the range of closing high and low bid prices for our common stock as reported by NADS Over-the-Counter Bulletin Board, as adjusted for all previously effected stock splits.

Common Stock		
By Quarter Ended	**High**	**Low**
Fiscal 2005		
March 31, 2005	$5.50	$3.42
June 30, 2005	$5.20	$1.40
September 30, 2005	$3.01	$1.41
December 31, 2005	$2.49	$1.60
Fiscal 2006		
March 31, 2006	$0.80	$0.70
June 30, 2006	$0.29	$0.22
September 30, 2006	$0.14	$0.12
December 31, 2006	$0.27	$0.25
Fiscal 2007		
March 31, 2007	$0.20	$0.20

As of March 31, 2007, there were 17,147,268 shares of our common stock outstanding held by approximately 2,553 shareholders of record.

We did not pay any cash dividends on our common stock in fiscal 2004, 2005 or 2006. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. We currently intend to retain future earnings, if any, to finance operations and the expansion of our business.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Overview of Business Background

Sifang Holdings was formed under the laws of the Cayman Islands on February 9, 2004 for the purpose of holding a 100% equity interests in TCH. TCH was established as a foreign investment enterprise in Shanghai under the laws of the PRC on May 25, 2004, with a registered capital of $7.2 million.

Sifang Information is a Shanghai-based privately owned enterprise established under the laws of the PRC on August 14, 1998. Sifang Information is engaged in the business of pager and mobile phone distribution and provides value added information services to the customers in the Shanghai metropolitan area. In March 2004, Sifang Information spun off its mobile phone distribution business and the majority of its value added information services business by presenting a set of carve-out financial statements for the years ended December 31, 2002 and 2003 and three months ended March 31, 2004 as if the spun-off business had been a stand-alone company for two years and one quarter. On March 31, 2004, Sifang Information transferred the spun-off business into TCH. Being a receiving entity under common control, TCH initially recognized all the assets and liabilities transferred at their carrying amounts in the accounts of Sifang Information at the date of transfer under the guidance of SFAS No. 141, Appendix D. On May 26, 2004 Sifang Information exchanged 100% of equity interest in TCH for a 100% equity interest in Sifang Holdings. Since the ultimate owners of the three entities were the same owners and the three entities remained under common control, the ownership exchange transaction was accounted for at historical costs under the guidance of SFAS No. 141, Appendix D. Prior to May 26, 2004, there were no activities in Sifang Holdings. As a result of exchanging the ownership between TCH and Sifang Holdings, TCH's historical financial statements become the historical financial statements of Sifang Holdings.

Sifang Information operates in a business segment that is subject to certain restrictions imposed by the government of the PRC. For example, paging facilities, radio transmitting stations and transmitting equipment owned by Sifang Information are not allowed to be owned by foreign investment enterprises in accordance with PRC government regulations. Therefore, Sifang Information still maintains a small part of its business and paging facilities in order to stay in compliance with relevant regulations and laws in the PRC.

As a result of the spin-off, TCH engages in the business of mobile phone distribution and provides access to certain information reformatted by TCH to pager and mobile phone (collectively "wireless receiver") users. TCH purchases mobile phones from the first tier distributors and sells them to retailers with a mark-up. In the process of providing value-added information services through entering into monthly subscription agreements with various users, TCH purchases trading activity information from stock exchanges, comments and analysis on PRC stock markets provided by certain reputable security and investment companies, lottery information, weather forecast, and other value-added products and reformats the aforementioned information through decoding and recoding and then has the reformatted information transmitted by Sifang Information, via service contracts, to pager users. The information is constantly saved in TCH's server in order for mobile phone users to dial in via China Mobile or China Unicom. By signing a monthly subscription agreement, wireless users agree to make advance payments for either three or six-month subscription periods.

We launched a new digital media project to move into the media market in China in 2005. In conjunction with charitable organizations, we have installed donation boxes with digital TV incorporated on top of them in the main lobbies of commercial banks, hotels, malls and other public locations to call the public's attention to the charity and broadcast commercial advertisements.

Discussion and Analysis of Operating Results

Fiscal Year Ended December 31, 2006 Compared to the Fiscal Year Ended December 31, 2005

Revenue

Total Revenues

Total revenue consists of product sales, product sales to related parties, and net information and advertising service revenue. Total revenue for the 2006 fiscal year decreased by $17,529,586, representing a decrease of approximately 85.8%, to $2,889,436, as compared to $20,419,022 for the same period of the prior year. The decrease was mainly due to (1) the significant decline of products sales to non-related and related third parties and (2) the serious negative effect on our advertising services imposed by China's more strict national ruling on advertisement services adopted in 2006. The market for mobile phones in China is also gradually becoming saturated.

Product Sales

In the year ended December 31, 2005, Samsung and Nokia's mobile phones accounted for 89% and 8% of our total product sales and other brands accounted for the balance, compared to the 2004 fiscal year, in which Samsung's mobile phones accounted for about 97% of our total product sales and other name brands mobile phones accounted for the remaining 3%. During 2005 market competition for mobile phone sales intensified, causing us to decrease our overall mark-up ratio to 2.1% in order to maintain our market position, in comparison with a mark-up ratio of 6.4% for the same period the prior year.

Revenue from product sales for our 2006 fiscal year decreased by $5,725,793, representing a decrease of approximately 99.1%, to $ 49, 276 as compared to $5,775,069 for the prior year. The decrease was mainly due to market factors. The market for mobile phones in China is becoming saturated along with intensified competition developing among mobile phone distributors.

We entered an agreement to distribute select Nokia mobile phones exclusively in the Shanghai region of China in May 2005 and obtained the right to distribute two popular models of Nokia's mobile phones. Initially, we believed that this agreement would enhance both our market share and profitability. However, as a result of the sudden change in the market factors during the latter half of 2005 and 2006, the sales mark-up of the Nokia mobile phones to our customers dropped significantly. As a result, the management of the Company continued to cease the mobile phone distribution business in December 2006. The continued cease of the said business also contributed to the significant decline of our product sales.

Product Sales to a Related Party

We distributed Samsung mobile phones to our related party, Shanghai Shantian Telecommunication Co. Ltd. ("Shantian"), in which Sifang Information holds a 51% equity interest, for its retail market channel and facility. Revenue from product sales to related third parties for our 2006 fiscal year decreased by $ 9,894,763, representing a decrease of approximately 93.2%, to $ 713,524 as compared to $10,608,287 for the prior year. Accounts receivable includes $nil and $1,583,512 due from Shantian as of December 31, 2006 and 2005 respectively. The decrease was also mainly due to market factors. The market for mobile phones in China is becoming saturated along with intensified competition developing among mobile phone distributors.

There were no mobile phone sales to Tianci Industry and Tianci Group during the year ended December 31, 2005 and During the year ended December 31, 2006.

Information Service Revenue, Net

Total information service revenue net of related business tax and service fee for the 2006 fiscal year increased by $517,724, representing a increase of approximately 40.6%, to $1,791,792 compared to $1,274,068 for the the prior year.

Advertising Service Revenue, Net

Revenue from advertisement services, net of related business tax and service fee, for our 2006 fiscal year decreased by $ 2,426,754, representing a decrease of approximately 87.9%, to $ 334,844 as compared to $2,761,598 for the prior year. The decrease was mainly because there was no service fee received from Tianci Real Estate during the year ended December 31, 2006 as the Advertisement Agency Contract between Tianci Real Estate and Sifang Media was terminated in November 2005.The decrease was mainly due to the introduction of the policies and measures adopted by China's Ministry of Information Industry in 2006 that set very strict rules on the provisions of information services provided by value-added service providers.

In 2005, We launched a new digital media project to move into the media market. In conjunction with charitable organizations, we have installed donation boxes with digital TV incorporated on top of them in the main lobbies of commercial banks, hotels, malls and other public locations to call the public's attention to the charity and broadcast commercial advertisements. We also reached an agreement with CCF, a national non-profit charitable organization, which enables the Company to install donation boxes for CCF in banks and other commercial locations throughout China that will also have the Company's out-of-home digital television advertising media platform attached. We believed the earnings potential from the advertising service will be a new source of profit in view of the upcoming Special Olympic World Summer Games in 2007 and World Exposition in 2010 to be held in Shanghai. In addition, during the 2006 fiscal year, TCH rendered advertisement designing and producing services to Tianci Real Estate, a related party, for publicity and promoting its apartment.

However, in the third quarter of 2006, the Ministry of Information Industry of the People's Republic of China initiated a nation-wide management specific plan as well as introduced a series of policies and measures to regulate the SP market. These policies and measures set very strict rules on the provisions of information services provided by value-added service providers and started to show their effects on the industry in December 2006. Our advertising service business was seriously affected. We generated very little revenue from the above mentioned projects we launched in 2005. We also determined that future undiscounted cash flows associated with the assets involved in the advertisement services provided to Tianci Real Estate were uncertain, and may not be sufficient to recover their carrying values and so these assets were written down to zero as of December 31, 2006.

Cost of Goods Sold

The cost of goods sold for the 20065 fiscal year decreased by $15,061,459 to $963,500, compared to $16,024,959 for the prior year, representing a decrease of approximately 94%. The percentage of decrease, which was lower than the decrease in revenue from product sales, resulted from the declining product markup as the Chinese market is gradually becoming saturated.

Cost of Service

The cost of service for the 2005 fiscal year increased by $519,724 to $1,342,902 compared to $823,178 for the prior year, representing a increase of approximately 63.1%. The increase was mainly due to the increase of information fees paid to content providers for the value-added service. During the 2006 fiscal year, we continued to maintain current fee structures and to establish collaborative relationships or partnerships with mobile operators and certain information content providers in China.

Gross Profit

After taking into account the cost of goods sold and cost of service, our gross profit for the 2006 fiscal year decreased by $2,987,851 to $583,034, representing a decrease of approximately 83.7%, compared to gross profit of $3,570,885 for the prior year. The decrease in gross profit was primarily attributable to the continuing decline in mobile phone sales to non-related and related parties and decline in advertising services during the 2006 fiscal year.

The following table summarizes certain information related to the various components of revenue.

2006	**Advertising service revenue**	**Sales of mobile phones**	**Mobile phone service**	**Beep pagers service**	**Corporate**	**Total**
Revenue, net	$ 334,844	$ 762,800	$ 1,430,252	$ 361,540	$	$ 2,889,436
Cost of revenue	110,876	963,500	1,043,204	188,822		2,306,402
Gross profit	223,968	(200,700)	387,048	172,718		583,034
Gross Profit Ratio						
Depreciation			110,924		78,442	189,366
Interest expense						
Net income (loss)	224,745	(509,518)	102,293	(45,895)	(10,349,043)	(10,577,418)
Total assets					(4,464,612)	4,464,612
Expenditure for long-lived assets						

Sales and Marketing Expenses

Sales and marketing expenses for the 2006 fiscal year increased by $20,088 to $154,727 compared to $134,639 the prior year, representing a increase of approximately 14.9%. The increase was primarily due to the increase in commission fees paid to the salesmen for mobile phones and advertising expenses.

General and Administrative Expenses

General and administrative expenses for the 2006 fiscal year decreased by $283, 209 to $967,957 compared to $1,251,166 for the same period of the prior year, representing a 22.6% decrease.

Impairment Costs

In 2006, during the course of our strategic review of the assets involved in the mobile phone sales and information service operations, we determined that future undiscounted cash flows associated with these assets were uncertain and may not be sufficient to recover their carrying values and so these assets were written down to zero as of December 31, 2006. Also in 2006, we decided not to pursue the acquisition of Kena under a series of agreements signed in 2005. All the agreements in connection with the Kena acquisition were terminated by TCH and Kena. We also reviewed the future economic value of the deposit for the anticipated business acquisition of Kena and determined that future undiscounted cash flows associated with this deposit were uncertain and may not be sufficient to recover their carrying values and so was fully written down as of December 31, 2006. As the result, the total amount of impairment costs of $7,114,047 for Fiscal 2006 was charged to the statement of operations, which included $ 856,457 for property and equipment and $ 6,257,590 for deposit for business acquisition.

Due From Related Parties

The amount due from Sifang Information and Sifang Media as of December 31, 2006 are trade related and relating to the mobile phone distribution business.

During January 2006, the Company entered into an agreement with Sifang Information for the establishment of a new joint venture entity with a third party. The purpose of the joint venture entity is to act as a sole advertising agent of TCH. The Company advanced a total of $2,499,969 to Sifang Information to contribute to the joint venture. This, together with the trade receivables related to the mobile phone distribution business, made up a total balance of $6,446,275 receivable from Sifang Information as of December 31, 2006. As of December 31, 2006, the Company decided to provide a provision of $3,000,000 for
1) the full amount advance to the joint venture and 2) the long outstanding portion of the receivable from Sifang Information.

