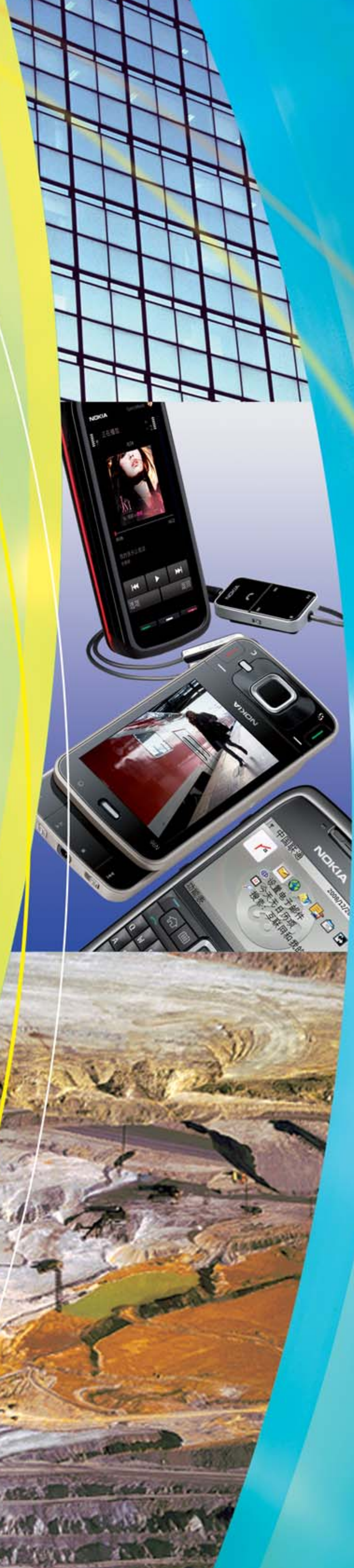
China Fortune Holdings Limited

(Incorporated in Bermuda with limited liability,
carrying on business in Hong Kong as CFH Limited)

Stock Code: 0110



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Annual Report

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Major Business Partners

Corporate Information

BOARD OF DIRECTORS

Chairman

Mr. Lau Siu Ying

Executive Director

Mr. Luo Xi Zhi

Non-executive Directors

Mr. Fung Oi Ip, Alfonso
Mr. Lo Wing Yat

Independent Non-executive Directors

Mr. Chang Wing Seng, Victor
Mr. Wong Lit Chor, Alexis
Mr. Chen Yi Gang

COMPANY SECRETARY

Mr. Cheng Ka Chung

AUDIT COMMITTEE

Mr. Chang Wing Seng, Victor (Committee Chairman)
Mr. Wong Lit Chor, Alexis
Mr. Fung Oi Ip, Alfonso

REGISTERED OFFICE

Clarendon House, 2 Church Street,
Hamilton HM11, Bermuda.

HONG KONG HEAD OFFICE

Room 1505-07, Tower A, Regent Centre,
63 Wo Yi Hop Road, Kwai Chung,
Hong Kong.

CHINA HEAD OFFICE

Room G, 8/F., East Tower,
Shanghai Hi-Tech King World,
666 Beijing East Road, Huang Pu District, Shanghai,
PRC.

SHANGHAI OFFICE

Room 328, Xin Mao Lou, 2 Tai Zhong Nan Lu,
Waigaoqiao Free Trade Zone, Shanghai, PRC.

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
Bank of Bermuda Building,
6 Front Street, Hamilton HM11,
Bermuda.

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Abacus Limited
26/F., Tesbury Centre,
28 Queen's Road East, Wanchai,
Hong Kong.

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISORS

Conyers Dill & Pearman

PRINCIPAL BANKERS

CITIC Ka Wah Bank
Hang Seng Bank

CORPORATE WEBSITES

www.fortunetele.com
www.chinafortune.com
www.synergy-asia.com.hk

STOCK CODE

110

Corporate Profile

China Fortune Holdings Limited ("China Fortune" or the "Group"), formerly named Fortune Telecom Holdings Limited, mainly distributes mobile phones and digital products, and provides wireless broadband communication solutions in the People's Republic of China (the "PRC") and Hong Kong. Key business partners of China Fortune include Nokia, HTC, Palm, Ruckus, Aruba, Proxim, Sling Media etc.

The Group was established in Hong Kong in 1992. It was first listed on the GEM Board of the Stock Exchange of Hong Kong Limited (Stock code: 8040) on 16th February, 2000, and then successfully shifted to the Main Board (Stock code: 110) on 26th January, 2004. The Group has a strong shareholder background and well operational and professional management team.

The Group is the sole Nokia fulfillment distributor for all Nokia Stores in the PRC. Besides, the Group owns a retail chain in Zhuhai, the PRC for selling mobile phones and telecommunication equipments. The Group also provides integrated distribution services which include sourcing, warehousing, promotional marketing, wholesale, direct selling, retailing and express delivery of mobile phones, PDAs, Wireless LAN and all related accessories.

In 2007, for the sake of business diversification, the Group contracted to acquire a Strontium mining site in the PRC, as its first step in entering the natural resource industry. This mining site is expected to become one of the Group's core business segment soon in the future.

Customers and major business partners include CSL, Smartone-Vodafone, PCCW, China Mobile, China Unicom, Hong Kong Government authorities, wholesalers, resellers, retailers, internet service providers, operators and corporate customers.

The corporate culture of the Group rests on the integration of the West and the East, modern and traditional management philosophy, with an aim to build up a "Continuous Learning Enterprise". The corporate spirit of China Fortune focuses on "Human Enterprise". Under the leadership of its aspiring and energetic management, China Fortune's staff will team up and move towards the Group's goal of ranking as one of the largest and best wireless communication and data products and services providers in the region, as well as a fast-growing enterprise in the field of natural resources.

Subsidiary:
Mobile Phone Retail Chain

雷鳴達
REMINDA

Subsidiary:
PDA Distribution
System Integration
Networking Products

SYNERGY

Business Structure

China Fortune Holdings Limited

- **Telecommunications**
  - Fulfillment Distribution
  - PDA / Smartphone Distribution
  - Mobile Phone Retail Chain
- **Information Technology**
  - Wireless Data and Broadband Communication
  - Networking Products
  - System Integration
  - Mobile Phone Design / Development

Corporate Milestones

92	Feb.18	The former trading arm of the Group – Express Fortune Limited ("EFL") was founded by Mr. Lau Siu Ying and his brothers in Hong Kong.
92-94		EFL became one of Nokia's earliest authorized distributors in the PRC.
97		Commenced Fortune Telecom Group's franchise retail business in the PRC.
00	Feb.16	Listed on the GEM Board of the Hong Kong Stock Exchange (Stock code: 8040).
	Dec	A US$12 million syndicated loan was successfully arranged.
01	Jul	Completed the acquisition of 51% shareholdings of Synergy Pacific (Holding) Limited ("Synergy Pacific").
02	May	Fortune Shanghai was acknowledged by Shanghai Waigaoqiao Free Trade Zone Management Committee as one of the best enterprises for commodity sales.
	Sep	A HK$160 million syndicated loan was successfully arranged.
03	Mar	The Group has achieved a record annual sale of 2.1 million sets of mobile phones and a record net profit over HK$60 million.
	Jun	For a consecutive year, Fortune Shanghai was again acknowledged by Shanghai Waigaoqiao Free Trade Zone Management Committee as one of the best enterprises for commodity sales.

Corporate Milestones

04	Jan.26	Listed on the Main Board of the Hong Kong Stock Exchange (Stock code: 110).
05	Sep	A US$16 million syndicated loan was successfully arranged.
	Nov	Fortune Shanghai increased its share capital from US$6 million to US$25 million.
	Dec	Successfully completed the acquisition of 100% shareholdings of Synergy Technologies (Asia) Limited, and the disposal of 46% shareholdings of Synergy Pacific.
06	Jan	Newly obtained the nationwide distributorship of Samsung mobile phones.
	Sep	Successfully obtained the Fulfillment Distributorship for all Nokia Stores in the PRC.
07	Feb	Contracted to acquire 51% stake in Zhuhai Reminda Telecom Equipment Company Limited (珠海市雷鳴達通訊設備有限公司) and completed the acquisition in October 2007.
	Sep	Formed a joint venture with TeleChoice International Limited for the Nokia fulfillment business.
	Oct.18	Name changed to China Fortune Holdings Limited.

Chairman's Statement

Dear shareholders,

REVIEW

This has been a year of challenges, not only for China Fortune, but also for the whole world. Although the Group has managed to achieve a much better performance in the first half in 2008 as compared to the first half in 2007, the financial tsunami came in the year and gave the world the most challenging business environment that we cannot even imagine before. The Group has acted as an exclusive fulfillment distributorship for Nokia, which is believed to be the most successful handset manufacturer in the world, among all Nokia Stores ("NS") in the People's Republic of China (the "PRC"), where is believed to be the country with the most strength to recover from this financial tsunami. In view of this, the Group is optimistic on the future performance of our fulfillment distribution business for NS and it will remain as our core business in the coming year.

The Group has established a joint venture with TeleChoice International Limited ("TCI") to engage in the fulfillment distribution business for NS in 2007. In 2008, TCI decided to exercise their put option to quit the partnership with the Group. TCI has been a valuable partner of the Group and I would like to take this opportunity to express my appreciation to TCI for its invaluable contribution made in this year.

In October 2007, the Group contracted to dispose 49% interest in its mobile handset national distribution business in the PRC. In view of changes in the business environment, the Group is renegotiating for the terms in this disposal transaction. As such, further announcement in respect of this disposal transaction will be made by the Group as if necessary and when appropriate.

The Group contracted to acquire in total 50.8% equity interest in a PRC mining company which holds a mining right in a site in the PRC in 2007. In 2008 and 2009, the Group restructured this mining company acquisition which was approved by independent shareholders of the Group in a special general meeting held on 18th February, 2009. Upon the completion of this acquisition, the Group believed that this new business segment in natural resources will become another core business of the Group in the near future.

Chairman's Statement

OPPORTUNITIES AND CHALLENGES

The world becomes even more and more challenging nowadays, so as the mobile phone industry in the PRC. The PRC is one of the strongest countries in terms of economic performance, and with its huge internal consumption and room for expansion. Though with keen competition, development potential is still enormous. The Group will continue to strengthen our existing relationship with the leading manufacturer to look for further cooperation opportunities.

With a view to diversify the business of the Group, the Group is actively looking for opportunities which will further enhance the shareholders' value.

APPRECIATION

Finally, I wish to sincerely thank our employees and business partners for their continued dedication and commitment to the Group, and I would like to express my appreciation to our financial institutions, shareholders and investors for their continuing supports and trust towards the Group.

Lau Siu Ying
Chairman and Chief Executive Officer

Hong Kong, 24th April, 2009

Management Discussion and Analysis

REVIEW AND OUTLOOK

Financial Review

The performance of the Group was significantly improved due to the successful restructuring of the national distribution business which incurred a substantial loss in last year. The fulfillment distribution business for Nokia Stores ("NS") continues to be a core business of the Group in which the Group is appointed as the sole fulfillment distributor for NS in the People's Republic of China ("PRC") in 2006. Owing to the deterioration of the global economy in the latter half of this year, the contribution from this core business was inevitably reduced. In addition, the impairment losses on investments and further provisions on trade and other receivables mainly coming from the national distribution business increased the losses of the Group in this year. As a result, the Group incurred a net loss of HK$78.8 million in this year, as compared with a net loss of HK$266.8 million in last year, despite the fact that the Group has recorded a relatively small loss in the first half of this year.

The Group recorded a consolidated revenue of HK$2,097.6 million in this year when compared to HK$2,744.6 million of last year. The decrease in revenue was mainly attributable to the restructuring of the loss making national distribution business which had a significant contribution to the revenue in last year despite the fact that the revenue from the fulfillment distribution business for NS has increased by 55% to HK$1,773.0 million in this year.

The gross profit amounted to HK$34.6 million in this year as compared to a gross loss of HK$93.6 million in last year. The gross margin percentage also increased to 1.6% in this year from -3.4% in last year. As explained above, these improvements were mainly attributable to the restructuring of the loss making national distribution business.

The selling and distribution costs amounted to HK$23.1 million in this year when compared to HK$50.6 million of last year. The decrease of 54% in this year was mainly due to the decrease in staff cost as a result of the restructuring of the loss making national distribution business.

The administrative expenses amounted to HK$29.1 million, reduced by 37% when compared to HK$46.3 million of last year. The substantial reduction was mainly attributable to the one-off share-based payment expenses for share options of HK$14.8 million in last year.

The allowances for trade and other receivables amounted to HK$47.4 million in this year when compared to HK$46.4 million of last year. Further provisions on the trade and other receivables from the national distribution business were made in this year due to the uncertainty in the recoverability of these receivables.

There was an impairment loss on goodwill of HK$5.1 million made in this year for Zhuhai Reminda, a subsidiary acquired by the Group in late 2007, due to the weak market sentiment in the mobile retail business in Zhuhai.

The Group shared losses of HK$0.6 million and HK$3.5 million from two of its associates, namely DW Mobile and Intelligence Tech in this year. Such losses were slightly offset by a gain of HK$0.1 million from Artchief Industries Ltd. As a result, the share of losses from the associates amounted to HK$4.0 million in this year as compared to a share of losses of HK$2.1 million of last year. Owing to the intense competition and weak sentiment for electronic products in USA, the major market of Artchief Industries Ltd. during the year, Artchief Industries Ltd. was only able to make a slim profit despite the fact that its revenue was double in this year. Intelligence Tech has experienced intense competition in its software and hardware development and trading business in the PRC and dropped its software development business which has a higher margin during the year due to high operating costs and uncertain future. As a result, Intelligence Tech has suffered a substantial loss during the year as compared with last year. Owing to the unsatisfactory performance in DW Mobile in which the accumulated losses and the impairment loss recognised by the Group amounted to HK$2.7 million and HK$13.4 million respectively before its disposal by the Group in June 2008, the Group has disposed of this investment during the year. In view of the challenges facing by the remaining two associates, the Group has to recognise further impairment losses of HK$5.7 million in this year, as compared with HK$18.2 million in last year.

The finance costs for this year were reduced by 55% to HK$11.8 million, as compared to HK$26.4 million of last year due to the substantial decrease in the level of bank borrowings in this year.

As a result of the above, the Group reported a net loss of HK$78.8 million in this year when compared to HK$266.8 million of last year.

The net asset value of the Group as at 31st December, 2008 amounted to HK$189.5 million or HK$0.51 per share when compared to HK$255.1 million or HK$0.68 per share as at 31st December, 2007. The basic deficit per share was HK$0.21, while the basic deficit per share was HK$0.80 in last year.

As at 31st December, 2008, the aggregate bank borrowings of the Group amounted to HK$52.7 million when compared to HK$120.2 million as at 31st December, 2007. The decrease in bank borrowings was mainly attributable to the intention of the Group to reduce its borrowing level. Owing to breaches in certain financial covenants, the bank loans were classified as short-term in accordance with the corresponding accounting standards. The Group has informed the relevant bankers and the applications for the waiver to comply with such convenants are still in progress. The Group is confident that its applications will ultimately reach a successful conclusion. The gearing ratio of the Group, defined as the ratio of the total long term liabilities to the shareholder's equity, was zero as the Group did not have any long term liability as at 31st December, 2008. The total bank deposits and cash balances amounted to HK$76.3 million as at 31st December, 2008, of which HK$30.4 million has been pledged to a bank.

The Group is financed by a combination of its equity capital, cash flow generated from its operation and bank borrowings. During the year, there was no material change in the funding and treasury policy of the Group. The Group considers the only potential currency exposure is in Renminbi as the majority of its revenue is derived in the PRC. The Group believes that its operation in the PRC will benefit from the recent upward appreciation of the Renminbi. It is the treasury policy of the Group to manage its foreign currency exposure whenever its financial impact is material to the Group.

The amount of inventories as at 31st December, 2008 was HK$160.3 million, as compared with HK$128.8 million as at 31st December, 2007. The increase in the inventories in this year was mainly attributable to the increasing level of inventory requirement for the fulfillment distribution business for NS. The inventory turnover period was 26 days in this year when compared to 47 days of last year. The shortening of the inventory turnover period was mainly due to the strict policy in inventory control in the fulfillment distribution business for NS.

Management Discussion and Analysis

The amount of trade receivables as at 31st December, 2008 was HK$24.4 million, as compared with HK$36.1 million as at 31st December, 2007. In order to minimize the credit risk for the trade receivables, the Group has implemented strict control on the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the revenue generated from the fulfillment distribution business for NS is mainly on cash basis which further reduces the credit risk of the Group.

On 4th September, 2007, the Group and TeleChoice International Limited ("TeleChoice"), entered into an agreement to establish a subsidiary (the "Fulfillment Subsidiary") to engage in the logistics and fulfillment business for NS in the PRC (the "Fulfillment Business"). TeleChoice injected HK$50 million for 40% equity interest in the Fulfillment Subsidiary, while the Group injected HK$25 million for 60% equity interest therein. At the same time, the Company granted a put option to TeleChoice pursuant to which TeleChoice can require the Company to purchase its entire 40% equity interest in the Fulfillment Subsidiary at a price of HK$50 million during the period from 1st March, 2008 to 31st December, 2008. The put option liability, representing a host debt instrument with a not closely related embedded non-option derivative which is linked to the profitability of the Fulfillment Business, was recognised as other financial liabilities. In late December 2008, TeleChoice exercised its put option. The completion of the exercise of this put option is still pending for the agreement by the Group and TeleChoice on the final payment to be made to TeleChoice.

As at 31st December, 2008, the Group has in total 218 employees as compared to 270 employees as at 31st December, 2007. Employees were remunerated according to the nature of their job duties and market trend. The Group provided staff welfare and fund contribution to its employees in accordance with the prevailing regulations in the PRC and Hong Kong. There was no material change in the remuneration policy, bonus scheme and share option scheme during the year. The Group has a share option scheme under which the Company may grant share options to the participants, including directors and employees, to subscribe for shares of the Company.

OPERATIONAL REVIEW

Market Overview

According to the statistics released by the Ministry of Industry and Information Technology of the People's Republic of China ("MII"), there were more than 641 million subscribers to mobile phone services in the PRC as at the end of 2008, equivalent to a penetration rate of 48.5 users per 100 persons. The low penetration rate in the rural market, where more than half of the population in the PRC resides, together with the 3G services and the continued economic growth in the PRC, mean that the PRC market still has a lot of untapped potential.

While there are continuing intense competitions among the big mobile phone manufacturers in the PRC, they are trying to cut the distribution layers by directly supplying to the provincial distributors and leading retailers with a view to increase their profitability. Because of this, leading vendors have developed multi-channel distribution models which include "national distribution", "provincial distribution", "direct to retail" and "direct to operator".

As one of the integrated fulfillment distributors in the PRC, the Group provides all necessary services, which include but not limited to transaction handling, credit financing, delivery, rebate execution, stock buffering and B2B system integration, etc. In return, the Group receives a contractual margin, as well as various rebates as its service income. This business model is more transparent, allowing the buyers, the suppliers and the Group to share common information and enhances the efficiency of all the activities of the value chain.

Management Discussion and Analysis

Business Review

After the complete transformation of the loss making national distribution business to the fulfillment distribution business for NS, the Group has made significant improvement in this year. The fulfillment distribution business for NS recorded significant growth during the year and its streamlined workforce further reduced the operating cost and hence the business risk of this business. The fulfillment distribution business for NS will continue to be a core business of the Group in view of the leading position of Nokia in the mobile phone market in the PRC. On the other hand, the business of the associates of the Group remained a challenge due to the intense competition in the market.

Prospect and Outlook

With a view to further diversify the business of the Group, in July 2007, the Group contracted to acquire approximately 40.8% equity interest in a mining company in the PRC (the "PRC Mining Company"). The PRC Mining Company has the right to conduct mining activities in a mining site which is located in Huangshi, southeastern Hubei. The mining site has a general mining area of approximately 0.62 square kilometers and the mineral resources of the mining site include Celestite, Zinc and Lead. In November 2007, the Group further contracted to acquire another 10% equity interest in the PRC Mining Company. In January 2009, the Company issued a further circular on this transaction due to the restructuring of certain terms of these acquisitions. Such terms revision has been subsequently approved by the independent shareholders of the Company in February 2009 and the completion of this transaction is now pending for the fulfillment of certain conditions for the completion. The Group believes that this business segment in natural resources will become another core business of the Group in the near future as demand for mineral resources will be considerable in view of the continued growth of the PRC economy.

The continued economic growth in the PRC, supported by a high internal consumption, together with the room for expansion in the penetration rate of the mobile phone users in the PRC, and the recently launched 3G services create a huge market and great opportunities for the Group to move forward. The Group will continue to strengthen our existing relationships with the leading manufacturers and to look for new cooperation opportunities with all other manufacturers and operators with a view to establish a firm foundation for our future growth, based on our successful experience in the fulfillment distributorship business with Nokia.

With a view to diversify the business of the Group, the Group is actively looking for opportunities which will further enhance the shareholders' value.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. LAU Siu Ying, aged 45, is the founder, Chairman and Chief Executive Officer of the Company since 1992. Mr. Lau has extensive working experiences in the telecommunications industry for over 18 years and has established solid business contacts in both Hong Kong and the PRC. Mr. Lau is responsible for directing the Group's overall business policy and strategies as well as overseeing the Group's business development in Hong Kong and the PRC. Prior to setting up his business, Mr. Lau worked for Hutchison Whampao Group for approximately 5 years, in charge of the business development of the telecommunications in the PRC. Mr. Lau is also the Board Councilor of China Mobile Communications Association in Beijing and the Chairman of Chinese Chamber of Information and Communication Technologies in Hong Kong. Mr. Lau holds a bachelor degree in Business Administration from the Chinese University of Hong Kong and a Master of Science degree in Information Technology from the National University of Ireland, Dublin.

Mr. LUO Xi Zhi, aged 51, joined the Group in October 1995 and was appointed as an Executive Director of the Company in September 2002. Mr. Luo is also the Financial Controller of the Group's PRC operation. Mr. Luo holds a certificate in Accounting from the Finance Academy of Jiangxi Province. Mr. Luo has over 20 years of financial and accounting experience in the PRC. Prior to joining the Group in 1995, Mr. Luo was the chief accountant for Zhaoqing Sz Di Telecom Co., Ltd.

Non-executive Directors

Mr. FUNG Oi Ip, Alfonso, aged 52, owns and runs the leading Law Costs Draftsman firm in Hong Kong which was established in 1986. A pioneer in his profession, he taught himself computer programming, developed and published a specialist law costing software in 1986. The software was subsequently licensed to the Hong Kong Government for use in the Legal Aid Department. Mr. Fung also takes a keen interest in developing Internet related business. Mr. Fung was appointed as a Non-executive Director of the Company in October 1999.

Mr. LO Wing Yat, aged 50, is a Director and Managing Director of CITIC International Financial Holdings Limited, a Director of CITIC Ka Wah Bank Limited, a Director and the Chief Executive Officer of CITIC International Assets Management Limited, and the Executive vice-chairman and the Chief Executive Officer of CIAM Group Limited. Mr. Lo graduated from the University of Hong Kong with a bachelor degree in laws. Mr. Lo was admitted as a Solicitor of the Supreme Court of Hong Kong in 1984 and a solicitor of the Supreme Court of England and Wales in 1989. Prior to joining CITIC International Financial Holdings Limited, Mr. Lo served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and a partner of Linklaters. Mr. Lo was appointed as a Non-executive Director of the Company in October 1999.

Directors and Senior Management Profile

Independent Non-executive Directors

Mr. CHANG Wing Seng, Victor, aged 71, last held the position of Managing Director of APCG Business Pte. Limited. Prior to this, Mr. Chang was the Managing Director of Singapore Technologies Telecommunications (Beijing) Pte. Ltd. based in Beijing for 2 years. Mr. Chang had held various senior management positions over 25 years with the Singapore Technologies Group, mainly as the Director of Finance. Mr. Chang was a graduate in Accounting from the Royal Melbourne Institute of Technology, Melbourne, Australia and the Institute of Chartered Accountants in Australia. Mr. Chang had also completed the Program for Management Development at the Harvard University Graduate School of Business Administration. Mr. Chang was a certified public accountant in both Singapore and Australia. Mr. Chang was appointed as an Independent Non-executive Director of the Company in October 1999.

Mr. WONG Lit Chor, Alexis, aged 50, graduated from the University of Toronto, Canada in 1981 with a bachelor degree in Arts majoring in economics and commerce and has obtained a master degree in Business Administration from the Chinese University of Hong Kong in 1987. Mr. Wong has over 20 years of banking, investment, corporate finance and securities dealing experience gained from working as a senior executive in a number of listed local and PRC financial services companies. Mr. Wong is also an independent non-executive director of a company listed on the Main Board and a company listed on the GEM Board of the Stock Exchange of Hong Kong. Mr. Wong was appointed as an Independent Non-executive Director of the Company in September 2006.

Mr. CHEN Yi Gang, aged 56, graduated from Shaoxing Institute of Administration, majoring in Corporate Management. Mr. Chen was a senior executive in a number of PRC telecommunication companies and senior management in a number of large IT enterprises. Mr. Chen has over 30 years of experience in the field of telecommunication. Mr. Chen was appointed as an Independent Non-executive Director of the Company in February 2007.

Company Secretary

Mr. CHENG Ka Chung, aged 41, joined the Group in December 2007 and acts as the Company Secretary and the Financial Controller of the Group. Mr. Cheng holds a Bachelor of Arts degree in accountancy and a Master of Science degree in accountancy from the Hong Kong Polytechnic University. Mr. Cheng has over 15 years experience in finance and accounting. Mr. Cheng is a member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Mr. Cheng is also a graduate member of the Institute of Chartered Secretaries & Administrators.