Governmental subsidy

During the year ended December 31, 2006, the Company received a general government subsidy from the local bureau, which is equivalent to 3.5% of the taxable income of TCH throughout the period from January 2005 to December 2005. The subsidy is non-recurring and subject to government approval. The amount of such government subsidy for the years ended December 31, 2006 and 2005 was $118,262 and $108,476 respectively.

Interest income (expense)

During our 2006 fiscal year, the interest income derived from bank deposits was $ 5,135.

Income Tax

The Company's PRC subsidiary, TCH, is registered at Pudong District in Shanghai and subject to a favorable income tax rate of 15% compared to a normal income tax rate of 33% (30% for the central government and 3% for the local government) under current PRC tax laws. Sifang Information is registered in the Shanghai downtown area and has been treated by the Shanghai Municipal Administration of Labor as an enterprise that provides unemployed and handicapped people with jobs. Accordingly, Sifang Information is also entitled to a favorable income tax rate of 15% and qualified for an income tax exemption for three years from January 1, 2000 to December 31, 2002, and a 50% income tax reduction for three years from January 1, 2003 to December 31, 2005. The income tax provisions presented in the Company's financial statements are based on the actual income tax rates of TCH at 15% for both years ended December 31, 2006 and 2005. The deferred tax assets are determined based on the income tax rates applicable at the TCH level.

There is no income tax for companies domiciled in the Cayman Islands.

Accordingly, the Company's consolidated financial statements do not present any income tax provisions related to Cayman Islands tax jurisdiction.

The total income tax for our fiscal 2006 was $ 36,633, compared to $481,743 for the same period of the prior year

Comprehensive Income (Loss)

We recorded comprehensive loss of $ 9,825,415 for the 2006 fiscal year, a $11,921,918 decrease compared to comprehensive income of $2,096,503 for the prior year, representing a decrease of approximately 568.7%. The comprehensive loss was attributable to (i) the decrease in the gross profit generated in the 2006 fiscal year, (ii) the impairment cost in 2006 (iii) the appreciation of Chinese RMB to US dollars.

Net Earning (Loss) Per Share

We recorded a net loss per share in 2006 fiscal year. The net loss per share for the 2006 fiscal year was $ 0.62, a $ 0.73 decrease compared to the $0.11 net earning per share for the prior year. The loss was attributable to (i) the decrease in the gross profit generated in the 2006 fiscal year, (ii) the impairment cost in 2006 (iii) the appreciation of Chinese RMB to US dollars.

Liquidity and Capital Resources

Our cash balance decreased from $3,578,367 as of December 31, 2005 to $252,000 as of December 31, 2006. This decrease in cash and cash equivalents was primarily due to the decrease in the collection of accounts receivable. At December 31, 2006 and 2005, our net working capital was $9,877,040 and $3,346,637 respectively.

Net cash used in operating activities was $ 4,079,333 during our 2006 fiscal year, compared to net cash generated from operating activities of $ 5,290,767 during the prior year. The loss of net cash flow from operating activities was due mainly to the adjustment of $ 10,577,418 to reconcile net earnings to net cash from operating activities and the non-collection of $ 3,351,306 due from related parties in 2006 fiscal year.

Net cash generated in investing activities for the 2006 fiscal year decreased to $963, compared to net cash used in investing activities of $3,551,569 for the same period of the prior year.

Net cash provided by financing activities for the 2006 fiscal year was $ 0 compared to $1,500,000 for the same period of the prior year. We did not generate any cash from financing activities in 2006 fiscal year.

Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"), which replaces Accounting Principles Board Opinions No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting changes in Interim Financial Statements An Amendment of APB Opinion No. 28". SFAS 154 provides guidance on the accounting for and reporting of accounting changes. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

In September 2005, the FASB's Emerging Issues Task Force ("EITF") reached a final consensus on Issue 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty" ("EITF 04-13"). EITF 04-13 requires that two or more legally separate exchange transactions with the same counterparty be combined and considered a single arrangement for purposes of applying APB Opinion No. 29, "Accounting for Nonmonetary Transactions", when the transactions are entered into in contemplation of one another. EITF 04-13 is effective for new arrangements entered into, or modifications or renewals of existing arrangements, in interim or annual periods beginning after March 15, 2006. The Company does not expect that the adoption of this statement would have a material effect on the Company's financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Instruments-an amendment of FASB Statements 133 and 140", which is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The statement improves financial reporting by eliminating the exemption from applying SFAS No. 133 to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. The Statement also improves financial reporting by allowing a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized have to bifurcated, if the holder elects to account for the whole instrument-by-instrument basis, in cases in which a derivative would otherwise have to bifurcated, if the holder elects to account for the whole instrument on a fair value basis. The Company does not expect that the adoption of this statement would have a material effect on the Company's financial position or results of operations.

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109", which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognizes in its consolidated financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for the Company on January 1, 2007, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

In September 2006, the SEC released SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provision of SAB 108 is effective for the Company in the current fiscal year ended December 31, 2006. The Company is currently evaluating the impact of SAB 108 but does not believe that the application of SAB 108 would have a material effect on its financial position, cash flows nor results of operations.

In September 2006, the FASB issued SFAS No.157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for the Company starting January 1, 2008. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company is currently evaluating the impact of SFAS 157 on its consolidated financial position, cash flows and results of operations.

Other recent accounting pronouncements issued by the FASB (including its Emerging Issues Task Force), the AICPA, and the SEC did not or are not believed by management to have a material impact on our present or future consolidated financial statements.

ITEM 7. FINANCIAL STATEMENTS

The consolidated financial statements of China Digital Wireless, Inc. and its subsidiaries including the notes thereto, together with the report thereon of Zhong Yi (Hong Kong) C.P.A. Company, Ltd. are presented beginning at page F-1.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 8A. CONTROLS AND PROCEDURES

Prior to the conclusion of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to us (including our consolidated subsidiary) required to be included in our periodic SEC filings.

There were no changes in our internal controls over financial reporting that materially affected, or are reasonably likely to materially affect our internal control over financial reporting during the fiscal quarter ended December 31, 2006.

ITEM 8B. OTHER INFORMATION

Not applicable

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The following table provides information about our executive officers and directors and their respective ages and positions as of December 31, 2006 and March 30, 2007:

As of December 31, 2006

Name	Age	Title
Tai Caihua	49	Director, President, Chairman of the Board
Huang Tianqi	34	Director, Chief Technology Officer
Jing Weiping	42	Director
Mao Ming	44	Director
Song Jing	30	Director
Fu Sixing	45	Director, Chief Executive Officer
Yu Ruijie	43	Director
Zhang Xiaodong	38	Director

Huang Wei	43	Director
Qian Fang	47	Chief Financial Officer

As of March 31, 2007

Name	Age	Title
Ku Guohua	45	Director, President, Chairman of the Board, Chief Technology Officer
Wu Guangyu	35	Chief Executive Officer
Zheng Hanqiao	49	Director
Mingda Rong	39	Director, Chief Financial Officer

The change of the Board incurred on January 24, 2007, a group of individuals ("Purchasers") entered a share purchase agreement with a group of shareholders ("Sellers") of China Digital Wireless, Inc. ("Company") to purchase 12,911,835 shares of Company's common stocks owned by Sellers, $ 0.001 par value, for an aggregate purchase price of $ 490, 000.00. Purchasers are Guohua Ku, Hanqiao Zheng, Ping Sun, Qianping Huang, Xiaohong Zhang and Lixia Zhang. Sellers are Caihua Tai, Ming Mao, Ying Shi, Sixing Fu, Xiaodong Zhang, Tianqi Huang, Wei Huang, Jing Song, Ruijie Yu, and Weiping Jing, all of whom are shareholders of Company.

In connection with the share purchase agreement date on January 24, 2007, Caihhua Tai (Chiarman of the Board and President of the Company), Ming Mao (Director), Sixing Fu(Director, Chief Executive Officer), Xiaodong Zhang(Director), Tianqi Huang(Director, Chief Technology Officer), Wei Huang (Director), Jing Song (Director), Ruijie Yu (Director), and Weiping Jing (Director) resigned from their positions in the Board and the offices of Company. Fang Qian also resigned from her position as the Chief Financial Officer of the Company.

Guohua Ku, Hanqiao Zheng, Guangyu Wu and Mingda Rong become the Directors of the Board. The Board also appointed the following individuals to the following offices: Guohua Ku, President and Chairman of the Board of Directors, Chief Technology Officer Guangyu Wu, Chief Executive Officer, Secretary Mingda Rong, Chief Financial Officer

Tai Caihua has served as our president, chairman of our board of directors and a member of our board of directors since June 23, 2004. Mr. Tai has been (i) the president and sole director of our wholly owned subsidiary, Sifang Holdings, since February 2004; (ii) chairman of the board of directors of Sifang Holdings' wholly owned subsidiary, TCH, since our inception in May 2004; (iii) director and general manager of Shanghai Tianci Industry (Group) Co., Ltd., one of our affiliates, since January 1994 and (iv) a director of Sifang Information, one of our affiliates, since December 2001. Mr. Tai holds a Masters of Business Administration from the Macau University of Science and Technology.

Huang Tianqi has served as our chief technology officer since June 23, 2004 and a member of our board of directors since June 24, 2004. Mr. Huang has served as chief technology officer of Sifang Holdings and vice-general manager, chief technology officer and a director of TCH since their inception in February 2004 and May 2004, respectively. Mr. Huang also serves as the vice-general manager and a member of the board of directors of Sifang Information. Before becoming vice-general manager, Mr. Huang was the chief technology officer at Sifang Information for seven years. Mr. Huang graduated from Nanjing University of Posts and Telecommunications with a Bachelors Degree and from Shanghai Jiao Tong University with a Masters of Science Degree.

Jing Weiping has served as a member of our board of directors since June 24, 2004. Mr. Jing has served as a member of the board of directors of TCH since our inception in May 2004 and as a Director of Sifang Information since 2001. Mr. Jing has served as the manager of the technology assurance department of Sifang Information for the past nine years. Mr. Jing received his Bachelors Degree from Dong Hua University.

Mao Ming serves as a member of our board of directors. He was elected to our board of directors June 24, 2004. He has been (i) the general manager and a member of the board of directors of TCH since our inception in May 2004; and (ii) the general manager and a director of Sifang Information since January 1998. Mr. Mao graduated from China PLA Measurement College with a Bachelors Degree and from the Macau University of Science and Technology with a Masters of Business Administration.

Song Jing has served as a member of our board of directors since June 24, 2004. Mr. Song has served as vice-general manager and a member of the board of directors of TCH since our inception in May 2004 and as general manager of Shanghai Shan Tian Telecommunication Co., Ltd., an affiliate of ours, since November 2003. Previously, Mr. Song served as director and general manager of Shanghai Zhong Si Hua Hao Co., Ltd. for one year and assistant general manager of both Shanghai Hua Si Trading Co., Ltd. and Shanghai Qi Shi Trading Co., Ltd for five years. Mr. Song holds a Masters of Business Administration from Joseph L. Rotman School of Management, University of Toronto.

Fu Sixing has served as our chief executive officer since June 23, 2004 and a member of our board of directors since June 24, 2004. Mr. Fu has served as executive manager of Sifang Holdings and as the head of the research and development department and a director of TCH since their inception in February 2004 and May 2004, respectively. During the past seven years, Mr. Fu has served as (i) the assistant to general manager of Shanghai Tianci Industry (Group) Co., Ltd.; (ii) a director and the general manager of Shanghai Sifang Health Technology Co., Ltd. and (iii) directorate secretary of Sifang Information. Mr. Fu received a Bachelors of Science in Physics from Nanjing University, a Masters of Social Science in Economics from Huadong Normal University and a Doctorate of Business Administration from the University of Southern California.

Yu Ruijie has served as a member of our board of directors since June 24, 2004. Mr. Yu has served (i) as head of the Systems Department and a director of TCH since our inception in May 2004 and (ii) as the head of the Systems Department of Sifang Information since January 1994. Mr. Yu received a Bachelors Degree in Computer Science from Shanghai University of Engineering Science.

Zhang Xiaodong has served as a member of our board of directors since June 24, 2004. Mr. Zhang has served as the head of the projection department of TCH since our inception in May 2004. Mr. Zhang also serves as a director and the head of the projection department of Sifang Information. For the past nine years, Mr. Zhang has served as head of the wireless engineering department at Sifang Information. Mr. Zhang graduated from Shanghai Jiao Tong University with a Bachelors Degree and received a Masters Degree from the Macao University of Science and Technology.