Directors and Senior Management Profile

Senior Management

Mr. WANG Yu, aged 43, is the Vice President of the Group and is responsible for the administration and management of the Group's operations in the PRC. Mr. Wang is also in charge of the legal affairs, public relationship, human resources and risk management of the Group. Mr. Wang graduated from Xi'an Jiaotong University with a master degree and a bachelor degree in Computer Science. Mr. Wang has more than 10 years working experiences in channel and distribution management on computer products and mobile phones with local and multinational companies in the PRC. Prior to joining the Group in April 2006, Mr. Wang was a General Manager of a listed company in the PRC focusing on IT business.

Mr. LO Kwok Leung, Jeff, aged 40, is the Sales Director of the Group in charge of sales and marketing activities in the PRC and acts as the Business Unit Deputy General Manager handling Nokia's handsets business in the PRC. Mr. Lo obtained his bachelor degree in Fu-Jen Catholic University in Taiwan, major in sociology. Prior to joining the Group in July 2000, Mr. Lo has had almost 10 years experience in Hong Kong and the PRC responsible for the sales and marketing of consumer electronic products in the PRC.

Mr. Kuang Huai Biu, aged 48, is the General Manager of Zhuhai Reminda Telecom Equipment Company Limited. Zhuhai Reminda Telecom Equipment Company Limited formally joined the Group and became a subsidiary of the Group in October 2007. Mr. Kuang was graduated from Guandong Provincial School of Electricity, and holds MBA degree from the University of Wales of UK. Mr. Kuang had been the senior technical management of China Telecom, has over 30 years experience in telecommunications, and has nearly 20 years working experience in the manufacturing and retail chains of domestic communications products in the PRC.

Mr. FONG Po Kiu, aged 40, joined Synergy Technologies (Asia) Limited in 1994, a wholly owned subsidiary of the Group, and is currently the General Manager of this company. Mr. Fong graduated from the Hong Kong Polytechnic (now Hong Kong Polytechnic University) and is now the Fellow Member of The Institute of Chartered Secretaries and Administrators, United Kingdom (FCIS) and the Fellow Member of The Hong Kong Institute of Company Secretaries (FCS). During his 15 years of employment, Mr. Fong had introduced a lot of pioneering products and technologies (like 56K Modem, PDA, Wi-Fi, Smartphone, Slingbox, etc), into Hong Kong and set the milestones for the Company in Hong Kong ICT Sector. Mr. Fong is now the Member of Electoral Conference for the election of Hong Kong Deputies to the 11th National People's Congress of the People's Republic of China; the Member of HKSAR Election Committee, Information Technology Subsector (2006-2010); the Chairman of Electronics & Communication Industry Safety and Health Committee, Occupational Safety and Health Council (OSHC); The Co-opted member of the IT Expert Advisory Group of The Consumer Council; the Founding Member of IT Voice and also the Founding Member and the Strategy Committee in The Professional Commons. Mr. Fong is also the Founding Chairman of Hong Kong Association of Interactive Marketing (HKAIM); the Vice-President of Hong Kong Information Technology Federation (HKITF); the Founding Member & Councilor of Internet Society — Hong Kong Chapter (ISOC-HK); and also the Fellow Member of Hong Kong Computer Society (FHKCS).

Mr. LAM Man Kit, aged 33, is the Deputy Financial Controller of the Group, mainly responsible for merger and acquisition projects. Mr. Lam graduated with a bachelor degree of Business Administration from the University of Hong Kong. Mr. Lam is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group in January 2007, Mr. Lam has years of financial and audit experiences in Hong Kong and the PRC.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high standards of corporate governance with a view to assuring the integrity, transparency and quality of disclosure to protect the interests of all shareholders. The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the year ended 31st December, 2008, except for the deviations as stated in paragraph headed "Chairman and Chief Executive Officer" and "Re-election of Directors".

The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure the business activities and decision making processes are regulated in a proper and prudent manner.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules for securities transactions by Directors of the Company during the year under review.

Having made specific enquiry with all Directors, each of whom has confirmed that he has complied with the required standard as set out in the Model Code for the year ended 31st December, 2008. The Model Code also applies to other specified senior management of the Group.

BOARD OF DIRECTORS

Composition and role

The Board of Directors of the Company comprises:

Executive Directors:	Mr. Lau Siu Ying (Chairman) and Mr. Luo Xi Zhi
Non-executive Directors:	Mr. Fung Oi Ip, Alfonso and Mr. Lo Wing Yat
Independent Non-executive Directors:	Mr. Chang Wing Seng, Victor, Mr. Wong Lit Chor, Alexis and Mr. Chen Yi Gang

The Board comprises two Executive Directors (including the Chairman), two Non-executive Directors and three Independent Non-executive Directors of which the number of Independent Non-executive Directors represents more than one-third of the Board. The Directors are, collectively and individually, aware of their responsibilities to the shareholders, for the manner in which the affairs of the Company are managed and operated. The Directors' biographical information is set out under the heading "Directors and Senior Management Profile" in this annual report.

The Board, headed by Mr. Lau Siu Ying, is responsible for the overall strategic development of the Group, the monitoring of the financial performance and the internal controls of the Group's business operations. All Directors and Board Committees have access to external legal counsel and other professionals for independent advice at the Group's expense if necessary.

Corporate Governance Report

Two Board Committees, namely, the Audit Committee and the Remuneration Committee, have been established to oversee particular aspects of the Group's affairs. The Board has delegated the day-to-day management and operations of the Group's business to the management of the Company and its subsidiaries. Major corporate matters that are specifically delegated by the Board to the management include the preparation of the financial statements for the Board's approval, the execution of business strategies approved by the Board, the implementation of internal controls system and risk management procedures, and the compliance with relevant statutory requirements and other rules and regulations.

To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship among the members of the Board.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual but Mr. Lau Siu Ying currently assumes both roles of the Chairman and the Chief Executive Officer of the Company.

Provision A.4 of the Code states that all directors should be subject to re-election at regular intervals. However, Mr. Lau Siu Ying, being the Chairman of the Board, does not need to retire by rotation.

Mr. Lau Siu Ying has been in charge of the overall management of the Company since its incorporation. As a result, although he does not need to retire by rotation and assumes both roles of the Chairman and the Chief Executive Officer of the Company, the Board considers that such arrangement at the Group's current stage of development can facilitate the execution of the Group's business strategies and maximize the effectiveness of its operations. Nevertheless, through the supervision from the Board including the Independent Non-executive Directors, the interests of the shareholders should be adequately and fairly considered.

RE-ELECTION OF DIRECTORS

All Non-executive Directors of the Company are not appointed for a specific term as stipulated under the provision A.4.1 of the Code but are subject to retirement by rotation in accordance with the Company's Bye-laws. In accordance with the relevant provisions in the Bye-laws of the Company, if the appointment of Directors is made by the Board, the Directors so appointed must stand for election by the shareholders at the first annual general meeting following their appointments and all Directors, except the Chairman, must stand for re-election by the shareholders by rotation.

NON-EXECUTIVE DIRECTORS

The Non-executive Directors, including the Independent Non-executive Directors, are all seasoned individuals from diversified background and industries and at least one member has an appropriate accounting qualification or related financial management expertise as required by the Listing Rules. With their expertise, they bring independent judgement on issues of strategic direction, development, performance and risk management through their contributions at Board meetings and Committee's works.

The Independent Non-executive Directors also act as a balance between the interests of the minority shareholders and the Company as a whole. The Board considers that each Independent Non-executive Director is independent in character and judgement and that they all meet the specific independence criteria as required by the Listing Rules. The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of Chapter 3 of the Listing Rules and the Company still considers such Directors to be independent. The Independent Non-executive Directors are explicitly identified in all corporate communications.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged the responsibilities for preparing the financial statements which give a true and fair view of the affairs of the Company and its subsidiaries. The auditors are responsible to form an independent opinion, based on their audits, on the Group's financial statements and express their opinions.

BOARD MEETINGS

The Board had held four meetings this year to review the financial performance of the Group and other major issues. The views of the Independent Non-executive Directors were actively solicited by the Group if they were unable to attend the meetings of the Board.

The names of the Directors and the individual attendance of each Director during the year is as follows:

	Attendance
Executive Directors	
Mr. Lau Siu Ying (Chairman)	4/4
Mr. Luo Xi Zhi	2/4
Non-executive Directors	
Mr. Fung Oi Ip, Alfonso	3/4
Mr. Lo Wing Yat	2/4
Independent Non-executive Directors	
Mr. Chang Wing Seng, Victor	2/4
Mr. Wong Lit Chor, Alexis	4/4
Mr. Chen Yi Gang	4/4

Corporate Governance Report

BOARD COMMITTEES

The Board has established Board Committees, namely Audit Committee and Remuneration Committee to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities.

AUDIT COMMITTEE

The Company has formulated written terms of reference for the Audit Committee in accordance with the requirements of the Listing Rules and its current members comprise:

Mr. Chang Wing Seng, Victor – Committee Chairman
Mr. Wong Lit Chor, Alexis
Mr. Fung Oi Ip, Alfonso

Mr. Chang Wing Seng, Victor and Mr. Wong Lit Chor, Alexis are Independent Non-executive Directors and Mr. Fung Oi Ip, Alfonso is a Non-executive Director. The Board considers that each Audit Committee member has broad commercial experiences and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee comply with the requirements under Rule 3.21 of the Listing Rules.

The Audit Committee's primary responsibilities include reviewing the reporting of financial and other information to the shareholders, the system of internal controls, risk management and the effectiveness and objectivity of the audit process. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including reviews of the half-year and full year accounts for the year ended 31st December, 2008. Each member of the Audit Committee has unrestricted access to the auditors and all senior staff of the Group.

Individual attendance of each Audit Committee member during the year is as follows:

	Attendance
Mr. Chang Wing Seng, Victor	1/2
Mr. Wong Lit Chor, Alexis	2/2
Mr. Fung Oi Ip, Alfonso	2/2

NOMINATION OF DIRECTORS

In considering the nomination of new Directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates.

Furthermore, as the full Board is responsible for the selection and approval of candidate for appointment as Director to the Board, therefore the Company has not established a Nomination Committee for the time being.

REMUNERATION COMMITTEE

The Company has formulated written terms of reference for the Remuneration Committee in accordance with the requirements of the Listing Rules and its current members comprise:

Mr. Chang Wing Seng, Victor – Committee Chairman
Mr. Wong Lit Chor, Alexis
Mr. Fung Oi Ip, Alfonso

Mr. Chang Wing Seng, Victor and Mr. Wong Lit Chor, Alexis are Independent Non-executive Directors and Mr. Fung Oi Ip, Alfonso is a Non-executive Director. The Remuneration Committee is responsible for ensuring that formal and transparent procedures for developing remuneration packages of directors and senior management. In determining the emolument payable to directors, it takes into consideration factors such as remuneration paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and the desirability of performance-based remuneration.

On 16th January, 2009, the Remuneration Committee had held a meeting (with all its members present) to review the remuneration packages of all the Directors. It was resolved by the Remuneration Committee that the director fee for Mr. Chang Wing Seng, Victor, Mr. Wong Lit Chor, Alexis and Mr. Fung Oi Ip, Alfonso was revised to HK$100,000 per annum effective from year 2008, after taking into account the time commitment and the market trend of comparable companies. No meeting was held by the Remuneration Committee during the year.

AUDITOR'S REMUNERATION

Deloitte Touche Tohmatsu was re-appointed as the Company's external auditors by the shareholders at the Annual General Meeting on 26th May, 2008, until the conclusion of the next Annual General Meeting. They are primarily responsible for providing audit services in connection with the financial statements of the Group for the year ended 31st December, 2008. During the year, the fees charged to the accounts of the Group for Deloitte Touche Tohmatsu's statutory audit services amounted to HK$1,000,000(2007: HK$1,180,000).

Corporate Governance Report

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interest of shareholders and the Group's assets. The Board has delegated to the management the implementation of the system of internal controls and the review of all relevant financial, operational and compliance controls and risk management function within an established framework. The Board has confirmed with the management that there was no change in the internal control system of the Group.

INVESTOR RELATIONSHIP AND COMMUNICATION

In order to maintain a high level of transparency in the communication with the shareholders and the investors, the Company has established the Corporate Communications Department in October 2006. In order to ensure effective, clear and accurate communications with the investors and analysts, all corporate communications are arranged and handled by the executive Directors and the designated section executives according to established practices and procedures of the Company.

The Company has announced its annual results and interim results in a timely manner during the year under review. The Company's Annual General Meeting provides a platform for shareholders to have a direct dialogue with the Board. Shareholders are encouraged to attend the Annual General Meeting and the Chairman and other members of the Board or their duly appointed delegates are available to answer questions from the shareholders.

The Company has also maintained a website at http://www.fortunetele.com which enables shareholders, investors and the general public to have access to the information of the Company. Financial information and all shareholder corporate communications of the Company are made available on the Company's website, which is to be updated regularly.