Huang Wei has served as a member of our board of directors since June 24, 2004. Mr. Huang has served as (i) the vice-general manager of TCH since our inception in May 2004 and (ii) vice-general manager and a director of Sifang Information since 1993. Mr. Huang graduated from Nanjing University of Air Force and Politics with a Bachelors Degree in Logistics.

Qian Fang has served as our Chief Financial Officer since January 1, 2005. Ms. Fang has served as Manager of Accounting of TCH since 1999. Ms. Fang graduated from China Cable-TV University with a Bachelors Degree in Accounting and is a Certified Public Accountant.

Guohua Ku, aged 45, graduated from Northwestern University (China) with the Master of Business Administration. He had served as the senior technology and marketing officer for several large Chinese state-owned companies. He gained tremendous experiences and developed exceptional expertise on the development and operation of TRT programs and energy recycling systems.

Hanqiao Zheng, aged 49, graduated from Northwestern University of Agricultural and Forestry Technologies. He worked in the Weinan Municipal Government from 1982 to 1996 and afterwards served at a management position in Shaanxi Province Machinery Import/Export Co., Ltd.

Guangyu Wu, aged 35, graduated from the International Finance Program of Heilongjiang Harbin Investment Institute. He owns the title of Senior Economist and had worked in several large financial and commercial institutions including China Construction Bank, SEG Trust, and Sunark Pegasus Group. He is specialized in financial investment, business administration and strategic planning.

Mingda Rong, aged 39, is a Chinese certified public accountant. He graduated from the Open University of Hong Kong with the Master of Business Administration. He served as the accountant in Xi'an Institute of Finance and Economics from 1989 to 2000. After that he worked in Xi'an Sigma CPA firm.

Family Relationships

Except as set forth herein, there are no family relationships among our directors or officers. The spouse of Mr. Tai Caihua (the President and Chairman of our Board of Directors), Ms. Shi Ying, is a sibling of Huang Wei, a member of our Board of Directors.

Audit Committee and Audit Committee Financial Expert

Our board of directors established our audit committee in April 2005. The audit committee reviews and recommends to the directors the independent auditors to be selected to audit our financial statements; meets with the independent auditors and financial management to review the scope of the proposed audit procedures to be utilized; reviews with the independent auditors, internal auditor, and our financial and accounting personnel, the internal accounting and financial controls, and elicits any recommendations for the improvement thereof; reviews our financial statements and reports the results of the annual audit to the board of directors.

Section 16(a) Beneficial Ownership Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our officers, directors and certain other shareholders to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and certain other shareholders are required by regulation to furnish us with copies of all Section 16(a) forms they file. During 2006, our President and Chairman Tai Caihua filed a Form 4 . As of March 31, 2007, two of our directors, Guohua Ku and Hanqiao Zheng have filed a Form 3.

ITEM 10. EXECUTIVE COMPENSATION

None of the executive officers received salary and bonus compensation in excess of $100,000 during the 2006 fiscal year.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The following table sets forth, as of December 31, 2006 and March 31, 2007, the number and percentage of our 17,147,268 outstanding shares of common stock that were beneficially owned by (i) each director and executive officer of China Digital, (ii) each person known to China Digital to be the beneficial owner of five percent or more of the outstanding shares of common stock of China Digital, and (iii) all directors and officers of China Digital as a group. Unless otherwise indicated, the person or entity listed in the table is the beneficial owner of, and has sole voting and investment power with respect to, the shares indicated.

As of December 31, 2006

Name	Amount of Shares	Percent of Voting Shares
Caihua Tai	8,639,220	40.3%
Ying Shi	1,791,743	10.5%
Jing Song	413,480	2.4%
Ming Mao	413,480	2.4%
Ruijie Yu	275,652	1.6%
Tianqi Huang	275,652	1.6%
Sixing Fu	275,652	1.6%
Wei Huang	275,652	1.6%
Weiping Jing	275,652	1.6%
Xiaodong Zhang	275,652	1.6%
Directors and Executive officers as a group	12,911,835	75.2%

As of March 31, 2007

Name	Amount of Shares	Percent of Voting Shares
Guohua Ku	9,073,700	52.9%
Hanqiao Zheng	2,406,365	14.0%
Ping Sun	745,880	4.3%
Qianping Huang	157,755	0.9%
Xiaohong Zhang	72,018	0.4%
Lixia Zhang	456,117	2.7%
Directors and Executive officers as a group	12,911,835	75.2%

(1) Under applicable rules promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended, or the Exchange Act, a person is deemed the "beneficial owner" of a security with regard to which the person, directly or indirectly, has or shares (a) the voting power, which includes the power to vote or direct the voting of the security, or (b) the investment power, which includes the power to dispose or direct the disposition of the security, in each case irrespective of the person's economic interest in the security. Under these SEC rules, a person is deemed to beneficially own securities which the person has the right to acquire within 60 days through (x) the exercise of any option or warrant or (y) the conversion of another security. (2) In determining the percent of our common stock owned by a person (a) the numerator is the number of shares of our common stock beneficially owned by the person, including shares the beneficial ownership of which may be acquired within 60 days upon the exercise of options or warrants or conversion of convertible securities, and (b) the denominator is the total of (i) the 17,147,268 shares of our common stock outstanding on March 31, 2007 and (ii) any shares of our common stock which the person has the right to acquire within 60 days upon the exercise of options or warrants or conversion of convertible securities. Neither the numerator nor the denominator include shares which may be issued upon the exercise of any other options or warrants or the conversion of any other convertible securities.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following related parties are related through common ownership with the major shareholder of the Company:

Shanghai Sifang Information Technology Co. ("Sifang Information") Shanghai Tianci Industry Co. Ltd. ("Tianci Industry") Shanghai Tianci Industry Group Co. Ltd. ("Tianci Group") Shanghai Shantian Telecommunication Co. Ltd. ("Shantian") Shanghai Sifang Telecommunication Co. Ltd. ("Sifang Telecom") Shanghai Tianci Real Estate Co. Ltd. ("Tianci Real Estate") Shanghai Sifang Media Co., Ltd. ("Sifang Media").

During the year ended December 31, 2006, TCH sold Samsung GSM mobile phones valued at $713,524 at a gross profit margin of 4% or $26,531 to Shanghai Shantian Telecommunication Co. Ltd. ("Shantian"), compared to $10,608,287 at a gross profit margin of 4% or $382,371 for the year ended December 31, 2005. Accounts receivable includes $nil and $1,583,512 due from Shantian as of December 31, 2006 and 2005 respectively.

In January 2005, Sifang Media and TCH entered into the "Bank Digital TV's Cooperation Agreement", where TCH will assist in the promotion of TV ads for various customers, including Tianci Real Estate. TCH received a net fee of $332,239 and $1,879,965 from Tianci Real Estate for providing the service during the years ended December 31, 2006 and 2005 respectively. The Advertisement Agency Contract between Tianci Real Estate and Sifang Media was terminated in November 2005.

TCH, through Sifang Media, entered into certain agreements with customers, where TCH will assist in the promotion of TV ads for these customers. TCH received a net fee of $334,844 and $881,633 for providing the service via Sifang Media during the fiscal year of 2006 and 2005 respectively.

Pursuant to the service agreements between TCH and Sifang Information, TCH was allowed to use Sifang Information's facility (which may not be owned by foreign investors at the present time) to transmit the reformatted information and Sifang Information also provided other management support and marketing services to TCH.

Sifang Information signed a leasing agreement with the Tianci Real Estate for leasing its apartment for office use. During the years ended December 31, 2006 and 2005, TCH paid rental expense of $50,378 and $49,565 respectively to Tianci Real Estate.

The amount due from Sifang Information and Sifang Media as of December 31, 2005 are trade related and relating to the mobile phone distribution business.

During January 2006, the Company entered into an agreement with Sifang Information for the establishment of a new joint venture entity with a third party. The purpose of the joint venture entity is to act as a sole advertising agent of TCH. The Company advanced a total of $2,499,969 to Sifang Information to contribute to the joint venture. This, together with the trade receivables related to the mobile phone distribution business, made up a total balance of $6,446,275 receivable from Sifang Information as of December 31, 2006. As of December 31, 2006, the Company decided to provide a provision of $3,000,000 for:

1) the full amount advance to the joint venture and

2) the long outstanding portion of the receivable from Sifang Information.

On February 23, 2004, we sold 987,915 shares of restricted common stock for gross proceeds of $300,000, pursuant to a subscription agreement, to Halter Financial Group, Inc., an entity owned by Timothy P. Halter, a former member of the Board of Directors and the Company's former Chief Executive Officer. Additionally, in consideration for agreeing to serve as an officer and director of the Company, Timothy P. Halter was granted a warrant to purchase up to 131,722 shares of common stock of the Company. The warrant was exercised on June 14, 2004, and we received gross proceeds of $40,000 upon exercise.

On February 23, 2004, we agreed to pay Little and Company Investment Securities, an entity owned by Glenn A. Little, our former controlling shareholder, officer and director, $30,000 in consulting fees related to the transaction discussed in the previous paragraph and in consideration for maintaining the corporate entity. To formalize this obligation, we issued a $30,000 non-interest bearing promissory note maturing on February 23, 2005. Concurrent with the transaction discussed in the previous paragraph, we and Little and Company Investment Securities executed an Exchange Agreement whereby we issued 98,792 shares of common stock in satisfaction of the outstanding promissory note.

On June 23, 2004, we entered into a Stock Purchase Agreement with Halter Financial Group, Inc. pursuant to which we sold 166,667 shares of common stock of the Company in exchange for $190,000. Timothy P. Halter is the sole shareholder and President of Halter Financial Group, Inc. Pursuant to the Stock Purchase Agreement, we granted to Halter Financial Group, Inc. an option to require the Company to purchase up to 166,667 shares of common stock of the Company at a price of $1.14 per share, such option being exercisable at any time after the date that is six months after the Company files a registration statement on Form SB-2 with the SEC, registering the shares purchased by Halter Financial Group, Inc., up to and including the earlier of (i) the date that such registration statement is declared effective by the SEC or (ii) Halter Financial Group, Inc.'s shares are eligible for resale under Rule 144 under the Securities Act of 1933.

ITEM 13. EXHIBITS

Exhibit Number Description

3.1	Articles of Incorporation of the Registrant. (1)
3.2	Second Amended and Restated Bylaws of the Registrant. (2)
4.1	Common Stock Specimen. (4)

*

10.1	Securities Exchange Agreement by and among Boulder Acquisitions, Inc., Sifang Holdings Co., Ltd. and the stockholders of Sifang Holdings Co., Ltd. dated effective as of June 23, 2004. (2)
10.2	Information Service and Cooperation Agreement by and among Shanghai Sifang Information Technology Co. Ltd. and Shanghai TCH Data Technology Co. Ltd. dated as of June 1, 2004. (3)
10.3	Information Service and Cooperation Agreement by and among Shanghai Sifang Information Technology Co. Ltd. and Shanghai TCH Data Technology Co. Ltd. dated as of June 1, 2004. (3)
10.4	Information Service and Cooperation Agreement by and among Shanghai Sifang Information Technology Co. Ltd., Shanghai Chengao Industrial Co. Ltd. and Shanghai TCH Data Technology Co. Ltd. dated as of June 1, 2004. (3)
10.5	Information Service and Cooperation Agreement by and among Shanghai Tianci Industrial (Group), Co. Ltd. and Shanghai TCH Data Technology Co. Ltd. dated as of June 1, 2004. (3)
10.6	Business and Related Assets Transfer Agreement between Shanghai Sifang Information Technology Co. Ltd. and Shanghai TCH Data Technology Co. Ltd. dated as of May 26, 2004. (3)
10.7	Stock Purchase Agreement by and between Halter Financial Group, Inc. and Boulder Acquisitions, Inc. dated as of June 23, 2004. (2)
10.8	Stock Purchase Agreement by and between Chinamerica Fund, LP and Boulder Acquisitions, Inc. dated as of June 28, 2004. (2)
10.9	Stock Purchase Agreement by and between Chinamerica Acquisition, LLC and Boulder Acquisitions, Inc. dated as of June 28, 2004. (2)
10.10	Stock Purchase Agreement by and between Gary Evans and Boulder Acquisitions, Inc. dated as of June 28, 2004. (2)
10.11	Selling Stockholders Agreement by and among Boulder Acquisitions, Inc. and the Selling Stockholders listed on Schedule A thereto dated as of June 28, 2004. (5)
10.12	English Summary of the Equity Transfer Termsheet for Shanghai Kena Energy Saving Electric Co., Ltd. by and among Shanghai TCH Data Technology Co. Ltd., Mr. Zhang Naiyao, Mr. Tai Yi, and Ms. Zheng Chang dated as of December 29, 2005. (6)
10.13	English Summary of the Agreement relating to the assignment of debt under the Equity Transfer Agreement by and among Shanghai TCH Data Technology Co. Ltd., Mr. Zhang Naiyao, Mr. Tai Yi, Ms. Zheng Chang and Shanghai Sifang Information Technology Co. Ltd. dated as of December 29, 2005. (6)
10.14	English Summary of an Agreement relating to transfer of patent ownership by and between Shanghai TCH Data Technology Co. Ltd. and Mr. Zhang Naiyao dated as of December 29, 2005. (6)
10.15	English Summary of an Agreement relating to transfer of right to make patent application by and between Shanghai TCH Data Technology Co. Ltd. and Mr. Zhang Naiyao dated as of December 29, 2005. (6)
10.16	