CODE OF CONDUCT

The Company is committed to high standard of business ethics and integrity. A code of conduct is enforced on all employees of the Group. The employees at all levels are expected to act in an honest, diligent and responsible manner. No personal gifts or other forms of advantages from any person or organisation doing business with the Group can be accepted by any employee. Business partners and customers are reminded from time to time that our policy forbids any employee or agent of the Group from accepting any gift from them.

Directors' Report

The directors present their annual report and audited consolidated financial statements for the year ended 31st December, 2008.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries and principal associates are set out in notes 44 and 45 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2008 are set out in the consolidated income statement on page 33 of the annual report.

No interim dividend was declared during the year. The directors do not recommend the payment of a final dividend.

PLANT AND EQUIPMENT

Details of movements during the year in the plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31st December, 2008 consisted of contributed surplus and accumulated profits totalling HK$7,943,000 (31st December, 2007: HK$7,554,000).

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Directors' Report

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Lau Siu Ying (Chairman)
Mr. Luo Xi Zhi

Non-executive directors:

Mr. Fung Oi Ip, Alfonso
Mr. Lo Wing Yat

Independent non-executive directors:

Mr. Chang Wing Seng, Victor
Mr. Wong Lit Chor, Alexis
Mr. Chen Yi Gang

In accordance with clause 87 of the Company's bye-laws, Messrs. Luo Xi Zhi and Chen Yi Gang shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

The term of office of each of the non-executive directors and independent non-executive directors is the date up to his retirement by rotation in accordance with the Company's bye-laws.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 31st December, 2008, the interests and short positions of the directors, the chief executive and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

(a) Ordinary shares of HK$0.10 each of the Company

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Lau Siu Ying ("Mr. Lau")	Held by a discretionary trust (Note 1)	188,300,013	50.51%
	Beneficial owner	280,000	0.08%
		188,580,013	50.59%

(b) Share options

Name of director	Capacity	Number of options held	Number of underlying shares
Mr. Lau	Beneficial owner	2,000,000	2,000,000
	Held by spouse (Note 2)	1,000,000	1,000,000
Mr. Luo Xi Zhi	Beneficial owner	100,000	100,000
Mr. Fung Oi Ip, Alfonso	Beneficial owner	150,000	150,000
Mr. Lo Wing Yat	Beneficial owner	100,000	100,000
Mr. Chang Wing Seng, Victor	Beneficial owner	200,000	200,000
Mr. Wong Lit Chor, Alexis	Beneficial owner	100,000	100,000
Mr. Chen Yi Gang	Beneficial owner	100,000	100,000
		3,750,000	3,750,000

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES *(Continued)*

(b) Share options *(Continued)*

Notes:

1. These shares are held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn is held by a discretionary trust, the beneficiaries of which include Mr. Lau, his spouse and his children.

2. Mr. Lau is deemed to be interested in 1,000,000 options to acquire shares of the Company, being the interests held beneficially by his spouse.

3. Pursuant to various agreements and the approval by shareholders of the Company in a special general meeting on 18th February, 2009, the Group has agreed to acquire a 50.8% equity interest in a mining company in the Peoples' Republic of China ("PRC") (the "PRC Mining Company"), subject to fulfillment of conditions precedents. Upon completion of the acquisition, the Company will issue to Mr. Lau 244,813,040 ordinary shares and a convertible bond which is convertible into 142,857,142 ordinary shares in the Company, upon full conversion. Details of this transaction are set out in note 42 to the consolidated financial statements and in a circular dated 29th January, 2009 issued by the Company.

The interest disclosed above represents long positions in the shares and underlying shares of the Company or its associated corporations.

Save as disclosed above, none of the directors, chief executives nor their associates had any interests or short positions in any shares or underlying shares of the Company or any of its associated corporations as defined in the SFO at 31st December, 2008.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 31 to the consolidated financial statements. The following table discloses movements in the Company's share options during the year:

	Date of grant	Exercise price HK$	Outstanding at beginning of the year	Lapsed during the year	Outstanding at end of the year
Category I - Directors					
Mr. Lau	7.5.2007	1.29	2,000,000	—	2,000,000
Mr. Luo Xi Zhi	7.5.2007	1.29	100,000	—	100,000
Mr. Fung Oi Ip, Alfonso	7.5.2007	1.29	150,000	—	150,000
Mr. Lo Wing Yat	7.5.2007	1.29	100,000	—	100,000
Mr. Chang Wing Seng, Victor	7.5.2007	1.29	200,000	—	200,000
Mr. Wong Lit Chor, Alexis	7.5.2007	1.29	100,000	—	100,000
Mr. Chen Yi Gang	7.5.2007	1.29	100,000	—	100,000
Total for directors			2,750,000	—	2,750,000
Category II - Employees					
Employees	7.5. 2007	1.29	3,158,000	(136,000)	3,022,000
Category III - Consultants					
Consultants	7.5. 2007	1.29	3,950,000	—	3,950,000
Total for all categories			9,858,000	(136,000)	9,722,000

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the share option scheme disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors, their spouses or children under the age of 18 had any rights to subscribe for the securities of the Company or had exercised any such rights during the year.

Directors' Report

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

During the year, the Group entered into various agreements with Mr. Lau relating to the acquisition of a 50.8% equity interest in the PRC Mining Company, details of which are set out in note 42 to the consolidated financial statements and in a circular dated 29th January, 2009 issued by the Company. On 17th October, 2007, the Group and Mr. Lau entered into an agreement pursuant to which Mr. Lau will acquire a 49% interest in the Group's mobile phone distribution business in which the transaction has not been completed at the report date, details of which are set out in note 42 to the consolidated financial statements.

Other than as disclosed above, no connected transactions nor contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31st December, 2008, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

(a) Ordinary shares of HK$0.10 each of the Company

Name of substantial shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Lau	Held by a discretionary trust (Note 1)	188,300,013	50.51%
	Beneficial owner	280,000	0.08%
		188,580,013	50.59%
Mr. Lee Wai, Timothy	Held by controlled entity (Note 2)	188,300,013	50.51%

(b) Share options

Name of substantial shareholder	Capacity	Number of options held	Number of underlying shares
Mr. Lau	Beneficial owner	2,000,000	2,000,000
	Held by spouse (Note 3)	1,000,000	1,000,000
Mr. Lee Wai, Timothy	Beneficial owner	100,000	100,000
		3,100,000	3,100,000

SUBSTANTIAL SHAREHOLDERS *(Continued)*

Notes:

1. These shares are held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn is held by a discretionary trust. The beneficiaries of the discretionary trust include Mr. Lau, his spouse and his children.

2. Under the SFO, Mr. Lee Wai, Timothy is deemed to have interests in the shares of the Company as he is entitled to exercise more than one-third of the voting power at general meetings of Future 2000 Limited.

3. Mr. Lau is deemed to be interested in 1,000,000 options to acquire shares of the Company, being the interests held beneficially by his spouse.

4. Pursuant to various agreements and the approval by shareholders of the Company in a special general meeting on 18th February, 2009, the Group has agreed to acquire a 50.8% equity interest in a mining company in the Peoples' Republic of China ("PRC") (the "PRC Mining Company"), subject to fulfillment of conditions precedents. Upon completion of the acquisition, the Company will issue to Mr. Lau 244,813,040 ordinary shares and a convertible bond which is convertible into 142,857,142 ordinary shares in the Company, upon full conversion. Details of this transaction are set out in note 42 to the consolidated financial statements and in a circular dated 29th January, 2009 issued by the Company.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Company considers all of the independent non-executive directors are independent.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers during the year was less than 30% of total revenue.

During the year, the aggregate purchases attributable to the Group's five largest suppliers and the largest supplier represent approximately 97% and 86%, respectively, of the Group's total purchases.

At no time during the year did a director, an associate of a director or a shareholder of the Company which to the knowledge of the directors, own more than 5% of the Company's issued share capital, had a beneficial interest in any of the Group's five largest suppliers.

Directors' Report

CORPORATE GOVERNANCE

Save as disclosed in the Corporate Governance Report on pages 17 to 22 of this annual report, the Company has complied throughout the year with the Code on Corporate Governance Practice ("CG Code") as set out in Appendix 14 to the Listing Rules which were then in force.

Detailed information on the Company's corporate governance practices is also set out in the Corporate Governance Report.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 31 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2008.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 42 to the consolidated financial statements.

AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Lau Siu Ying
CHAIRMAN
Hong Kong, 24th April, 2009

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF CHINA FORTUNE HOLDINGS LIMITED
中國長遠控股有限公司
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of China Fortune Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 33 to 94, which comprise the consolidated balance sheet as at 31st December, 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

Independent Auditor's Report

TO THE SHAREHOLDERS OF CHINA FORTUNE HOLDINGS LIMITED *(Continued)*
中國長遠控股有限公司
(incorporated in Bermuda with limited liability)

OPINION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

24th April, 2009

Consolidated Income Statement

For the Year Ended 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Revenue	7	**2,097,593**	2,744,597
Cost of sales		**(2,063,001)**	(2,838,162)
Gross profit (loss)		**34,592**	(93,565)
Other income	8	**11,262**	17,791
Selling and distribution costs		**(23,092)**	(50,623)
Administrative expenses			
–Share-based payment expenses		**—**	(14,816)
–Other administrative expenses		**(29,090)**	(31,490)
Allowance for trade and other receivables		**(47,364)**	(46,379)
Impairment loss recognised in respect of available-for-sale investment		**(632)**	—
Impairment loss recognised in respect of goodwill		**(5,105)**	—
Impairment loss recognised in respect of interests in associates		**(5,725)**	(18,193)
Fair value gain on an investment property		**—**	2,240
Fair value gain on an embedded non-option derivative	32	**5,538**	—
Gain on disposal of an associate		**104**	—
Share of results of associates		**(4,036)**	(2,125)
Finance costs	9	**(11,837)**	(26,350)
Loss before taxation		**(75,385)**	(263,510)
Income tax expense	10	**(3,459)**	(3,337)
Loss for the year	11	**(78,844)**	(266,847)
Attributable to:			
Equity holders of the parent		**(78,719)**	(266,679)
Minority interests		**(125)**	(168)
		(78,844)	(266,847)
Dividend	14	**—**	3,151
Loss per share - basic	15	**(21.12) cents**	(79.5) cents

Consolidated Balance Sheet

At 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Non-Current Assets			
Plant and equipment	16	**2,999**	3,790
Goodwill	18	**7,820**	12,925
Investments in associates	19	**4,880**	14,561
Available-for-sale investment	20	**286**	918
Deposit paid for acquisition of a subsidiary	42(i)	**25,000**	25,000
Other assets – non-current portion	21	**11,400**	21,400
Club memberships	22	**1,276**	600
		53,661	79,194
Current Assets			
Inventories	23	**160,254**	128,801
Trade and other receivables	24	**76,820**	137,505
Bills receivable	24	**673**	431
Other assets – current portion	21	**11,400**	—
Amount due from a minority shareholder of a subsidiary	25	**5,691**	5,350
Taxation recoverable		**529**	—
Pledged bank deposits	26	**30,392**	75,010
Bank balances and cash	27	**45,912**	82,891
		331,671	429,988
Asset classified as held for sale	28	**—**	11,800
		331,671	441,788
Current Liabilities			
Trade and other payables	29	**80,180**	82,783
Amount due to a director	25	**—**	1,742
Amount due to an associate	25	**500**	500
Taxation payables		**4,582**	1,270
Bank borrowings	33	**52,660**	120,223
Other financial liabilities	32	**52,630**	53,145
		190,552	259,663
Liability associated with asset classified as held for sale	28	**—**	1,180
		190,552	260,843

Consolidated Balance Sheet

At 31st December, 2008

	NOTES	2008 HK$'000	2007 HK$'000
Net Current Assets		**141,119**	180,945
Total Assets less Current Liabilities		**194,780**	260,139
Capital and Reserves			
Share capital	30	**37,279**	37,279
Reserves		**152,219**	217,784
Equity attributable to equity holders of the parent		**189,498**	255,063
Minority interests		**5,282**	5,076
		194,780	260,139

The consolidated financial statements on pages 33 to 94 were approved and authorised for issue by the Board of Directors on 24th April, 2009 and are signed on its behalf by:

Lau Siu Ying
CHAIRMAN

Luo Xi Zhi
DIRECTOR

Consolidated Statement of Changes in Equity

For the Year Ended 31st December, 2008

	Attributable to equity holders of the parent										
	Share capital	Share premium	Special reserve	Translation reserve	Statutory funds	Share option reserve	Accumulated profit (losses)	Total	Share option reserve of a subsidiary	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Note i)		(Note ii)						
At 1st January, 2007	30,210	103,275	2,481	18,489	26,130	–	214,825	395,410	758	–	396,168
Exchange differences arising on translation of functional currency to presentation currency	–	–	–	18,809	–	–	–	18,809	–	189	18,998
Share of reserves of associates	–	–	–	154	–	–	–	154	–	–	154
Net income recognised directly in equity	–	–	–	18,963	–	–	–	18,963	–	189	19,152
Loss for the year	–	–	–	–	–	–	(266,679)	(266,679)	–	(168)	(266,847)
Total recognised income and expense for the year	–	–	–	18,963	–	–	(266,679)	(247,716)	–	21	(247,695)
Dividend paid	–	–	–	–	–	–	(3,151)	(3,151)	–	–	(3,151)
Issue of shares upon share subscription	4,000	66,800	–	–	–	–	–	70,800	–	–	70,800
Issue of shares upon acquisition of associates	1,500	21,030	–	–	–	–	–	22,530	–	–	22,530
Issue of shares upon exercise of share options	769	9,151	–	–	–	–	–	9,920	–	–	9,920
Costs attributable to issue of shares	–	(19,424)	–	–	–	–	–	(19,424)	–	–	(19,424)
Arising on acquisition of a subsidiary (note 35)	800	10,320	–	–	–	–	–	11,120	–	5,055	16,175
Recognition of equity-settled share-based payment expenses	–	–	–	–	–	14,816	–	14,816	–	–	14,816
Transfer of reserve upon exercise of share options	–	4,031	–	–	–	(4,031)	–	–	–	–	–
Transfer of reserve upon expiration/ forfeiture of share options	–	–	–	–	–	(5,617)	6,375	758	(758)	–	–
At 31st December, 2007	37,279	195,183	2,481	37,452	26,130	5,168	(48,630)	255,063	–	5,076	260,139

Consolidated Statement of Changes in Equity

For the Year Ended 31st December, 2008

	Attributable to equity holders of the parent										
	Share capital	Share premium	Special reserve	Translation reserve	Statutory funds	Share option reserve	Accumulated profit (losses)	Total	Share option reserve of a subsidiary	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
			(Note i)		(Note ii)						
Exchange differences arising on translation of functional currency to presentation currency	–	–	–	13,178	–	–	–	13,178	–	331	13,509
Share of reserves of associates	–	–	–	80	–	–	–	80	–	–	80
Net income recognised directly in equity	–	–	–	13,258	–	–	–	13,258	–	331	13,589
Reserve released upon disposal of an associate	–	–	–	(104)	–	–	–	(104)	–	–	(104)
Loss for the year	–	–	–	–	–	–	(78,719)	(78,719)	–	(125)	(78,844)
Total recognised income and expense for the year	–	–	–	13,154	–	–	(78,719)	(65,565)	–	206	(65,359)
Transfer	–	–	–	–	4,002	–	(4,002)	–	–	–	–
Transfer of reserve upon forfeiture of share options	–	–	–	–	–	(71)	71	–	–	–	–
At 31st December, 2008	37,279	195,183	2,481	50,606	30,132	5,097	(131,280)	189,498	–	5,282	194,780

Notes:

(i) The special reserve represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued for their acquisition at the time of the group reorganisation in 1999.

(ii) Statutory funds are reserves required by the relevant laws applicable to the Group's subsidiaries established in the People's Republic of China (the "PRC") and can be utilised to offset the prior years' losses of the PRC subsidiaries.

Consolidated Cash Flow Statement

For the Year Ended 31st December, 2008

	NOTE	2008 HK$'000	2007 HK$'000
OPERATING ACTIVITIES			
Loss before taxation		**(75,385)**	(263,510)
Adjustments for:			
Allowance for trade and other receivables		**47,364**	46,379
Depreciation of plant and equipment		**1,460**	657
Fair value gain on an investment property		**—**	(2,240)
Fair value gain on an embedded non-option derivative		**(5,538)**	—
Gain on fair value changes of held for trading investments		**—**	(1,375)
Impairment loss recognised in respect of available-for-sale investment		**632**	—
Impairment loss recognised in respect of club memberships		**35**	—
Impairment loss recognised in respect of goodwill		**5,105**	—
Impairment loss recognised in respect of interests in associates		**5,725**	18,193
Interest expenses		**11,837**	26,350
Interest income		**(1,557)**	(7,406)
Loss on disposal of asset classified as held for sale		**107**	—
Loss on disposal of plant and equipment		**117**	93
Share-based payment expenses		**—**	14,816
Share of results of associates		**4,036**	2,125
Write down of inventories		**7,238**	4,305
Operating cash flows before movements in working capital		**1,176**	(161,613)
(Increase) decrease in inventories		**(33,560)**	507,862
Decrease in trade and other receivables		**17,352**	173,952
(Increase) decrease in bills receivable		**(242)**	15,414
Decrease in held for trading investments		**—**	13,439
Decrease in trade and other payables		**(3,858)**	(36,864)
Cash (used in) generated from operations		**(19,132)**	512,190
PRC Enterprise Income Tax paid		**(258)**	(1,104)
Hong Kong Profits Tax (paid) refunded		**(412)**	312
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(19,802)**	511,398

Consolidated Cash Flow Statement

For the Year Ended 31st December, 2008

	NOTE	2008 HK$'000	2007 HK$'000
INVESTING ACTIVITIES			
Decrease in pledged bank deposits		**44,618**	75,767
Proceeds from disposal of asset classified as held for sale		**10,513**	—
Interest received		**1,557**	7,406
Repayment from (advance to) a minority shareholder of a subsidiary		**9**	(5,350)
Purchase of club memberships		**(711)**	—
Purchase of plant and equipment		**(604)**	(1,509)
Proceeds from disposal of plant and equipment		—	71
Deposit paid for acquisition of a subsidiary		—	(25,000)
Payments for other non-current assets		—	(21,400)
Acquisitions of investments in associates		—	(12,195)
Acquisition of a subsidiary	35	—	(1,233)
NET CASH FROM INVESTING ACTIVITIES		**55,382**	16,557
FINANCING ACTIVITIES			
Bank and other borrowings repaid		**(109,853)**	(1,386,141)
Other financial liabilities (repaid) raised		**(4,500)**	50,000
Interest paid		**(2,314)**	(23,205)
(Repayment to) advance from a director		**(1,742)**	1,742
Bank and other borrowings raised		**40,967**	798,703
Dividend paid		—	(3,151)
Expenses paid in connection with issue of shares		—	(2,624)
Proceeds from issue of shares		—	54,000
Proceeds from exercise of share options		—	9,920
Advance from an associate		—	500
NET CASH USED IN FINANCING ACTIVITIES		**(77,442)**	(500,256)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(41,862)**	27,699
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**82,891**	49,390
Effect of foreign exchange rate changes		**4,883**	5,802
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash		**45,912**	82,891

Notes to the Consolidated Financial Statements

For the Year Ended 31st December, 2008

1. GENERAL

The Company is an exempted company with limited liability incorporated in Bermuda under The Companies Act 1981 of Bermuda (as amended). The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent and ultimate holding company is Future 2000 Limited, a company incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The functional currency of the Company is Renminbi ("RMB"). The consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of the shareholders, as the Company is listed in Hong Kong.

The Company is an investment holding company. The principal activities of the Group are distribution and trading of mobile phones and related accessories, computer products and development of marketing and after-sales service network. The activities of its principal subsidiaries and principal associates are set out in notes 44 and 45.

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

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

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

The adoption of the new HKFRSs has had no material effect on how the results and financial position for the current or prior accounting years have been prepared and presented. Accordingly, no prior year adjustment has been required.

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

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

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

1 Effective for annual periods beginning on or after 1st January, 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009
2 Effective for annual periods beginning on or after 1st January, 2009
3 Effective for annual periods beginning on or after 1st July, 2009
4 Effective for annual periods ending on or after 30th June, 2009
5 Effective for annual periods beginning on or after 1st July, 2008
6 Effective for annual periods beginning on or after 1st October, 2008
7 Effective for transfers on or after 1st July, 2009

The adoption of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1st January, 2010. HKAS 23 (Revised) eliminates the option to expense all borrowing cost when incurred for the Group's financial year beginning 1st January, 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

Service income is recognised when services are provided.

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease.

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

Plant and equipment

Plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight line method.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Intangible asset – club memberships

Club memberships with indefinite life are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of the club membership are measured at the difference between the net disposal proceeds and the carrying amount of the club membership and are recognised in the consolidated income statement when the club membership is derecognised.

Club membership is tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. If the recoverable amount of club membership is estimated to be less than its carrying amount, the carrying amount of the club membership is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of club membership is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for that club membership in prior years.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-current asset held for sale

Non-current asset is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current asset classified as held for sale is measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Impairment losses on tangible assets other than goodwill (see the accounting policy in respect of goodwill above)

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

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

Inventories

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

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight line basis over the lease term.

The Group as lessee

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's entities are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Taxation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation (Continued)

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

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

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other income.

Retirement benefit costs

Payments to defined contribution retirement benefit scheme and state-managed retirement benefit scheme are charged as expenses when employees have rendered services entitling them to the contributions.

Financial instruments

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

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Effective interest method

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

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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

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

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

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Effective interest method

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

Financial liabilities

Financial liabilities including trade and other payables, amount due to a director/an associate, bank borrowings and put option obligation are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derivative financial instruments

Derivates (including embedded derivatives which are separated from non-derivate host contracts) are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

At initial recognition, a non-option derivative embedded in a host debt instrument is considered to have fair value of zero. Embedded derivative which is measured as a separate derivative is presented together with the non-derivative host contract on the balance sheet.

Derecognition

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

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

Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense immediately with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated losses.

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the services received unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses immediately, with a corresponding increase in equity (share option reserve) when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2008, the carrying amount of goodwill was HK$7,820,000 (2007: HK$12,925,000) after an impairment loss of HK$5,105,000 (2007: nil) has recognised during 2008. Details of the impairment loss calculation are set out in note 18.

Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2008, the carrying amount of trade and other receivables was HK$76,820,000 net of allowance for doubtful debts of HK$71,759,000 (2007: HK$137,505,000 net of allowance for doubtful debts of HK$64,906,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 33, and equity attributable to equity holders of the Company, comprising issued share capital and various reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associates thereto. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as issue of new debt or the redemption of existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2008 **HK$'000**	2007 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**144,766**	263,432
Available-for-sale investment	**286**	918
Financial liabilities		
Amortised cost	**169,313**	249,426
Embedded non-option derivative	**(5,538)**	—

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. *Financial risk management objectives and policies*

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

Market risk

(i) Currency risk

Several subsidiaries of the Group are exposed to foreign currency risk primarily arising from foreign currency bank deposits, other receivables, trade and other payables, bank borrowings and other financial liabilities set out in note 32.

The carrying amounts of the Group's significant monetary assets and liabilities which are denominated in a currency other than the functional currency of the relevant group entities at the reporting date are as follows:

	Liabilities		**Assets**	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars ("US$")	**14,011**	14,874	**30,581**	75,926
HK$	**84,046**	147,602	**25**	277

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(i) Currency risk *(Continued)*

Sensitivity analysis

The Group is mainly exposed to the fluctuation of US$ and HK$. The following table details the Group's sensitivity to a 5% (2007: 5%) increase and decrease in RMB against US$ and HK$. 5% (2007: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2007: 5%) change in the exchange rates. A 5% (2007: 5%) strengthening of the RMB against US$ and HK$ will give rise to the following impact to post-tax loss for the year. For 5% (2007: 5%) weakening of the RMB against US$ and HK$, there would be an equal and opposite impact on the post-tax loss for the year:

	2008 **HK$'000**	2007 HK$'000
(Increase) decrease in post-tax loss		
– US$	**(829)**	(3,053)
– HK$	**4,201**	7,366

Note: This is mainly attributable to the exposure outstanding on bank deposits, other receivables, trade and other payables, bank borrowings and other financial liabilities denominated in US$ and HK$ at the balance sheet date.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. *Financial risk management objectives and policies* *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to its variable rate bank borrowings (see note 33 for details of these borrowings), bank deposits and bank balances. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowings (see note 33 for details of these borrowings) and pledged bank deposits carrying fixed interest rates. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly attributable to fluctuation of Hong Kong Interbank Offer Rate ("HIBOR") and Prime rate ("P") arising from the Group's HK$ borrowings and fluctuation of prevailing market rates arising from the Group's bank deposits.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for the Group's variable rate bank borrowings and bank deposits at the balance sheet date. The analysis is prepared assuming these financial instruments outstanding at the balance sheet date were outstanding for the whole year. A 100 basis points (2007: 50 basis points) and a 50 basis points (2007: 50 basis points) fluctuation are used for variable rate bank borrowings and bank deposits respectively when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. As a result of the volatile financial market, the management adjusted the sensitivity rate from 50 basis points to 100 basis points for variable rate bank borrowings in the current year for the purpose of analysing interest rate risk.

If interest rates had been 100 basis points (2007: 50 basis points) and 50 basis points (2007: 50 basis points) higher/lower for variable rate bank borowings and bank deposits respectively and all other variables were held constant, the Group's post-tax loss for the year ended 31st December, 2008 would increase/decrease by approximately HK$222,000 (2007: HK$157,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate bank borrowings and bank deposits.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Credit risk

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

The Group's concentration of credit risk by geographical locations is mainly in the PRC and Hong Kong, which accounted for 37% and 63% respectively (2007: 21% and 79%) of the total trade receivables as at 31st December, 2008. The Group also had concentration of credit risk by customer as 49% (2007: 55%) of its total trade receivables were due from its five largest customers.