English Summary of an Agreement in relation to assignment of debt under the Agreements for the transfer of patent rights by and among Shanghai TCH Data Technology Co. Ltd., Mr. Zhang Naiyao and Shanghai Sifang Information Technology Co. Ltd. dated as of December 29, 2005 (as amended by the parties on February 10, 2006). (6)

10.17	Share Purchase Agreement Dated on January 24, 2007 between individual purchasers and shareholders of China Digital Wireless, Inc. (7)
10.18	TRT Joint Operation Agreement between Shanghai TCH Data Technology Co. Ltd. and Xi'an Yingfeng Science and Technology Co.Ltd. dated February 1, 2007.(8)
14	Code of Ethics.
21.1	Subsidiaries of the Registrant. (4)
31.1	Chief Executive Officer Certification furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification furnished pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Previously filed as an exhibit to the Registrant's Annual Report on Form 10-KSB/A for the fiscal year ended December 31, 2001, which was filed with the Commission on January 28, 2002, and which is incorporated herein by reference.
(2) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K dated July 8, 2004, and which is incorporated herein by reference.
(3) Previously filed as an exhibit to the Registrant's Quarterly Report on Form 10-QSB for the period ended June 30, 2004 as filed with the Commission on August 23, 2004, and which is incorporated herein by reference
(4) Previously filed as an exhibit to the Registrant's Registration Statement on Form SB-2 as filed with the Commission on November 12, 2004, and which is incorporated herein by reference.
(5) Previously filed as an exhibit to the Registrant's Post-Effective Amendment No. 1 on Form SB-2 as filed with the Commission on September 12, 2005, and which is incorporated herein by reference.
(6) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K dated February 17, 2006, and which is incorporated herein by reference.
(7) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K dated January 24, 2007.
(8) Previously filed as an exhibit to the Registrant's Current Report on Form 8-K dated April 9, 2007.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Fees Paid to Independent Public Accountants for 2006 and 2005

Audit Fees

The aggregate audit fees for 2006 were $114,000. The amounts include fees for professional services rendered by Grobstein, Horwath & Company, LLP in connection with the audit of our consolidated financial statements as of and for the 2005 fiscal year and reviews of our unaudited consolidated interim financial statements for the first, second and third quarters of 2006.

The aggregate audit fees for 2005 were $236,267. The amounts include fees for professional services rendered by Grobstein, Horwath & Company, LLP in connection with the audit of our consolidated financial statements for the 2004 fiscal year and reviews of our unaudited consolidated interim financial statements for the first, second and third quarters of 2005.

Audit-Related Fees

There was $ 9,000 audit-related fee billed by Grobstein, Horwath & Company, LLP in connection with this Form 10-KSB/A for fiscal year 2006.

Tax Fees

There were $ 8,000 fees for tax services billed by Grobstein, Horwath & Company, LLP for tax services rendered to the Company for 2006 fiscal years.

All Other Fees

There were no additional aggregate fees billed by Grobstein, Horwath & Company, LLP for other services rendered to the Company for the 2005 or 2006 fiscal years.

Policy on audit committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The audit committee pre-approves all audit and non-audit services provided by the independent auditors prior to the engagement of the independent auditors with respect to such services. The Company's independent auditors may be engaged to provide non-audit services only after the audit committee has first considered the proposed engagement and has determined in each instance that the proposed services are not prohibited by applicable regulations and the auditors' independence will not be materially impaired as a result of having provided these services. In making this determination, the audit committee takes into consideration whether a reasonable investor, knowing all relevant facts and circumstances, would conclude that the auditors' exercise of objective and impartial judgment on all issues encompassed within the auditors' engagement would be materially impaired. The audit committee may delegate its approval authority to pre-approve services provided by the independent auditors to one or more of the members of the audit committee, provided that any such approvals are presented to the audit committee at its next scheduled meeting.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By /s/Guohua Ku
Guohu Ku
President and Chairman of the Board
(Principal Executive Officer)

Date: April 12, 2007

By /s/Guangyu Wu
Guangyu Wu
Chief Executive Officer
(Principal Executive Officer)

Date: April 12, 2007

By /sMingda Rong
Mingda Romg
Chief Financial Officer
(Principal Executive Officer)

Date: April 12, 2007

By
/s/Hanqiao Zheng
Hanqiao Zheng
Director

Date: April 12, 2007

CHINA RECYCLING ENERGY CORPORATION

(KNOWN AS "CHINA DIGITAL WIRELESS, INC." PRIOR TO MARCH 8, 2007)

Consolidated Financial Statements

For The Years Ended December 31, 2006 (Restated) and 2005

(With Reports of Independent Registered Public Accounting Firm Thereon)

ZHONG YI (HONG KONG) C.P.A. COMPANY LIMITED

Certified Public Accountants

CHINA DIGITAL WIRELESS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of China Digital Wireless, Inc.

We have audited the accompanying consolidated balance sheet of China Digital Wireless, Inc. and Subsidiaries ("the Company") as of December 31, 2006 and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for the year ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of the Company's internal control over financial reporting. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2006 and the consolidated results of operations and cash flows for the year ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has incurred substantial losses which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 2, the Company s consolidated financial statements as of December 31, 2006 and for the year then ended have been restated.

Zhong Yi (Hong Kong) C.P.A. Company Limited Certified Public Accountants

Hong Kong, China
April 12, 2007 (January [x], 2008 as to the effects of the restatement discussed in Note 2)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors China Digital Wireless, Inc. and Subsidiary

We have audited the accompanying consolidated balance sheets of China Digital Wireless, Inc. and Subsidiary (the "Company") as of December 31, 2004 and 2005 and the related consolidated statements of income and comprehensive income, shareholders' equity and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal controls over financial reporting. Our audits included consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of China Digital Wireless, Inc. and Subsidiary as of December 31, 2004 and 2005, and the consolidated results of their operations and cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14 to the consolidated financial statements, the Company has had numerous significant transactions with businesses controlled by, and with people who are related to, the officers and directors of the Company.

GROBSTEIN, HORWATH & COMPANY LLP
Sherman Oaks, California
March 31, 2006

CHINA DIGITAL WIRELESS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2006 AND 2005
(Currency expressed in United States Dollars ("US$"), except for number of shares)

		2006		**2005**
ASSETS				
Current assets:				
Cash and cash equivalents	$	252,000	$	3,578,367
Accounts receivable, net		--		844,977
Inventories, net		--		62,386
Advances and deposits to suppliers		755,635		19,970
Deferred tax assets		--		12,846
VAT recoverable		10,702		--
Due from related parties		3,446,275		3,094,969
Total current assets		4,464,612		7,613,515
Non current assets:				
Property and equipment, net		--		1,105,756
Deposit for business acquisition		--		6,257,590
		--		7,363,346
TOTAL ASSETS	$	4,464,612	$	14,976,861
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$	--	$	881,218
Advance from customers		141,832		6,399
Deferred revenue		33,299		31,598
VAT payable		--		92,649
Income tax payable		437		193,586
Due to related parties		--		223,399
Other current liabilities		942,407		375,960
Total current liabilities		1,117,975		1,804,809
Stockholders' equity:				
Common stock, $0.001 par value; 100,000,000 shares authorized; 17,147,268 shares issued and outstanding		17,148		17,148
Additional paid-in capital		4,229,845		4,229,845
Statutory reserves		574,666		554,466
Accumulated other comprehensive income		1,037,674		285,671
(Accumulated deficits) retained earnings		(2,512,696)		8,084,922
Total stockholders' equity		3,346,637		13,172,052

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	4,464,612	$	14,976,861

See accompanying notes to consolidated financial statements.

CHINA DIGITAL WIRELESS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31,
2006 AND 2005 (Currency expressed in United States
Dollars ("US$"), except for number of shares)

		2006		2005
		(restated) (see Note 2)		
Revenues:				
Product sales	$	555,961	$	5,775,069
Product sales - related parties		713,524		10,608,287
Information service, net		1,285,107		1,274,068
Advertising service, net		334,844		2,761,598
Total revenues		2,889,436		20,419,022
Cost of revenue				
Cost of revenue		504,347		5,800,878
Cost of revenue - related parties		686,993		10,224,081
Cost of information service		1,004,186		681,624
Cost of advertising service		110,876		141,554
Total cost of revenue		2,306,402		16,848,137
Gross profit		583,034		3,570,885
Operating expenses:				
Sales and marketing		154,727		134,639
Allowance for doubtful accounts		10,631		--
Written-off on amounts due from related parties		3,000,000		--
General and administrative		967,957		1,251,166
		4,133,315		1,385,805
Total operating expenses				
(Loss) income from operations		(3,550,281)		2,185,080
Other income (expense):				
Interest income		5,135		--
Government subsidy		118,202		108,476
Other income		206		8,387
Interest expense		--		(9,093)
Impairment on deposit for business acquisition and property and equipment		7,114,047		-
(Loss) income before income taxes		(10,540,785)		2,292,850
Income tax expense		(36,633)		(481,743)

Net (loss) income	$	(10,577,418)	$	1,811,107
Other comprehensive income:				
- Foreign currency translation adjustment	$	752,003	$	285,396
Comprehensive (loss) income	$	(9,825,415)	$	2,096,503

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CHINA DIGITAL WIRELESS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(CONTINUED) FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Currency expressed in United States Dollars ("US$"), except for number of shares)

		2006		2005
		(restated) (see Note 2)		
Net (loss) income per common share - Basic and diluted				
	$	(0.62)	$	0.11
Weighted average number of common shares outstanding - Basic and diluted		17,147,268		17,054,368

See accompanying notes to consolidated financial statements.

CHINA DIGITAL WIRELESS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Currency expressed in United States Dollars ("US$"))

	2006	2005
	(restated) (see Note 2)	
Cash flows from operating activities:		
Net (loss) income	$ (10,577,418)	$ 1,811,107
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation	189,366	239,716
Allowance for doubtful accounts	10,631	(3,450)
Impairment on deposit for business acquisition and property and equipment	7,114,047	-
Written-off on amount due from related parties	3,000,000	--
Loss (gain) on disposal of property and equipment	58,970	(8,914)
Changes in assets and liabilities:		
Accounts receivable	834,346	3,778,282
Inventories	62,386	39,310
Advances and deposits to suppliers	(735,665)	130,442
Deferred tax assets	12,846	15,926
Due from related parties	(3,351,306)	(929,345)
Accounts payable	(881,218)	825,379
Advance from customers	135,433	6,399
Deferred revenue	1,701	(586,096)
VAT payable	(103,351)	(120,886)
Income tax payable	(193,149)	(119,177)
Due to related parties	(223,399)	123,139
Other current liabilities	566,447	88,935
Net cash (used in) generated from operating activities	(4,079,333)	5,290,767
Cash flows from investing activities:		
Purchase of property and equipment	--	(425,525)
Proceeds on disposal of property and equipment	963	309,214
Due from related parties	--	(3,435,258)
Net cash generated from (used in) investing activities	963	(3,551,569)
Cash flows from financing activities:		
Common stock proceeds held in escrow	--	1,500,000
Net cash generated from financing activities	--	1,500,000
Foreign currency translation adjustment	752,003	263,658
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,326,367)	3,502,856

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		3,578,367		75,511
CASH AND CASH EQUIVALENTS, END OF YEAR	$	252,000	$	3,578,367

CHINA DIGITAL WIRELESS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Currency expressed in United States Dollars ("US$"))

		2006		2005
		(restated) (see Note 2)		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid for income taxes	$	23,582	$	590,481
Cash paid for interest expenses	$	-	$	-
NON-CASH INVESTING AND FINANCING ACTIVITIES				
Deposit for business acquisition in exchange for reduction in accounts receivable	$	-	$	6,257,590

See accompanying notes to consolidated financial statements.