In addition to credit risk on trade debts, the Group is also exposed to concentration of credit risk through its deposit paid for potential investments to a single third party of HK$11,400,000 (2007: HK$10,700,000) and advance to a minority shareholder of a subsidiary of HK$5,691,000 (2007: HK$5,350,000). Because of their significance, management has regular liaison with the counterparties to identify any early sign of potential problems. Should any potential default situation arise, management will take prompt actions to safeguard the Group's assets.

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

The Group had concentration of credit risk as 93% (2007: 90%) of bank balances were placed with five (2007: three) banks. However, the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings as well as the cash flows from operating activities.

The Group relies on bank borrowings as a significant source of liquidity. As at 31st December, 2008, the Group had available unutilised short-term bank loan facilities of approximately HK$4,000,000 (2007: HK$48,000,000).

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and non-option derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. *Financial risk management objectives and policies* *(Continued)*

Liquidity risk *(Continued)*

Liquidity table

	Weighted average effective interest rate %	Less than 1 month HK$'000	1 - 3 months HK$'000	3 months to 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2008 HK$'000
2008						
Non-derivative financial liabilities						
Trade and other payables	—	49,573	1,415	6,997	57,985	57,985
Amount due to an associate	—	500	—	—	500	500
Bank borrowings						
– fixed rate	4.00	7,752	—	—	7,752	7,752
– variable rate	3.47	44,908	—	—	44,908	44,908
Other financial liabilities	—	52,630	—	—	52,630	52,630
		155,363	1,415	6,997	163,775	163,775
2007						
Non-derivative financial liabilities						
Trade and other payables	—	36,402	32,774	4,640	73,816	73,816
Amount due to a director	—	1,742	—	—	1,742	1,742
Amount due to an associate	—	500	—	—	500	500
Bank borrowings						
– fixed rate	4.40	20,223	—	—	20,223	20,223
– variable rate	5.01	100,000	—	—	100,000	100,000
Other financial liabilities	—	1,324	648	51,173	53,145	53,145
		160,191	33,422	55,813	249,426	249,426

6c. *Fair values*

The fair value of financial assets and financial liabilities (excluding embedded non-option derivative) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transactions.

The fair value of embedded non-option derivative is determined with reference to the profitability of the logistics and fulfillment business carried out by a PRC subsidiary of the Group.

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

7. SEGMENT INFORMATION

Revenue represents the net amounts received and receivable for goods sold and services provided by the Group to outside customers during the year.

Geographical segments

The Group's operations are located in the PRC and Hong Kong. The following table provides an analysis of the Group's sales by location of customers, irrespective of the origin of the goods:

2008

	The PRC HK$'000	Hong Kong HK$'000	Consolidated HK$'000
CONSOLIDATED INCOME STATEMENT			
Revenue	1,834,530	263,063	2,097,593
RESULTS			
Segment results	(56,574)	2,453	(54,121)
Unallocated corporate income			3,755
Unallocated corporate expenses			(8,431)
Impairment loss recognised in respect of available-for-sale investment			(632)
Impairment loss recognised in respect of interests in associates			(5,725)
Fair value gain on an embedded non-option derivative			5,538
Gain on disposal of an associate			104
Share of results of associates			(4,036)
Finance costs			(11,837)
Loss before taxation			(75,385)
Income tax expense			(3,459)
Loss for the year			(78,844)

7. SEGMENT INFORMATION *(Continued)*

Geographical segments (Continued)

2008 *(Continued)*

CONSOLIDATED BALANCE SHEET

	The PRC HK$'000	Hong Kong HK$'000	Consolidated HK$'000
Assets			
Segment assets	240,865	43,158	284,023
Interests in associates			4,880
Unallocated corporate assets			96,429
Consolidated total assets			385,332
Liabilities			
Segment liabilities	51,117	26,008	77,125
Unallocated corporate liabilities			113,427
Consolidated total liabilities			190,552

	The PRC HK$'000	Hong Kong HK$'000	Unallocated HK$'000	Consolidated HK$'000
Other information				
Allowance for trade and other receivables	47,347	17	—	47,364
Capital additions	—	—	1,315	1,315
Depreciation of plant and equipment	—	—	1,460	1,460
Impairment loss recognised in respect of club memberships	—	—	35	35
Impairment loss recognised in respect of goodwill	5,105	—	—	5,105
Loss on disposal of asset classified as held for sale	—	—	107	107
Loss on disposal of plant and equipment	—	—	117	117
Write down of inventories	5,061	2,177	—	7,238

Notes to the Consolidated Financial Statements

For the Year Ended 31st December, 2008

7. SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

2007

	The PRC HK$'000	Hong Kong HK$'000	Consolidated HK$'000
CONSOLIDATED INCOME STATEMENT			
Revenue	2,503,044	241,553	2,744,597
RESULTS			
Segment results	(208,220)	5,727	(202,493)
Unallocated corporate income			12,991
Unallocated corporate expenses			(14,764)
Impairment loss recognised in respect of interests in associates			(18,193)
Fair value gain on an investment property			2,240
Share-based payment expenses			(14,816)
Share of results of associates			(2,125)
Finance costs			(26,350)
Loss before taxation			(263,510)
Income tax expense			(3,337)
Loss for the year			(266,847)

7. SEGMENT INFORMATION *(Continued)*

Geographical segments *(Continued)*

2007 *(Continued)*

CONSOLIDATED BALANCE SHEET

	The PRC HK$'000	Hong Kong HK$'000	Consolidated HK$'000
Assets			
Segment assets	291,072	61,461	352,533
Interests in associates			14,561
Unallocated corporate assets			153,888
Consolidated total assets			520,982
Liabilities			
Segment liabilities	34,901	45,452	80,353
Unallocated corporate liabilities			180,490
Consolidated total liabilities			260,843

	The PRC HK$'000	Hong Kong HK$'000	Unallocated HK$'000	Consolidated HK$'000
Other information				
Allowance for trade and other receivables	45,509	870	—	46,379
Capital additions	—	—	3,514	3,514
Depreciation of plant and equipment	—	—	657	657
Gain on fair value changes of held for trading investments	—	—	1,375	1,375
Loss on disposal of plant and equipment	—	—	93	93
Write down of inventories	2,728	1,577	—	4,305

Business segments

No business segment information is presented as over 90% of the Group's revenue and contribution to loss for the year were derived from the distribution and trading of mobile phones.

8. OTHER INCOME

For the year ended 31st December, 2007, other income included tax refunds of HK$2,245,000 (2008: Nil) on capital reinvestment in PRC subsidiaries. The refunds were calculated with reference to certain percentage of the tax paid by the subsidiaries.

Notes to the Consolidated Financial Statements

For the Year Ended 31st December, 2008

9. FINANCE COSTS

	2008 HK$'000	2007 HK$'000
Interests on:		
Bank borrowings wholly repayable within five years	**2,314**	23,205
Other financial liabilities (note 32)	**9,523**	3,145
	11,837	26,350

10. INCOME TAX EXPENSE

	2008 HK$'000	2007 HK$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16.5% (2007: 17.5%) on the estimated assessable profit for the year	**281**	—
PRC Enterprise Income Tax ("EIT")		
Current year	**3,178**	1,468
Overprovision in prior years	**—**	(877)
	3,459	591
Deferred tax (note 34)	**—**	2,746
	3,459	3,337

On 26th June, 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/09. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

PRC EIT represents tax charge on the assessable profits of the Company's subsidiaries, Fortune (Shanghai) International Trading Co., Ltd. ("Fortune Shanghai"), 上海遠嘉國際貿易有限公司 ("Shanghai Yuanjia"), 珠海市雷鳴達通訊設備有限公司 ("Zhuhai Reminda") and Telefortune (China) Investments Limited ("Telefortune").

Fortune Shanghai and Shanghai Yuanjia were established in Shanghai Waigaoqiao Free Trade Zone, the PRC; and Zhuhai Reminda was established in Zhuhai Special Economic Zone, the PRC. Accordingly, for the year ended 31st December, 2007, these three PRC subsidiaries were entitled to a preferential EIT rate of 15%. The profit of Telefortune derived from business operation in the PRC was subject to EIT at a rate of 33% for the year ended 31st December, 2007.

10. INCOME TAX EXPENSE *(Continued)*

On 16th March, 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. Under the New Law and Implementation Regulation, the EIT rate of Fortune Shanghai, Shanghai Yuanjia and Zhuhai Reminda will increase from 15% to 25% progressively in 5 years from 1st January, 2008 to 31st December, 2012. Accordingly, the relevant EIT rate for these PRC subsidiaries was 18% for the year ended 31st December, 2008. The EIT rate of Telefortune, under the New Law, was decreased from 33% to 25% from 1st January, 2008 onwards. Accordingly, the EIT rate for Telefortune was 25% for the year ended 31st December, 2008.

The charge for the year can be reconciled to the loss before taxation per the consolidated income statement as follows:

	2008 **HK$'000**	2007 HK$'000
Loss before taxation	**(75,385)**	(263,510)
Tax at the domestic income tax rate of 18% (2007: 15%) (note)	**(13,569)**	(39,527)
Tax effect of share of results of associates	**726**	319
Tax effect of expenses not deductible for tax purpose	**5,417**	7,804
Tax effect of income not taxable for tax purpose	**(1,297)**	(1,052)
Overprovision in respect of prior years	**—**	(877)
Reversal of tax effect of deductible temporary differences previously recognised	**—**	2,746
Tax effect of deductible temporary differences not recognised	**8,523**	5,151
Tax effect of tax losses not recognised	**2,808**	28,572
Utilisation of tax loss previously not recognised	**(36)**	(565)
Effect of different tax rates of group entities operating in other jurisdictions	**887**	766
Tax expense for the year	**3,459**	3,337

At the balance sheet date, the Group had unused tax losses of approximately HK$266,731,000 (2007: HK$251,332,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK$181,836,000 (2007: HK$173,172,000) that may be carried forward for a period of five years from their respective year of origination. Other losses may be carried forward indefinitely.

At the balance sheet date, the Group also had deductible temporary differences of approximately HK$84,528,000 (2007: HK$37,181,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

note: The domestic income tax rate represents the preferential PRC EIT rate where the Group's operations are substantially based.

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For the Year Ended 31st December, 2008

11. LOSS FOR THE YEAR

	2008 HK$'000	2007 HK$'000
Loss for the year has been arrived at after charging:		
Allowance for trade receivables, net	**6,283**	38,259
Allowance for other receivables	**41,081**	8,120
Auditor's remuneration	**1,519**	1,443
Cost of inventories recognised as expense	**2,055,763**	2,833,857
Depreciation of plant and equipment	**1,460**	657
Impairment loss recognised in respect of club memberships	**35**	—
Loss on disposal of asset classified as held for sale	**107**	—
Loss on disposal of plant and equipment	**117**	93
Write down of inventories	**7,238**	4,305
Staff costs		
– directors' emoluments (note 12)	**3,313**	4,569
– other staff costs	**19,723**	41,722
– share-based payment expenses (excluding directors)	**—**	7,636
– retirement benefit scheme contribution (excluding directors)	**593**	564
	23,629	54,491
and after crediting to other income:		
Bank interest income	**1,557**	7,406
Exchange gain	**1,781**	2,395
Gain on fair value changes of held for trading investments	**—**	1,375
Government grants	**209**	3,098
Rental income on an investment property, net of outgoings of nil (2007: approximately HK$34,000)	**—**	275
Service income from provision of logistics and promotion services	**3,937**	—
Waive of trade and other payables	**3,262**	—

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2007: eight) directors were as follows:

	Lau Siu Ying ("Mr. Lau") HK$'000	Luo Xi Zhi HK$'000	Fung Oi Ip, Alfonso HK$'000	Lo Wing Yat HK$'000	Chang Wing Seng, Victor HK$'000	Wong Lit Chor, Alexis HK$'000	Chen Yi Gang HK$'000 (note 2)	Total HK$'000
2008								
Fees	—	—	100	50	100	100	80	430
Other emoluments								
Salaries and allowances	1,719	108	—	—	—	—	—	1,827
Performance related incentive bonuses (note 1)	1,000	33	—	—	—	—	—	1,033
Retirement benefit scheme contribution	2	21	—	—	—	—	—	23
Total emoluments	2,721	162	100	50	100	100	80	3,313

	Lau Siu Ying HK$'000	Luo Xi Zhi HK$'000	Fung Oi Ip, Alfonso HK$'000	Lo Wing Yat HK$'000	Chang Wing Seng, Victor HK$'000	Wong Lit Chor, Alexis HK$'000	Chen Yi Gang HK$'000 (note 2)	Liu Kwok Fai, Alvan HK$'000 (note 3)	Total HK$'000
2007									
Fees	—	—	50	50	80	80	67	13	340
Other emoluments									
Salaries and allowances	1,620	154	—	—	—	—	—	—	1,774
Share-based payment expenses	1,048	52	79	52	105	52	52	—	1,440
Performance related incentive bonuses (note 1)	1,000	—	—	—	—	—	—	—	1,000
Retirement benefit scheme contribution	2	13	—	—	—	—	—	—	15
Total emoluments	3,670	219	129	102	185	132	119	13	4,569

12. DIRECTORS' EMOLUMENTS *(Continued)*

notes:

(1) The performance related incentive bonuses for both years were determined with reference to performance of the Group.

(2) Chen Yi Gang was appointed on 28th February, 2007.

(3) Liu Kwok Fai, Alvan resigned on 28th February, 2007.

No directors waived any emoluments in both years.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2007: one) was a director of the Company whose emolument is included in the disclosures in note 12 above. The emoluments of the remaining four (2007: four) individuals were as follows:

	2008 **HK$'000**	2007 HK$'000
Salaries and allowances	**3,266**	3,094
Share-based payment expenses (note)	**—**	1,284
Retirement benefit scheme contributions	**39**	35
	3,305	4,413

Their emoluments were within the following bands:

	2008 **Number of** **employees**	2007 Number of employees
Up to HK$1,000,000	**3**	2
HK$1,000,001 to HK$1,500,000	**1**	2

note: During the year ended 31st December, 2007, the share-based payment expense represented the fair value of share option at the grant date.

None of the five highest paid individuals waived any emoluments in both years.

During the year ended 31st December, 2008 and 2007, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDEND

	2008 **HK$'000**	2007 HK$'000
Final dividend recognised as distribution:		
Nil cent per share for the year ended 31st December, 2007 (2007: HK1 cent per share for the year ended 31st December, 2006)	—	3,151

No dividend has been proposed for the year ended 31st December, 2008 and 2007.

15. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year attributable to the ordinary equity holders of the parent of HK$78,719,000 (2007: HK$266,679,000) and on 372,790,000 (2007: 335,559,000) weighted average number of ordinary shares in issue during the year.

No diluted loss per share is presented as the exercise price of the Company's share options was higher than the average market price for the year ended 31st December, 2008.

No diluted loss per share was presented as the assumed exercise of the Company's outstanding share options would result in a decrease in loss per share for the year ended 31st December, 2007.

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16. PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST				
At 1st January, 2007	1,041	2,524	2,270	5,835
Exchange adjustments	168	54	30	252
Additions	867	207	435	1,509
Acquired on acquisition of a subsidiary (note 35)	1,485	520	—	2,005
Disposals	—	(614)	(82)	(696)
At 31st December, 2007	3,561	2,691	2,653	8,905
Exchange adjustments	162	65	27	254
Additions	405	199	—	604
Disposals	(150)	(477)	(155)	(782)
At 31st December, 2008	3,978	2,478	2,525	8,981
DEPRECIATION				
At 1st January, 2007	962	1,919	2,068	4,949
Exchange adjustments	10	9	22	41
Provided for the year	159	299	199	657
Eliminated on disposals	—	(493)	(39)	(532)
At 31st December, 2007	1,131	1,734	2,250	5,115
Exchange adjustments	24	28	20	72
Provided for the year	895	417	148	1,460
Eliminated on disposals	(57)	(464)	(144)	(665)
At 31st December, 2008	1,993	1,715	2,274	5,982
CARRYING VALUE				
At 31st December, 2008	1,985	763	251	2,999
At 31st December, 2007	2,430	957	403	3,790

16. PLANT AND EQUIPMENT *(Continued)*

The above items of plant and equipment are depreciated on a straight line basis at the following rates per annum:

Leasehold improvements	20% or over the term of the relevant leases, whichever is shorter
Furniture, fixtures and equipment	25%
Motor vehicles	25%

17. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1st January, 2007	9,560
Increase in fair value recognised in the consolidated income statement	2,240
Transfer to asset classified as held for sale (note 28)	(11,800)
At 31st December, 2007 and 2008	—

The fair value of the Group's investment property as at 31st December, 2007, which was situated on land under a long lease in Hong Kong, was determined by the directors of the Company. No valuation was performed by independent qualified professional valuers. The valuation performed by the directors of the Company was based on the sales proceeds the Group received on the disposal of the investment property on 10th January, 2008.

All of the Group's property interests held under operating leases to earn rentals were measured using the fair value model and were classified and accounted for as investment property.

18. GOODWILL

	HK$'000
COST	
At 1st January, 2007, 31st December, 2007 and 31st December, 2008	12,925
IMPAIRMENT	
At 1st January, 2007 and 31st December, 2007	—
Impairment loss recognised in the consolidated income statement	5,105
At 31st December, 2008	5,105
CARRYING AMOUNT	
At 31st December, 2008	7,820
At 31st December, 2007	12,925

Goodwill represents management expertise in the mobile phones retailing and computer products and mobile phones distribution business acquired by the Group and is allocated to the following cash generating units ("CGU"):

	2008 **HK$'000**	2007 HK$'000
Mobile phones retailing – PRC	**2,910**	8,015
Computer products and mobile phones distribution – Hong Kong	**4,910**	4,910
	7,820	12,925

During the year ended 31st December, 2008, the Group assessed the recoverable amount of goodwill, and determined that goodwill attributable to the mobile phones retailing business in the PRC was impaired by HK$5,105,000 (2007: nil), while no impairment of goodwill attributable to the computer products and mobile phones distributions business in Hong Kong has occurred. The recoverable amount of the relevant CGU was assessed by reference to value in use.

The main factor contributing to the impairment of the CGU of mobile phone retailing was decreasing demand from customers as a result of the downturn of mobile phone retailing business in Zhuhai, the PRC. No write-down of the carrying amounts of other assets in the CGU was necessary.

18. GOODWILL *(Continued)*

Impairment Testing on Goodwill

The recoverable amount of the goodwill has been determined based on a value in use calculation of the relevant CGU. That calculation uses cash flow projections for each of the CGUs based on financial forecasts approved by management covering a 5-year period, and a discount rate of 10% (2007: 10%).

The key assumptions used in the value in use calculations for the relevant CGU are as follows:

Budgeted sales	The values assigned to the assumptions reflect the past experience, as well as management's best estimate for the sales in the next five years. The growth factor is consistent with management development strategies. Management believes that the budgeted sales over the budget period and growth per year for the next five years is acceptable.
Budgeted gross margin	The average gross margins achieved immediately before the budget period is expected to remain unchanged over the budget period. Although the management expects efficiency improvements will contribute to reducing expenditures, it considers the current unfavorable market conditions will impose pressure on the Group to reduce the selling price in order to maintain its competitiveness. After taking into account these factors, the management considers that it is reasonable to expect a stable gross margin over the next five years.

19. INVESTMENTS IN ASSOCIATES

	2008 **HK$'000**	2007 HK$'000
Cost of investment in unlisted associates less impairment loss	**10,807**	16,532
Share of post-acquisition reserves	**(5,927)**	(1,971)
	4,880	14,561

Particulars of the associates as at 31st December, 2008 and 2007 are set out in note 45.

Included in the cost of investment in associates is goodwill of HK$3,509,000 (2007: HK$9,234,000) arising on acquisition of associates in prior years.

During the year, the directors of the Company reviewed the carrying amount of the Group's associates in view of the poor performance of certain associates. The recoverable amounts of these associates are determined with reference to the estimated future cash flows expected to be generated by the associates from operations and the proceeds from ultimate disposal of the associates using a discount rate of 10% (2007: 10%). As a result of this review, an impairment loss of HK$5,725,000 (2007: HK$18,193,000) was identified and charged to the consolidated income statement.

19. INVESTMENTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

	2008 **HK$'000**	2007 HK$'000
Total assets	**14,718**	30,288
Total liabilities	**(10,948)**	(11,443)
Net assets	**3,770**	18,845
Group's share of net assets of associates	**1,371**	5,327
Revenue	**112,846**	40,579
Loss for the year	**(15,033)**	(4,191)
Group's share of results of associates for the year	**(4,036)**	(2,125)

20. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment comprises:

	2008 **HK$'000**	2007 HK$'000
Unlisted securities:		
Equity securities	**286**	918

This represents a 5% (2007: 5%) interest in unlisted equity securities issued by a private entity incorporated in Hong Kong, which is engaged in provision of computer technology services in Hong Kong. These investments are measured at cost less impairment at each balance sheet date because the range of reasonable fair values estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

21. OTHER ASSETS

	2008	2007
	HK$'000	HK$'000
Deposit for potential investment (note i)	**11,400**	10,700
Mineral supplier prepayment (note ii)	**11,400**	10,700
	22,800	21,400
Analysed as:		
Current assets	**11,400**	—
Non-current assets	**11,400**	21,400
	22,800	21,400

notes:

(i) On 1st October, 2007, the Group entered into an agreement with an independent third party, pursuant to which the Group has engaged the third party to identify potential investment opportunities in mining operations in the PRC for the period from the date of the agreement to 31st March, 2009. A sum of RMB10 million was paid by the Group to the third party as an initial deposit for such potential investment. If an investment was not eventually consummated by 31st March, 2009 or by an earlier date determined by the Group, the deposit would be fully refunded to the Group.

Subsequent to the balance sheet date, on 31st March, 2009, the Group entered into an agreement with the third party pursuant to which the third party will refund the deposits to the Group in four quarterly installments together with an effective interest rate of 6% per annum during the period from 1st April, 2009 to 31st March, 2010. In April 2009, RMB2.6 million was received from the third party. Details were set out in note 42 (v).

(ii) On 2nd November, 2007, the Group entered into an agreement with a mining company, an independent third party not connected to the Group, pursuant to which the mining company has agreed to supply the Group with its minerals at a pre-determined discount for re-sale inside and outside the PRC through a PRC mining company to be acquired by the Group as set out in note 42(i), for a period of three years from the date of the agreement. In connection with this agreement, the Group has paid the mining company an amount of RMB10 million as prepayment for future mineral supplies. Up to 31st December, 2008, the Group had not made any mineral purchases from the mining company.

On 1st December, 2008, the Group entered into an supplemental agreement with the mining company pursuant to which the prepayment would be refunded to the Group in four quarterly installments together with an effective interest rate of 6% per annum during the year 2009 if the Group has not purchased minerals from the mining company. Accordinly, the amount is classified as a current asset at 31st December, 2008. In April 2009, RMB2.5 million was refunded from the mining company to the Group.

22. CLUB MEMBERSHIPS

	HK$'000
COST	
At 1st January, 2007 and 31st December, 2007	660
Additions	711
At 31st December, 2008	1,371
IMPAIRMENT	
At 1st January, 2007 and 31st December, 2007	60
Impairment loss recognised in the consolidated income statement	35
At 31st December, 2008	95
CARRYING AMOUNT	
At 31st December, 2008	1,276
At 31st December, 2007	600

Club memberships are stated at cost less any identified impairment loss. For the purpose of impairment testing on club memberships, the recoverable amount has been determined based on fair value less costs to sell. The fair value less costs to sell is the second-hand market price less cost of disposal. During the year ended 31st December, 2008, management of the Group recognised an impairment loss of HK$35,000 (2007: nil) of the club memberships was for the excess of carrying amount over the recoverable amount.

23. INVENTORIES

Inventories represent finished goods held for sale.

24. TRADE, BILLS AND OTHER RECEIVABLES

	2008 HK$'000	2007 HK$'000
Trade receivables	**51,790**	91,502
Less: accumulated allowance	**(27,398)**	(55,395)
	24,392	36,107
Value-added-tax receivables	**10,919**	13,748
Rebates receivables	**28,363**	33,936
Other receivables and deposits, net of allowance	**13,146**	53,714
	76,820	137,505
Bills receivable	**673**	431
	77,493	137,936

The Group allows credit period ranged from 30 to 90 days to its trade customers. The following is an aged analysis of the trade and bills receivables (net of allowance) at the reporting date:

	2008 HK$'000	2007 HK$'000
Trade and bills receivables:		
0 to 30 days	**16,828**	21,019
31 to 90 days	**4,698**	9,964
Over 90 days	**3,539**	5,555
	25,065	36,538

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limits. Limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history and good credit rating under the Group's internal credit assessment.

24. TRADE, BILLS AND OTHER RECEIVABLES *(Continued)*

The Group does not hold any collateral over its trade debts. It is the group's policy that trade debts over 180 days are fully provided for because historical experience is such that debts that are past due beyond 180 days are generally not recoverable. The following is an aged analysis of the carrying amounts of trade debts that were past due at the reporting date but for which the Group has not provided for impairment loss because management are of the opinion that the fundamental credit quality of the customers has not deteriorated:

	2008 **HK$'000**	2007 HK$'000
Between 31 to 90 days	**48**	2,259
Over 90 days	**3,539**	5,555
Total	**3,587**	7,814

Movement in the allowance for doubtful debts in respect of trade and other receivables

	2008 **HK$'000**	2007 HK$'000
Balance at beginning of the year	**64,906**	17,419
Exchange adjustments	**3,236**	1,108
Impairment losses recognised for the year	**49,787**	54,525
Amounts written off as uncollectible	**(43,747)**	—
Amounts recovered during the year	**(2,423)**	(8,146)
Balance at end of the year	**71,759**	64,906

Included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of HK$49,787,000 (2007: HK$54,525,000) which were either been placed under liquidation or in severe financial difficulties and therefore the amounts were considered as irrecoverable. The Group does not hold any collateral over these balances.