CHINA DIGITAL WIRELESS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31,
2006 AND 2005 (Currency expressed in United States
Dollars ("US$"), except for number of shares)

	Common stock				Additional paid-in capital		Statutory reserves		Accumulated other comprehensive income
	No. of share		Amount						
Balance as of December 31, 2004	17,018,692	$	17,019	$	4,229,974	$	-	$	275
Issuance of common stock in exchange for lock up agreements	128,576		129		(129)		-		-
Transfer from retained earnings to statutory reserves	-		-		-		554,466		-
Components of comprehensive income - Foreign currency translation	-		-		-		-		285,396
Net income for the year	-		-		-		-		-
Balance as of December 31, 2005	17,147,268	$	17,148	$	4,229,845	$	554,466	$	285,671
Components of comprehensive income - Foreign currency translation	-		-		-		-		752,003
Transfer from retained earnings to statutory reserves	-		-		-		20,200		-
Net loss for the year	-		-		-		-		-
Balance as of December 31, 2006	17,147,268	$	17,148	$	4,229,845	$	574,666	$	1,037,674

	Retained earnings (accumulated deficits)		Total (restated) (see Note 2)
Balance as of December 31, 2004	6,828,281	$	11,075,549
Issuance of common stock in exchange for lock up agreements	-		-
Transfer from retained earnings to statutory reserves	(554,466)		-
Components of comprehensive income - Foreign currency translation	-		285,396
Net income for the year	1,811,107		1,811,107
Balance as of December 31, 2005	8,084,922	$	13,172,052

Components of comprehensive income			
- Foreign currency translation	-		752,003
Transfer from retained earnings to statutory reserves	(20,200)		-
Net loss for the year (restated)	(10,577,418)		(10,577,418)
Balance as of December 31, 2006 (restated)	(2,512,696)	$	346,637

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND BUSINESS BACKGROUND

China Digital Wireless, Inc. ("CHDW") through its subsidiary sells mobile phones to retailers, distributors, and related parties, provides advertising services and provides information services to users of mobile phones and pagers. Substantially all of its operations are conducted in Shanghai, People's Republic of China ("PRC").

In order to meet ownership requirements under Chinese law that restrict a foreign company from operating in certain industries such as value-added telecommunication, advertising service and internet services, CHDW's subsidiary has entered into information service and cooperation agreements with two of CHDW's affiliates that are incorporated in China: Shanghai Sifang Information Technology Co. ("Sifang Information") and Shanghai Tianci Industry Co. Ltd ("Tianci Industry"). CHDW holds no ownership interest in Sifang Information or Tianci Industry. Sifang Information and Tianci Industry contract with China Mobile Communications Corporation ("China Mobile"), and China United Telecommunications Corporation ("China Unicom"), to provide wireless value-added information services to wireless receiver customers in China via China Mobile and China Unicom. Sifang Information transmits those services to customers of China Mobile and China Unicom on behalf of itself and Tianci Industry pursuant to a signed agreement between Sifang Information and Tianci Industry.

Recapitalization and Reorganization

On June 23, 2004, Boulder Acquisitions, Inc. ("Boulder Acquisitions") entered into a stock exchange agreement with Sifang Holdings Co. Ltd. ("Sifang Holdings") and certain shareholders. Pursuant to the stock exchange agreement, Boulder Acquisitions issued 13,782,636 shares of its common stock in exchange for a 100% equity interest in Sifang Holdings, making Sifang Holdings a wholly owned subsidiary of Boulder Acquisitions.

Boulder Acquisitions was incorporated under the laws of the State of Colorado on May 8, 1980 as Boulder Brewing Company ("Boulder Brewing"). Boulder Brewing was the successor to a general partnership formed in 1979. From the initial inception of the original partnership through 1990, Boulder Brewing was in the business of operating a microbrewery in Boulder, Colorado. During 1990, as a result of various debt defaults, Boulder Brewing's assets were foreclosed upon and all business operations were ceased. Boulder Brewing has effectively had no operations, assets or liabilities since its fiscal year ended December 31, 1990.

In September 2001, Boulder Brewing changed its state of incorporation from Colorado to Nevada by means of a merger with and into Boulder Acquisitions, a Nevada corporation formed on September 6, 2001 solely for the purpose of effecting the reincorporation. The Articles of Incorporation and Bylaws of the Nevada corporation are the Articles of Incorporation and Bylaws of the surviving corporation. Such Articles of Incorporation eliminated the provision for Boulder Acquisitions to issue preferred stock.

The above stock exchange transaction resulted in those shareholders of Sifang Holdings obtaining a majority voting interest in Boulder Acquisitions. Generally accepted accounting principles in the United States of America require that the company whose shareholders retain the majority interest in a combined business be treated as the acquirer for accounting purposes. Consequently, the stock exchange transaction has been accounted for as a recapitalization of Sifang Holdings as Sifang Holdings acquired a controlling equity interest in Boulder Acquisitions, as of June 23, 2004. The reverse acquisition process utilizes the capital structure of Boulder Acquisitions and the assets and liabilities of Sifang Holdings recorded at historical cost.

Sifang Holdings is the continuing operating entity for financial reporting purposes, and the financial statements prior to June 23, 2004 represent Sifang Holdings' financial position and results of operations. As of June 23, 2004, Boulder Acquisitions had only cash of $310,051, and stockholders' equity of $310,051 with 1,585,705 shares of common stock outstanding, all of which were included in the consolidated financial statements of Sifang Holdings. Although Sifang Holdings is deemed to be the acquiring corporation for financial accounting and reporting purposes, the legal status of Boulder Acquisitions as the surviving corporation did not change. Subsequent to June 30, 2004, Boulder Acquisitions changed its name to China Digital Wireless, Inc.

Business History

CHDW's business is primarily conducted through its wholly-owned subsidiary Sifang Holdings and Sifang Holdings' wholly-owned subsidiary TCH Data Technology Co., Ltd. ("TCH"), that collectively with CHDW are referred to as the "Company". Sifang Holdings was established under the laws of the Cayman Islands on February 9, 2004 for the purpose of holding a 100% equity interest in TCH. TCH was established as a foreign investment enterprise in Shanghai under the laws of the PRC on May 25, 2004, with registered capital of $7.2 million.

CHDW's current operations were originally a business division of Sifang Information. Sifang Information is a Shanghai-based privately owned enterprise established under the laws of the PRC on August 14, 1998. Sifang Information is engaged in the business of pager and mobile phone distribution and provides value added information services to the customers in the Shanghai metropolitan area. In March 2004, Sifang Information spun off its mobile phone distribution business and the majority of its value added information services business to TCH. As the acquiring entity under common control, TCH initially recognized all the assets and liabilities transferred at their carrying amounts in the accounts of Sifang Information at the date of transfer under the guidance of Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" Appendix D.

On May 26, 2004, Sifang Information exchanged 100% of its equity interest in TCH for a 100% equity interest in Sifang Holdings. Since the ultimate owners of the three entities were the same owners and the three entities remained under common control, the ownership exchange transaction was accounted for at historical costs under the guidance of SFAS No. 141 Appendix D. Prior to May 26, 2004, Sifang Holdings conducted no business activities. As a result of the exchange of ownership between TCH and Sifang Holdings, TCH's historical financial statements became the historical financial statements of Sifang Holdings.

As a result of the spin-off, the Company now engages in the business of mobile phone distribution and provides pager and mobile phone users with access to certain value-added information reformatted by TCH. TCH purchases mobile phones from first tier distributors and sells them to retailers and distributors with a mark-up. In the process of providing value-added information services through entering into monthly subscription agreements with various users, TCH purchases trading activity information from stock exchanges, comments and analysis on PRC stock markets provided by certain reputable security and investment companies, lottery information, weather forecast, and other value-added products and reformats the aforementioned information through decoding and recoding and then has the reformatted information transmitted by Sifang Information, via service contracts, to pager users. The value-added information is constantly saved on TCH's server in order for mobile phone users to dial in via China Mobile or China Unicom. By signing a monthly subscription agreement, wireless receiver users agree to make advance payments for its services for either three or six-month subscription periods.

In the spin-off process, the cost of sales included in the Company's financial statements is directly related to the product revenue and the cost of services is directly related to different types of service. The business taxes (similar to sales taxes in the U.S.) are related only to service revenue at a tax rate of approximately 3.3%. The selling expenses are allocated based on the relationship between expense and revenue (such as commission) and payroll records. The general and administrative expenses are allocated based on management hours spent and payroll records. The income tax provision has been calculated on a separate company basis and is in line with the historical actual income tax provision at the Sifang Information level assuming that all income taxes had been paid by Sifang Information and no income tax liability was in existence in the periods reported in the accompanying financial statements. Management believes that the costs, operating expenses, interest expense, and income tax provision included in the Company's financial statements are a reasonable representation of the costs and expenses that would have been incurred if the Company had performed these functions as a stand-alone company.

2. RESTATEMENT OF FINANCIAL STATEMENT

The financial statements for the year ended December 31, 2006 have been restated to reflect the correction of error on the impairment on deposit for business acquisition and property and equipment of approximately $7.1 million to the consolidated statement of operations.

The following table presents the effects of the restatement adjustment on the accompanying consolidated financial statements as of and for the year ended December 31, 2006:

There is no impact of the restatement on the Consolidated Balance Sheet.

	As Previously Reported		Restated		Net Adjustment	
Consolidated Statement of Operations and Comprehensive loss						
Operating expenses	$	4,133,315	$	11,247,362	$	(7,114,047)
(Loss) income from operations	$	(3,550,281)	$	(10,664,328)	$	(7,114,047)
(Loss) income before income taxes	$	(3,426,738)	$	(10,540,785)	$	(7,114,047)
Net (loss) income	$	(3,463,371)	$	(10,577,418)	$	(7,114,047)
Comprehensive (loss) income	$	(2,711,368)	$	(9,825,415)	$	(7,114,047)
Net (loss) income per common share basic and diluted	$	(0.20)	$	(0.62)	$	(0.42)

There is no impact of the restatement on the Consolidated Statement of Stockholders Equity.

3. GOING CONCERN UNCERTAINTIES

These consolidated financial statements have been prepared assuming that Company will continue as a going concern, which contemplates the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future.

As of December 31, 2006, the Company had a working capital of $3,346,637, a negative operating cash flow of $4,079,333 and the accumulated deficits of $2,512,696. Management has taken certain actions and continues to implement changes designed to improve the Company's financial results and operating cash flows. The action involves change of business operations from the mobile phone distribution business and provision of information value-added services to sales of energy-saving products, which is described in Note 20(c). The place of business is also going to reallocate from Shanghai to Xian Province. Management believes that these actions will enable the Company to improve future profitability and cash flow in its continuing operations through December 31, 2007. As a result, the financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of the Company's ability to continue as a going concern.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- Basis of Presentation These accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for annual financial statements.
- Use of Estimates In preparing these consolidated financial statements, management makes estimates and assumptions that affect the reported amounts of assets and liabilities in the balance sheets and revenues and expenses during the year reported. Actual results may differ from these estimates.
- Basis of Consolidation The consolidated financial statements include the accounts CHDW, its wholly owned subsidiary, Sifang Holdings, and its wholly owned subsidiary TCH. Substantially all of the Company's revenues are derived from the operations of TCH, which represents substantially all of the Company's consolidated assets and liabilities.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meeting of directors.

All significant inter-company balances and transactions within the Company have been eliminated on consolidation.

- Cash and Cash Equivalents Cash and cash equivalents are carried at cost and represent cash on hand, demand deposits placed with banks or other financial institutions and all highly liquid investments with an original maturity of three months or less as of the purchase date of such investments.
- Accounts Receivable Accounts receivable are recorded at the invoiced amount and do not bear interest. The Company extends unsecured credit to its customers in the ordinary course of business but mitigates the associated risks by performing credit checks and actively pursuing past due accounts. An allowance for doubtful accounts is established and determined based on managements' assessment of known requirements, aging of receivables, payment history, the customer's current credit worthiness and the economic environment. As of December 31, 2006, the Company recorded an allowance for doubtful accounts of $10,631.
- Inventories Inventories consist primarily of mobile phones and are stated at the lower of cost or net realizable value, with cost being determined on a weighted average basis. Since 2004, the Company's major vendor began providing rebates and credits if the Company meets certain sales volume levels prescribed by the vendor. As a result, the Company is entitled to receive certain rebates and credits for the inventory held and sold by the Company within the specified period of time as defined by its vendor through submitting the necessary application forms. In general, once the vendor approves these applications the amounts of these rebates and credits will be deducted from the Company's accounts payable to its vendor and decrease the cost of goods sold or inventory held correspondingly. As of December 31, 2006, the Company recorded no inventories.
- Property and Equipment, Net Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Depreciation is calculated on the straight-line basis over the following expected useful lives from the date on which they become fully operational:

	Depreciable life
Buildings	20 years
Software	2 - 3 years
Office and other equipment	2 - 5 years
Motor vehicles	2 - 5 years

Expenditure for maintenance and repairs is expensed as incurred, whereas betterment and renewals are generally capitalized in their respective property accounts. The gain or loss on the disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognized in the consolidated statement of operations.

- Capitalization of Software Costs The Company's software is developed by an independent third party to enable pager users to accept certain recoded information which is transmitted by the Company, through affiliates, and enables mobile phone users to dial into the Company's server. The software is developed for internal use and gives the Company the ability to provide value added information services. In accordance with SOP 98-1 "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," the Company capitalizes the external cost incurred to develop this internal-use software by an engineering company at the application development stage and amortizes that cost over the estimated economic life of the software (two or three years) which is consistent with the expected life of a particular type of mobile phone.

- Impairment of Long-life Assets In accordance with SFAS No. 121, "Accounting for the impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of', a long-lived assets and certain identifiable intangible assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted net cash flows related to the long-lived assets. The Company reviews long-lived assets, if any, to determine the carrying values are not impaired, as fully explained in Note 5.
- Revenue Recognition The Company derives revenues from the sale of mobile phones, advertisement designing service and the provision of wireless information services that are used on mobile phones, pagers and prepaid phone cards. The Company additionally earns commission income ("Agency Income") from the sale of CDMA mobile phones on the behalf of a related party. The Company recognizes its revenues net of related business taxes and value-added taxes.

Mobile Phone Sales:
Revenues generated from the sale of mobile phones are recognized upon delivery to the distributor or retailer and the transfer of title and risk of loss.

Advertising Servicing Revenue, Net:
Advertising revenues are derived from advertisement designing, masterminding and producing services. The Company recognizes service revenues over the term of the noted agreement at the time of completion of the services. The Company records the revenue from Shanghai Sifang Media Co., Ltd. ("Sifang Media") on a net basis in compliance with EITF 99-19, "Reporting Revenue Gross as a Principle versus Net as an Agent" because the Company is not the primary obligor in the arrangement and they receive a fixed fee from Shanghai Sifang Media Co., Ltd. and they have no latitude in determining prices.

Information Services:
The Company recognizes service revenues over the term of the noted agreement and/or when the services have been provided to the end user.

i) Information Services - TCH:
By signing a subscription agreement, wireless receiver users agree to make payments for three to six-month subscriptions in advance. TCH records the proceeds as deferred revenue and amortizes the deferred revenue over the subscription period. When customers buy a pre-charged service card, the Company records the proceeds as deferred revenue. When a customer starts to use this card to access the Company's server and starts to use a pager to access the aforementioned information, the Company identifies the subscription period and amortizes the deferred revenue over the subscription period.

ii) Information Services - Installing Agent:
In response to a retailer's request, the Company has an installing agent who installs the Company's software on mobile phones, which are owned by the retailer. The retailer sells these phones for a premium covering a fee to be paid to the installing agent and pre-charged six-month subscription fees to be paid to the Company. After a customer using such a phone dials into the server to access the desired information, the server records a unique identification number installed on the mobile phone, which indicates that a specific phone user starts his or her subscription period. After the Company receives a detailed list from the installing agent regarding the number of phones that have been installed with the Company's software, the Company matches this information with a detailed list from the retailer setting forth how many such phones have been sold. Based on the number of such phones sold, the Company records accounts receivable and deferred revenue accordingly. At the date on which a customer starts to dial into the server, the six-month subscription period begins and the Company amortizes deferred revenue accordingly.

iii) Information Services - China Mobile and/or Unicom:
The Company's affiliates, Sifang Information and Shanghai Tianci Industrial Group Co., Ltd. ("Tianci Group"), contract with China Mobile and/or China Unicom (collectively, "Mobile Operators") for the transmission of the Company's value-added information services. The Mobile Operators bill and collect from customers and then pass those fees (net of billing and collection service fees charged by the Mobile Operators) to Sifang Information and Tianci Group who in turn pass those fees to the Company. The Company recognizes net revenues based on the total amount paid by its customers, for which the Mobile Operators bill and collect on behalf of the Company. There is a time lag ranging from 10 days to 45 days between the end of the service period and the date the Mobile Operators send out their billing statements due to the segregated billing systems of each of the provincial subsidiaries of the Mobile Operators. The Company has not recognized service revenue based on the records provided by its own server but has performed a reconciliation on a monthly basis of the revenues recognized by the Company's server to the Mobile Operator's billing statement. In addition, the Mobile Operators charge a network usage fee based on a fixed per message fee multiplied by the excess of messages sent over messages received. (This type of service is not covered by a monthly service subscription and the Company has no control over whether it will occur or not.) Network usage fees charged by the Mobile Operators are reduced for messages received by the Company because the Mobile Operators separately charge the sender a fee for these transmissions.

The Company records the revenue from the Mobile Operators on a net basis in compliance with EITF 99-19, "Reporting Revenues Gross as a Principle versus Net as an Agent" because the Company:

- Is not the primary obligor in the arrangement, as it relies on Sifang Information to transmit the information services to the end user,
- Has limited ability to adjust the cost of services by adjusting the design or marketing of the service,
- Has limited ability to determine prices, the Company must follow the price policy within ranges prescribed by Mobile Operators, and
- Has limited ability to assume risk of non-payment by customers.

The Company's dependence on the substance and timing of the billing systems of the mobile telecommunications operators may require the Company to estimate portions of its reported revenue for information services from time to time. As a result, subsequent adjustments may be made to the information service revenue in the Company's consolidated financial statements. As the Company does not bill its information services users directly, the Company depends on the billing systems and records of the mobile telecommunications operators to record the volume of its information services provided, to charge its users through mobile telephone bills, to collect payments from its users, and to pay the Company.

Cost of Sales

- Cost of sales consists primarily of purchase costs of mobile phones, subscription costs of certain value-added information services such as trading activity information from stock exchanges, comments and analysis on the PRC stock markets provided by certain reputable security and investment companies, lottery information, and weather forecast.

Deferred Revenue

- Deferred revenue consists of primarily of payments received in advance from customers.

  - ♦ Value-Added Tax TCH is subject to value-added tax ("VAT") imposed by the PRC on TCH's domestic product sales. The output VAT is charged to customers who purchase mobile phones from TCH and the input VAT is paid when TCH purchases mobile phones from its vendors. The VAT rate applied for TCH is 17%. The input VAT can be offset against the output VAT.
  - ♦ Advertising Expenses The Company expenses advertising costs as incurred in accordance with the American Institute of Certified Public Accountants ("AICPA") Statement of Position 93-7, "Reporting for Advertising Costs". Advertising expenses totaled $353 and $17,468 during the years ended December 31, 2006 and 2005, respectively.
  - ♦ Comprehensive Income SFAS No. 130, "Reporting Comprehensive Income", establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income as defined includes all changes in equity during a period from non-owner sources. Accumulated comprehensive income, as presented in the accompanying statement of changes in stockholders' equity consists of changes in unrealized gains and losses on foreign currency translation. This comprehensive income is not included in the computation of income tax expense or benefit.
  - ♦ Income Taxes The Company accounts for income tax using SFAS No. 109 "Accounting for Income Taxes", which requires the asset and liability approach for financial accounting and reporting for income taxes. Under this approach, deferred income taxes are provided for the estimated future tax effects attributable to temporary differences between financial statement carrying amounts of assets and liabilities and their respective tax bases, and for the expected future tax benefits from loss carry-forwards and provisions, if any. Deferred tax assets and liabilities are measured using the enacted tax rates expected in the years of recovery or reversal and the effect from a change in tax rates is recognized in the statement of operations and comprehensive (loss) income in the period of enactment. A valuation allowance is provided to reduce the amount of deferred tax assets if it is considered more likely than not that some portion of, or all of the deferred tax assets will not be realized.
  - ♦ Net (Loss) Income Per Share The Company calculates net (loss) income per share in accordance with SFAS No. 128, "Earnings per Share". Basic net (loss) income per share is computed by dividing the net (loss) income by the weighted-average number of common shares outstanding. Diluted net (loss) income per share is computed similar to basic net (loss) income per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common stock equivalents had been issued and if the additional common shares were dilutive. The Company did not have any potentially dilutive common share equivalents as of December 31, 2006 and 2005.
  - ♦ Foreign Currencies Translation The functional and reporting currency of the Company is the United States dollars ("U.S. dollars"). The accompanying consolidated financial statements have been expressed in U.S. dollars.

The functional currency of the Company's foreign subsidiaries is the Renminbi Yuan ("RMB"). The balance sheet is translated into United States dollars based on the rates of exchange ruling at the balance sheet date. The statement of operations is translated using a weighted average rate for the year. Translation adjustments are reflected as cumulative translation adjustments in stockholders' equity.

- Segment Reporting SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" establishes standards for reporting information about operating segments on a basis consistent with the Company's internal organization structure as well as information about geographical areas, business segments and major customers in financial statements. The Company operates in four principal reportable segment, as more fully explained in Note 15.
- Fair Value of Financial Instruments The carrying value of the Company's financial instruments, which include cash and cash equivalents, accounts receivables, inventories, advances and deposits to suppliers, accounts payable, other current liabilities, approximate their fair values due to the short-term maturity of these instruments.
- Related Parties Parties, which can be a corporation or individual, are considered to be related if the Company has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

All material related party transactions have been disclosed in the note 14 to consolidated financial statements.

- Recently Issued Accounting Standard In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"), which replaces Accounting Principles Board Opinions No. 20, "Accounting Changes" and SFAS No. 3, "Reporting Accounting changes in Interim Financial Statements--An Amendment of APB Opinion No. 28". SFAS 154 provides guidance on the accounting for and reporting of accounting changes. It establishes retrospective application, or the latest practicable date, as the required method for reporting a change in accounting principle and the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement did not have a material effect on the Company's financial position or results of operations.

In September 2005, the FASB's Emerging Issues Task Force ("EITF") reached a final consensus on Issue 04-13, "Accounting for Purchases and Sales of Inventory with the Same Counterparty" ("EITF 04-13"). EITF 04-13 requires that two or more legally separate exchange transactions with the same counterparty be combined and considered a single arrangement for purposes of applying APB Opinion No. 29, "Accounting for Nonmonetary Transactions", when the transactions are entered into in contemplation of one another. EITF 04-13 is effective for new arrangements entered into, or modifications or renewals of existing arrangements, in interim or annual periods beginning after March 15, 2006. The Company does not expect that the adoption of this statement would have a material effect on the Company's financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Instruments-an amendment of FASB Statements 133 and 140", which is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The statement improves financial reporting by eliminating the exemption from applying SFAS No. 133 to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. The Statement also improves financial reporting by allowing a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized have to bifurcated, if the holder elects to account for the whole instrument-by-instrument basis, in cases in which a derivative would otherwise have to bifurcated, if the holder elects to account for the whole instrument on a fair value basis. The Company does not expect that the adoption of this statement would have a material effect on the Company's financial position or results of operations.

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes--an Interpretation of FASB Statement No. 109", which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that the Company recognizes in its consolidated financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for the Company on January 1, 2007, with the cumulative effect of the change in accounting principle, if any, recorded as an adjustment to opening retained earnings. The Company is currently evaluating the impact of adopting FIN 48 on its consolidated financial statements.

In September 2006, the SEC released SAB No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on the SEC's views on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The provision of SAB 108 is effective for the Company in the current fiscal year ended December 31, 2006. The Company is currently evaluating the impact of SAB 108 but does not believe that the application of SAB 108 would have a material effect on its financial position, cash flows nor results of operations.

In September 2006, the FASB issued SFAS No.157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 will be effective for the Company starting January 1, 2008. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. The Company is currently evaluating the impact of SFAS 157 on its financial position, cash flows and results of operations.

5. IMPAIRMENT WRITE DOWN RECOGNISED AS A RESULT OF STRATEGIC REVIEW OF CERTAIN OPERATIONS

In 2006, during the course of the Company's strategic review of the assets involved in the mobile phone sales and information service operations, the Company determined that the carrying values of these property and equipment were impaired after recoverability test using future undiscounted cash flows. The carrying values of these assets were not recovered sufficiently and so were fully written down to the statement of operations for the year ended December 31, 2006.

Also, the Company reviewed the future economic value of the deposit for business acquisition, as more fully mentioned in Note 14(h), and determined that future undiscounted cash flows associated with this deposit were uncertain and may not be sufficient to recover their carrying values and so was fully written down to the statement of operations for the year ended December 31, 2006.

Assets		**Net book value at December 31, 2006**		**Impairment charge to statement of operations**		**Net book value after the impairment charge**
Property and equipment	$	856,457	$	(856,457)	$	-
Deposit for business acquisition acquisition		6,257,590		(6,257,590)		-
	$	7,114,047	$	(7,114,047)	$	-

6. ACCOUNTS RECEIVABLE, NET

		2006		2005
Accounts receivable	$	10,631	$	844,977
Less: allowance for doubtful accounts		(10,631)		-
Accounts receivable, net	$	-	$	844,977

7. ADVANCES AND DEPOSITS TO SUPPLIERS

In December 2006, the Company via TCH began to engage in other activities in the energy saving and recycling industry, including purchasing certain equipments, devices, hardware and software for the construction and installation of top gas recovery turbine system ("TRT") and other renewable energy products. As of December 31, 2006, TCH paid an amount of $755,635 as a deposit to purchase software for the TRT project.

8. PROPERTY AND EQUIPMENT, NET

Property and equipment consist of the following:

		2006		2005
Buildings	$	999,997	$	967,507
Software		--		568,704
Office and other equipment		--		488,984
Motor vehicles		92,225		89,229
		1,092,222		2,114,424
Less: accumulated depreciation		(235,765)		(1,008,668)
impairment charge to additional paid-in capital		(856,457)		--
Property and equipment, net	$	--	$	1,105,756

Depreciation expenses for the years ended December 31, 2006 and 2005 were $189,366 and $239,716, respectively.

As of December 31, 2005, in accordance with the "Business and Related Assets Transfer Agreement" signed by TCH and Sifang Information, the ownership of the building suite and two motor vehicles, (collectively known as "Assets") are recorded on TCH's books of record. The net book value of the pledged assets was $829,637. The property is pledged as security for a $2.5 million line of credit held under the credit facility agreement between Sifang Information and the bank. The line of credit is recorded on Sifang Information's books and has a balance of $2,478,253 as of December 31, 2005. However, the two parties have declared that the ownership of the "Assets" should be TCH's as of the balance sheet date and have signed a legal agreement, as noted above. Sifang Information is expected to pay off the line of credit balance in April 2008 and at that point they will transfer the legal title of the property and the motor vehicles within one week after the pledge is to be released by the bank.

9. OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

		2006		2005
Other payables	$	448,714	$	118,058
Employee welfare payable		213,870		206,462
Accruals		279,823		51,440
	$	942,407	$	375,960

10. GOVERNMENT SUBSIDY

During the year ended 31 December 2006, the Company received a general government subsidy from the local bureau, which is equivalent to 3.5% of the taxable income of TCH throughout the period from January 2005 to December 2005. The subsidy is non-recurring and subject to government approval. The amount of such government subsidy for the years ended December 31, 2006 and 2005 was $118,202 and $108,476 respectively.

11. INCOME TAXES

The Company's PRC subsidiary, TCH, is registered at Pudong District in Shanghai and subject to a favorable income tax rate of 15% compared to a normal income tax rate of 33% (30% for the central government and 3% for the local government) under current PRC tax laws. Sifang Information is registered in the Shanghai downtown area and has been treated by the Shanghai Municipal Administration of Labor as an enterprise that provides unemployed and handicapped people with jobs. Accordingly, Sifang Information is also entitled to a favorable income tax rate of 15% and qualified for an income tax exemption for three years from January 1, 2000 to December 31, 2002, and a 50% income tax reduction for three years from January 1, 2003 to December 31, 2005. The income tax provisions presented in the Company's financial statements are based on the actual income tax rates of TCH at 15% for both years ended December 31, 2006 and 2005. The deferred tax assets are determined based on the income tax rates applicable at the TCH level.

There is no income tax for companies domiciled in the Cayman Islands. Accordingly, the Company's consolidated financial statements do not present any income tax provisions related to Cayman Islands tax jurisdiction.

The income tax provision for the years ended December 31, 2006 and 2005 are as follows:

	2006	2005
Current tax expense	$ 23,787	$ 465,343
Deferred tax	12,846	16,400
Income tax expense	$ 36,633	$ 481,743

The components of (loss) income before income taxes are as follows:

	2006	2005
Loss subject to Cayman Islands	$ (250,995)	$ (737,758)
(Loss) income subject to the PRC	(10,289,790)	3,030,608
(Loss) income before income taxes	$ (10,540,785)	$ 2,292,850
Income tax expense	$ 36,633	$ 481,743

The reconciliation of income tax rate to the effective income tax rate based on (loss) income before income taxes stated in the consolidated statement of operations for the years ended December 31, 2006 and 2005 are as follows:

	Year ended December 31,	
	2006	2005
(Loss) income before income taxes	$ (10,289,790)	$ 3,030,608
Statutory income tax rate	33%	33%
	(3,395,630)	1,000,101
Add: Adjustments		
Income tax holiday	(21,964)	(545,509)
Allowance for doubtful accounts	993,508	27,151
Change in deferred tax assets	12,846	-
Impairment on deposit for business acquisition and property and equipment	2,347,635	-
Others	100,238	-
Income tax expense	$ 36,633	$ 481,743

The following table sets forth the significant components of the aggregate deferred tax assets of the Company as of December 31, 2006 and 2005:

	Year ended December 31, 2006	2005
Deferred tax assets:		
- Allowance for doubtful accounts	$ 451,595	$ 6,670
- Accrued liabilities	-	6,176
Total deferred tax assets	451,595	12,846
Less: valuation allowance	(451,595)	-
Deferred tax assets	$ -	$ 12,846

12. NET (LOSS) INCOME PER SHARE

Basic net (loss) income per share is computed using the weighted average number of the ordinary shares outstanding during the year. Diluted net (loss) income per share is computed using the weighted average number of ordinary shares and ordinary share equivalents outstanding during the year.

The following table sets forth the computation of basic and diluted net (loss) income per share for the year indicated:

	Year ended December 31, 2006 (restated)	2005
Basic and diluted net (loss) income per share calculation:		
Numerator:		
Net (loss) income used in computing basic net (loss) income per share	$ (10,577,418)	$ 1,811,107
Denominator:		
Weighted average ordinary shares outstanding	17,147,268	17,054,368
Basic and diluted net (loss) income per share	$ (0.62)	$ 0.11

13. CAPITAL TRANSACTIONS

On June 23, 2004, the Company issued 167,895 shares of its common stock to a consultant for services relating to the reverse merger that was completed in fiscal 2004. The trading price of the Company's common stock on June 23, 2004 was $3.60 per share, accordingly, the fair value of 167,895 shares was $604,422.

On June 23, 2004, the Company issued 166,667 shares of its common stock in exchange for services performed by an existing major shareholder of Boulder Acquisitions for his consulting services involved with the reverse merge. The common stock was issued at a price of $1.14 per share in exchange for gross proceeds of $190,000 based on a stock purchase agreement. The $1.14 per share price was pre-negotiated between the Company and the shareholder before the reverse merger had been completed. Pursuant to the stock purchase agreement, the Company granted the existing shareholder an option which required the Company to purchase up to the aforementioned 166,667 shares of common stock at a price of $1.14 per share, such option being exercisable at any time after the date that is nine months after the Company files a registration statement on Form SB-2 with the SEC, registering the shares purchased by the existing shareholder, up to and including the earlier of the date that such registration statement is declared effective by the SEC or the existing shareholder's shares are eligible for resale under Rule 144 under the Securities Act of 1933. According to Topic D-98 from the SEC, "Classification and Measurement of Redeemable Securities," these shares should be presented outside the permanent equity section. However, on November 12, 2004, the Company filed a Registration Statement on Form SB-2 with the SEC, for registration of these securities to be sold to the public by small business issuers. On February 8, 2005, the SEC approved the registration filing and accordingly, the Company has recorded these shares in stockholders' equity as the contingency surrounding these shares expired as of February 8, 2005. On June 23, 2004, the trading price of the Company's stock at the end of the day was $3.60 per share. Due to the relationship between the parties, the difference between the price of $1.14 per share and the price of $3.60 per share was recorded as compensation by presenting $410,001 in additional paid-in capital and in general and administrative expenses.

On June 28, 2004, the Company issued, in aggregate, 1,315,789 shares of its common stock to three investors at a price of $1.14 per share in exchange for gross proceeds of $1,500,000 based on a stock purchase agreement. The $1.14 per share price was pre-negotiated between the Company and the investors before the reverse merger had been completed. Pursuant to the signed stock purchase agreement, the Company granted to each of the three investors an option which requires the Company to purchase up to the aforementioned 1,315,789 shares, in aggregate, of common stock at a price of $1.14 per share, such option being exercisable at any time after the date that is nine months after the Company files a Registration Statement on Form SB-2 with the SEC, registering the shares purchased by the existing shareholder, up to and including the earlier of the date that such registration statement is declared effective by the SEC or the existing shareholder's shares are eligible for resale under Rule 144 under the Securities Act of 1933. As of December 31, 2004, the proceeds of $1.5 million were held in an escrow account with an agent who is related to a shareholder. As of December 31, 2004, the Company has treated the proceeds held in escrow as a current asset as the entire amount was released from escrow in March 2005 and paid to the Company. According to Topic D-98 from SEC, "Classification and Measurement of Redeemable Securities," these shares should be presented outside the permanent equity section. However, on November 12, 2004, the Company filed a Registration Statement on Form SB-2 with the SEC, for registration of these securities to be sold to the public by small business issuers. On February 8, 2005, the SEC declared the registration statement effective. Accordingly, the Company has recorded these shares in stockholders' equity as the contingency surrounding these shares expired as of February 8, 2005.

In connection with the June 28, 2004 issuance of common stock, the Company incurred share issue costs of $217,481 and accounted for it as a reduction of additional paid-in capital.

Pursuant to a resolution in December 2006, the Company transferred its retained earnings of $7,114,047 to additional paid-in capital for the purpose of impairment charge on deposit for business acquisition and property and equipment. Descriptive details of deposit for business acquisition and property and equipment are mentioned in Note 14(h) and Note 8 and the Company determined that both items are non-trading nature. Also the Company reviewed the future economic value of both deposit and assets and determined that future undiscounted cash flows associated with these deposit and assets were uncertain and may not be sufficient to recover their carrying values and so was fully written down to additional paid-in capital.

14. RELATED PARTY TRANSACTIONS

(a) Related Party Relationships

The following related parties are related through common ownership with the major shareholder of the Company:

Shanghai Sifang Information Technology Co. ("Sifang Information") Shanghai Tianci Industry Co. Ltd. ("Tianci Industry") Shanghai Tianci Industry Group Co. Ltd. ("Tianci Group") Shanghai Shantian Telecommunication Co. Ltd. ("Shantian") Shanghai Sifang Telecommunication Co. Ltd. ("Sifang Telecom") Shanghai Tianci Real Estate Co. Ltd. ("Tianci Real Estate") Shanghai Sifang Media Co., Ltd. ("Sifang Media").

(b) Merchandise Sold to Related Parties

During the year ended December 31, 2006, TCH sold Samsung GSM mobile phones valued at $713,524 at a gross profit margin of 4% or $26,531 to Shanghai Shantian Telecommunication Co. Ltd. ("Shantian"), compared to $10,608,287 at a gross profit margin of 4% or $382,371 for the year ended December 31, 2005. There was no accounts receivable due from Shantian as of December 31, 2006 and 2005.

(c) Advertising Services Rendered to Related Party

	Year ended December 31, 2006	2005
Tianci Real Estate	$ -	$ 1,879,965

In January 2005, Sifang Media and TCH entered into the "Bank Digital TV's Cooperation Agreement", where TCH will assist in the promotion of TV ads for various customers, including Tianci Real Estate. TCH received a net fee of $nil and $1,879,965 from Tianci Real Estate for providing the service during the years ended December 31, 2006 and 2005 respectively. The Advertisement Agency Contract between Tianci Real Estate and Sifang Media was terminated in November 2005.

TCH, through Sifang Media, entered into certain agreements with customers, where TCH will assist in the promotion of TV ads for these customers. TCH received a net fee of $334,844 and $881,633 for providing the service via Sifang Media during the fiscal year of 2006 and 2005 respectively.

(d) Service Provided by Related Party

	Year ended December 31, 2006	2005
Sifang Information	$ 473,534	$ 426,009

Pursuant to the service agreements between TCH and Sifang Information, TCH was allowed to use Sifang Information's facility (which may not be owned by foreign investors at the present time) to transmit the reformatted information and Sifang Information also provided other management support and marketing services to TCH.

(e) Leasing From Related Parties

Sifang Information signed a leasing agreement with the Tianci Real Estate for leasing its apartment for office use. During the years ended December 31, 2006 and 2005, TCH paid rental expense of $50,378 and $49,565 respectively to Tianci Real Estate.

(f) Amount Due From Related Parties

	As of December 31, 2006	2005
Sifang Information	$ 6,446,275	$ 2,165,624
Sifang Media	-	929,345
	6,446,275	3,094,969
Less: Amount written-off	(3,000,000)	-
	$ 3,446,275	$ 3,094,969

The amount due from Sifang Information and Sifang Media as of December 31, 2005 are trade related and relating to the mobile phone distribution business.

During January 2006, the Company entered into an agreement with Sifang Information for the establishment of a new joint venture entity with a third party. The purpose of the joint venture entity is to act as a sole advertising agent of TCH. The Company advanced a total of $2,499,969 to Sifang Information to contribute to the joint venture. This, together with the trade receivables related to the mobile phone distribution business, made up a total balance of $6,446,275 receivable from Sifang Information as of December 31, 2006. As of December 31, 2006, Sifang Information was informed of the non-continuous of the formation of the joint venture by the third party and it was determined that the amount is not to be recovered in the foreseeable future. As a result, the Companyprovided a provision of $3,000,000 for 1) the full amount advance to the joint venture and 2) the long outstanding portion of the receivable from Sifang Information.

(g) Amount Due To Related Parties

	As of December 31, 2006	2005
Tianci Real Estate	$ -	$ 123,467
Shantian	-	99,932
	$ -	$ 223,399

The balance owed to Tianci Real Estate represented the expenses paid by Tianci Real Estate on behalf of the Company during the year ended December 31, 2005.

The balance owed to Shantian represents the advances received from Shantian for mobile phone sales. All of the above amounts due to related parties are unsecured, non-interest bearing and due on demand.

(h) Deposit for Business Acquisition

In December 2005, TCH entered into a series of agreements to purchase (i) 95% of the equity interests of Shanghai Kena Energy Saving Electric Co Ltd ("Kena") for an aggregate purchase price of RMB 28,500,000 (approximately $3,532,000); (ii) a related patent from one of the shareholders of Kena for RMB 11,000,000 (approximately $1,363,000); and (iii) related rights to make a patent application from one of the shareholders of Kena for RMB 11,000,000 (approximately $1,363,000). The purchase price for both the equity interests in Kena and the consideration for purchase of the patent and the right to apply for registration of the patent shall be paid by Sifang Information on behalf of TCH. On February 10, 2006, these agreements were amended to impose an additional condition on Mr. Zhang Naiyao, the transferor of the patent and holder of the right to make the patent application, that if he fails to provide the necessary technical assistance services to enable TCH to use the patented technology in producing products on a large scale that meet the standards set by the Company within one year, TCH shall have the right to demand the return of the relevant payment received by him in full and to terminate the agreement for the assignment of the patent and the right to apply for registration of the patent. The amendments also set forth the arrangement for payment of the purchase price between TCH and Sifang Information. The purchase price for both the equity interests in Kena and the consideration for purchase of the patent and the right to apply for registration of the patent shall be paid by Sifang Information on behalf of TCH. According to the amended agreements, the amount of the purchase consideration paid by Sifang Information on behalf of TCH will be applied to offset the trade and other receivables owed to TCH by Sifang Information.

Kena was established on April 26, 2005 and it specializes in the research, development and manufacture of energy-saving products, as well as illumination projects in China. The patent and patent application mentioned above relate to a "three phase transformer" which is used in connection with a power supply system and utilizes technology that allows manufacturers to produce transformers with high energy transfer efficiency at a low cost. This technology is expected to be available for mass production within one year.

As Mr. Zhang Naiyao failed to meet the condition mentioned-above within the period prescribed, the Company decided not to pursue the above-mentioned acquisition of Kena. All the agreements in connection with the Kena acquisition were terminated by TCH and Kena. Consequently, the Company reviewed the future economic value of the deposit for the anticipated business acquisition of Kena and determined that future undiscounted cash flows associated with this deposit were uncertain and may not be sufficient to recover their carrying values and so was fully written down as of December 31, 2006.

15. SEGMENT INFORMATION

The Company currently operates in four principal business segments: (i) advertising service, (ii) sales of mobile phones, (iii) mobile phone services, and (iv) beep pagers service. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 3). The Company had no inter-segment sales for the years ended December 31, 2006 and 2005. The Company's reportable segments are strategic business units that offer different products and services. The Company evaluates the performance of its operating segments based on income from operations, before income taxes, accounting changes, non-recurring items and interest income and expense.

Summarized financial information concerning the Company's reportable segments is shown in the following table for the years ended December 31, 2006 and 2005:

2006	Advertising service revenue	Sales of mobile phones	Mobile phone service	Beep pagers service	Corporate	Total (restated) (see Note 2)
Revenue, net	$ 334,844	$ 1,269,485	$ 736,742	$ 548,365	$ -	$ 2,889,436
Cost of revenue	110,876	1,191,340	815,364	188,822	-	2,306,402
Gross profit (loss)	223,968	78,145	(78,622)	359,543	-	583,034
Depreciation	-	-	110,924	-	78,442	189,366
Interest expense	-	--	-	-	-	-
Net income (loss)	224,746	(250,082)	(385,372)	121,202	(10,287,912)	(10,577,418)
Total assets	-	-	-	-	4,464,612	4,464,612
Expenditure for long-lived assets	$ -	$ -	$ -	$ -	$ -	$ -

2005	Advertising service revenue	Sales of mobile phones	Mobile phone service	Beep pagers service	Corporate	Total
Revenue, net	$ 2,761,598	$ 16,383,356	$ 634,728	$ 639,340	$ -	$ 20,419,022
Cost of revenue	141,554	16,024,959	410,898	270,726	-	16,848,137
Gross profit	2,620,044	358,397	223,830	368,614	-	3,570,885
Depreciation	-	-	191,773	-	47,943	239,716
Interest expense	-	-	-	-	9,093	9,093
Net income (loss)	1,940,596	154,136	47,843	162,207	(493,675)	1,811,107
Total assets	-	913,957	139,055	-	13,923,849	14,976,861
Expenditure for long-lived assets	$ -	$ -	$ 71,542	$ -	$ 353,983	$ 425,525

16. CHINA CONTRIBUTION PLAN

The PRC has been undergoing significant reforms with regard to its employee welfare and fringe benefits administration. Any enterprise operating in the PRC is subject to government-mandated employee welfare and retirement benefit contributions. In accordance with PRC laws and regulations, TCH participates in a multi-employer defined contribution plan pursuant to which TCH is required to provide employees with certain retirement, medical and other fringe benefits. PRC regulations require TCH to pay the local labor administration bureau a monthly contribution at a stated contribution rate based on the monthly basic compensation of qualified employees. The local labor administration bureau, which manages various investment funds, will take care of employee retirement, medical and other fringe benefits. TCH has no further commitments beyond its monthly contribution. TCH contributed a total of $45,122 and $54,430 for the years ended December 31, 2006 and 2005 respectively.

17. STATUTORY RESERVES

The Company's PRC subsidiary, TCH, is required to make appropriations to three reserve funds, comprised of the statutory surplus fund, the staff bonus and welfare fund, and the company expansion fund, based on after-tax net income determined in accordance with generally accepted accounting principles of the People's Republic of China (the "PRC GAAP"). Appropriation to the statutory surplus fund should be at least 10% of the after tax net income determined in accordance with the PRC GAAP. Appropriations to the company expansion fund and the staff bonus and welfare fund are made at the discretion of the Board of Directors. The company expansion fund is established for the purpose of providing employee facilities and other collective benefits to the employees and is non-distributable other than in liquidation. Appropriation to the statutory surplus fund is suspended when the accumulated balances of the fund reached 50% of the registered capital of TCH.

For the years ended December 31, 2006 and 2005, TCH appropriated $20,200 and $554,466 respectively, to the reserves based on its net income under PRC GAAP.

18. CONCENTRATION OF RISK

(a) Major Customers and Vendors

For the years ended December 31, 2006 and 2005, 100% of the Company's assets were located in the PRC and 100% of the Company's revenues and purchases were derived from customers and vendors located in the PRC.

For the years ended December 31, 2006 and 2005, customers and vendors who account for 10% or more of revenues and purchases are presented as follows:

Customers	**Revenues**		**Accounts receivable**	
	2006	**2005**	**2006**	**2005**
Customer A	25%	52%	-	-
Customer B	17%	3%	-	27%
Customer C	-	3%	-	-
Customer D	-	12%	-	-
Customer E	-	2%	-	64%
	42%	72%	-	91%

Vendors	**Purchases**			**Accounts payable**
	2006	**2005**	**2006**	**2005**
Vendor A	23%	34%	-	-
Vendor B	14%	8%	-	12%
Vendor C	-	9%	-	87%
Vendor D	-	31%	-	-
	37%	82%	-	99%

(b) Credit Risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of trade accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition, but does not require collateral to support such receivables.

19. COMMITMENTS

As of December 31, 2005, the Company has entered into commitments for consulting services amounting to a total of $450,000 to be rendered in 2005 and 2006. As of December 31, 2005, the Company has paid $200,000 and, therefore, has outstanding commitments of $250,000 for consulting services in 2006. Subsequently, the consultancy services was cancelled and the Company made no payment during the year ended December 31, 2006.

The Company did not have any commitment as of December 31, 2006.

20. SUBSEQUENT EVENTS

(a) On January 24, 2007, a group of individuals ("Purchasers") entered a share purchase agreement with a group of shareholders of the Company to purchase 12,911,835 shares of the Company's common stocks with $0.001 par value for an aggregate consideration of $490,000. Purchasers are Guohua Ku, Hanqiao Zheng, Ping Sun, Qianping Huang, Xiaohong Zhang and Lixia Zhang. Among them, Guohua Ku and Hanqiao Zheng acquired 9,073,700 shares and 2,406,365 shares respectively. As a result, they became the beneficial owners of the majority voting shares of the Company and gained control of the Company.

(b) On March 8, 2007, the name of the Company was changed to "China Recycling Energy Corporation" and engages in recycling energy business, providing energy saving and recycling products and services.

(c) On April 8, 2007, the Company's Board of Directors approves and makes effective a TRT Project Joint-Operation Agreement ("Joint-Operation Agreement") which is conditionally entered on February 1, 2007 between Shanghai TCH Data Technology Co., Ltd. ("TCH") and Xi'an Yingfeng Science and Technology Co., Ltd.("Yingfeng"). Yingfeng is a Chinese company that is located in Xi'an, Shaanxi Province, China, and is engaging in the business of designing, selling, installing, and operating TRT systems and other renewable energy products.

Under the Joint-Operation Agreement, TCH and Yingfeng will jointly pursue a top gas recovery turbine project ("Project") which is to design, construct, install and operate a TRT system in Xingtai Iron and Steel Company, Ltd. ("Xingtai"). This project was originally initiated by a Contract to Design and Construct TRT System ("Project Contract") entered by Yingfeng and Xingtai on September 26, 2006. TCH provides various forms of investments and properties into the Project including cash, hardware, software, equipments, major components and devices. In return, TCH becomes entitled to all the rights, titles, benefits and interests that Yingfeng originally had under the Project Contract, including but not limited to the cash payment made by Xingtai on regular basis and other property rights and interests.

Yingfeng remains liable for providing all the manpower, expertise and skills to design, construct, install, maintain and operate the TRT system under the terms of the Project Contract and also takes responsibility to manage the properties that TCH possesses in this Project. As for consideration, TCH will make monthly payment of RMB30,000 (approximately $3,900) to Yingfeng as compensation for their effort in managing TCH's properties.

Prior to the approval by the Board of the Company, TCH and Yingfeng have taken several preliminary actions in first quarter of 2007 in preparation for the full pursuit of the Project, including selecting and purchasing necessary components and software for TRT system, organizing and training the technician team for the Project and developing the construction and installation plan for the TRT system.