25. AMOUNT DUE FROM A MINORITY SHAREHOLDER OF A SUBSIDIARY/AMOUNT DUE TO A DIRECTOR/AMOUNT DUE TO AN ASSOCIATE

The amount due from a minority shareholder of a subsidiary is unsecured, non-interest bearing and is expected to realise in the next twelve months from the balance sheet date. The amount due to a director and amount due to an associate are unsecured, non-interest bearing and are repayable on demand.

26. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure banking facilities granted to the Group. As all the bank borrowings are repayable on demand or short-term in nature, the deposits were classified as current assets. All the pledged bank deposits had original maturity of three months or less as at 31st December, 2008 and 2007.

The deposits carry fixed interest rates ranging from 1.81% to 4.35% (2007: 2.70% to 4.35%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

The Group's pledged bank deposits that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	2008 **HK$'000**	2007 HK$'000
Denominated in US$	**30,392**	75,010

27. BANK BALANCES AND CASH

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at market interest rates ranging from 0.25% to 1.75% (2007: 2.22% to 3.34%) per annum and have original maturity of three months or less.

The bank balances and cash of the Group are mainly denominated in RMB and HK$, which is the functional currency of the relevant entities of the Group. Included in bank balances and cash at 31st December, 2008 was an amount in RMB of approximately RMB41,526,000 (2007: RMB65,411,000). RMB is not freely convertible into other currencies.

28. ASSET CLASSIFIED AS HELD FOR SALE/(LIABILITY ASSOCIATED WITH ASSET CLASSIFIED AS HELD FOR SALE)

	HK$'000
Investment property	11,800
Deposit on disposal of investment property	(1,180)
	10,620

Pursuant to an agreement dated 10th November, 2007 entered into between the Group and a purchaser, the Group had agreed to dispose of its investment property to the purchaser. The purchaser paid an initial deposit of HK$1,180,000 at 31st December, 2007 and the disposal was completed during the year ended 31st December, 2008.

29. TRADE AND OTHER PAYABLES

The following is an aged analysis of the trade payables at the balance sheet date:

	2008 **HK$'000**	2007 HK$'000
Trade payables:		
0 to 30 days	**36,258**	34,385
31 to 90 days	**1,404**	2,311
Over 90 days	**7,036**	7,345
	44,698	44,041
Other payables and accruals	**35,482**	38,742
	80,180	82,783

30. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares		Share capital	
	2008 **'000**	2007 '000	**2008** **HK$'000**	2007 HK$'000
Ordinary shares of HK$0.10 each				
Authorised	**1,000,000**	1,000,000	**100,000**	100,000
Issued and fully paid				
At beginning of year	**372,790**	302,100	**37,279**	30,210
Issue of shares in consideration for the acquisition of a subsidiary (note i)	**—**	8,000	**—**	800
Issue of shares in consideration for the acquisitions of associates (note ii)	**—**	15,000	**—**	1,500
Issue of shares upon share subscription (note iii)	**—**	40,000	**—**	4,000
Exercise of share options (note iv)	**—**	7,690	**—**	769
At end of year	**372,790**	372,790	**37,279**	37,279

notes:

(i) On 18th October, 2007, the Group acquired 51% equity interest of Zhuhai Reminda for a cash consideration of RMB2,000,000 and the issue by the Company of 8,000,000 ordinary shares of HK$0.10 each at an offer price of HK$0.90 per share. Details of which are set out in note 35. The fair value of the shares on the date of exchange, represented by their closing market price on that date, was HK$1.39 per share.

(ii) On 18th May, 2007, the Group acquired 50% equity interest of DW Mobile Technology Limited ("DW Mobile") in consideration of the issue by the Company of 9,000,000 ordinary shares of HK$0.10 each at an offer price of HK$0.90 per share. The fair value of the shares on the date of exchange, represented by their closing market price on that date, was HK$1.77 per share.

On 20th September, 2007, the Group acquired 25% equity interest of Intelligence Tech Limited ("Intelligence Tech") for a cash consideration of HK$100,000 and the issue by the Company of 6,000,000 ordinary shares of HK$0.10 each at an offer price of HK$2.00 per share. The fair value of the shares on the date of exchange, represented by their closing market price on that date, was HK$1.10 per share.

30. SHARE CAPITAL OF THE COMPANY *(Continued)*

notes: *(Continued)*

(iii) Pursuant to a subscription agreement dated 25th May, 2007, Galaxy China Opportunities Fund subscribed for 40,000,000 new ordinary shares of HK$0.10 each in the Company at a price of HK$1.35 per share ("subscription price"), representing a discount of approximately 23.73% to the closing market price of the Company's shares on 23rd May, 2007 of HK$1.77 per share ("market price"). The discount on the shares issued of HK$16,800,000, representing the difference between the subscription price and market price, was considered as incremental costs directly attributable to the equity transaction and hence was deducted from the share premium. The proceeds were used as general working capital for the Company. These new shares were issued under the special mandate granted to the directors at the special general meeting of the Company held on 18th June, 2007.

(iv) During the year ended 31st December, 2007, 7,690,000 share options were exercised at HK$1.29 per share, resulting in the issue of a total of 7,690,000 ordinary shares of HK$0.10 each in the Company.

All shares issued as mentioned above ranked pari passu with the then existing shares in issue in all respects.

31. SHARE-BASED PAYMENT TRANSACTIONS

The Company adopted a share option scheme on 14th January, 2004 (the "Scheme") which was effective on 26th January, 2004 and will expire on 26th January, 2014. The primary purpose of the Scheme is to provide incentives to directors, eligible employees and other qualified persons who in the opinion of the board of directors has made or will make contributions which are or may be beneficial to the Group as a whole.

Under the Scheme, the directors of the Company may, subject to certain conditions, grant to any director, employee, suppliers, agents, customers, distributors, business associate or partner, professional or other advisor of, or consultant or contractor to, any member of the Group or any associated company who in the opinion of the board of directors has made or will make contributions which are or may be beneficial to the Group as a whole, options to subscribe for shares of the Company at any price but not less than the higher of (i) nominal value of a share, (ii) the closing price of the shares on the Stock Exchange on the day of grant and (iii) the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

At 31st December, 2008, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 9,722,000 (2007: 9,858,000), representing 2.6% (2007: 2.6%) of the shares of the Company in issue at that date. Without prior approval from the Company's shareholders, (i) the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, and (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time.

Options granted must be taken up within the time period set out in the offer letter and upon payment of HK$1 for each lot of share option granted.

31. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The following table discloses movement of the Company's share options held by employees and consultants (including directors) during the year ended 31st December, 2008 and 2007:

Name	Date of grant	Exercisable period	Exercise price per share HK$	Outstanding at 1.1.2007	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31.12.2007	Forfeited during the year	Outstanding at 31.12.2008
Category I:										
Directors	7.5.2007	7.5.2007 to 6.5.2012	1.29	—	2,750,000	—	—	2,750,000	—	2,750,000
Category II:										
Employees	7.5.2007	7.5.2007 to 6.5.2012	1.29	—	14,562,000	(690,000)	(10,714,000)	3,158,000	(136,000)	3,022,000
Category III:										
Consultants	7.5.2007	7.5.2007 to 6.5.2012	1.29	—	10,950,000	(7,000,000)	—	3,950,000	—	3,950,000
Total for all categories				—	28,262,000	(7,690,000)	(10,714,000)	9,858,000	(136,000)	9,722,000
Exercisable at the end of the year								9,858,000		9,722,000
Weighted average exercise price				—	HK$1.29	HK$1.29	HK$1.29	HK$1.29	HK$1.29	HK$1.29

Consultants rendered consultancy services with regard to the management of the Company's group entities. The Group granted share options to them for recognising their services similar to those rendered by other employees.

During the year ended 31st December, 2007, options were granted on 7th May, 2007 and vested immediately. The estimated fair value of the options granted on that date was HK$14,816,000 which was recognised by the Group as an expense for that year.

The fair value was calculated using the binominal model. The inputs into the model were as follows:

Exercise price	HK$1.29
Expected volatility	65.13%
Expected life	2-5 years
Risk free rate	3.876% to 4.103%
Expected dividend yield	2.526%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 5 years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

No option was granted during the year ended 31st December, 2008.

In respect of the share options exercised during the year ended 31st December, 2007, the weighted average share price at the date of exercise was HK$2.25.

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32. OTHER FINANCIAL LIABILITIES

	2008	2007
	HK$'000	HK$'000
Put option liability		
– Host debt component	**58,168**	53,145
– Embedded non-option derivative	**(5,538)**	—
	52,630	53,145

On 4th September, 2007, the Group and TeleChoice International Limited ("TeleChoice"), an independent third party, entered into an agreement to establish a subsidiary (the "Fulfillment Subsidiary") to engage in the logistics and fulfillment business for Nokia-branded mobile handsets and accessories in the PRC (the "Fulfillment Business"), which is presently operated by Fortune Shanghai. TeleChoice injected HK$50 million for 40% equity interest of the Fulfillment Subsidiary, while the Group injected HK$25 million for 60% equity interest therein. The commencement of the Fulfillment Business by the Fulfillment Subsidiary was subject to the consent to the novation of the Nokia Fulfillment Agreement (the "NF Agreement") from Fortune Shanghai to the Fulfillment Subsidiary by Nokia (China) Investment Company Limited, an independent third party. The NF Agreement was not novated as at 31st December, 2008.

At the time of entering into the agreement, the Company also granted a put option to TeleChoice pursuant to which TeleChoice could require the Company to purchase its entire 40% equity interest in the Fulfillment Subsidiary at a price of HK$50 million during the period from 1st March, 2007 to 31st December, 2008, on condition that the NF Agreement was not novated over from Fortune Shanghai to the Fulfillment Subsidiary. During the period from 4th September, 2007 to 31st December, 2008, TeleChoice was entitled to 40% share of profit attributable to the Fulfillment Business.

The put option liability was considered as a host debt instrument with a not closely related embedded non-option derivative which was linked to the profitability of the Fulfillment Business. At initial recognition, the original effective interest rate for the host debt component was determined based on the estimated future profit to be generated from the Fulfillment Business, with the embedded non-option derivative having a fair value of zero. At balance sheet date, the put option liability was stated at amortised cost using the original effective interest rate of 20% per annum, for which an effective interest expense of HK$9,523,000 (2007: HK$3,145,000) has been recognised in the consolidated income statement for the year ended 31st December, 2008. At 31st December, 2008, the directors reassessed the fair value of the embedded derivative with reference to the actual profit generated from the Fulfillment Business for the year 2008 and determined that there was a fair value gain of HK$5,538,000 (2007: nil), which has been recognised in the consolidated income statement for the year ended 31st December, 2008.

On 19th December, 2008, the Company was notified by TeleChoice that it exercised the put option to require the Company to purchase its entire 40% equity interest in the Fulfillment Subsidiary on 31st December, 2008 as the NF Agreement was not novated over from Fortune Shanghai to the Fulfillment Subsidiary. At 31st December, 2008, HK$4.5 million was paid to TeleChoice. On 15th January, 2009, a further amount of HK$45.5 million was paid to TeleChoice, as disclosed in note 42 (iv). The remaining balance of HK$7.1 million will be repaid during the year 2009.

33. BANK BORROWINGS

	2008 HK$'000	2007 HK$'000
Bank borrowings comprise:		
Bank loans	**51,071**	120,223
Trust receipt loans	**1,589**	—
	52,660	120,223
Secured	**45,660**	112,223
Unsecured	**7,000**	8,000
	52,660	120,223

At the balance sheet date, the bank borrowings of the Group were repayable on demand or within one year.

The exposure of the Group's fixed-rate borrowings and the contractual maturing dates are as follows:

	2008 HK$'000	2007 HK$'000
Fixed-rate borrowings:		
On demand or within one year	**7,752**	20,223
Effective interest rate	**4%**	4.4%

In addition, at 31st December, 2008, the Group had variable-rate borrowings of HK$38,908,000 (2007: HK$94,000,000). Of these amounts, borrowings of HK$6,000,000 (2007: HK$6,000,000) carried interest at prime rate, while the balance carried interest at HIBOR plus 1.3% to 1.625% (2007:1.3%) per annum. The effective interest rates on the Group's variable-rate borrowings were ranged from 3.64% to 5% (2007: 4.51% to 7%) per annum.

33. BANK BORROWINGS *(Continued)*

The Group's borrowings denominated in a currency other than the functional currency of the relevant group entities are set out below:

	2008	2007
	HK$'000	HK$'000
Denominated in HK$	**31,000**	**94,000**

At 31st December, 2008 and 2007, the Group was in breach of certain banking covenants in relation to consolidated tangible net worth and interest coverage ratio. The relevant bank loans at 31st December, 2008 amounted to approximately HK$52.7 million (2007: HK$120.2 million). On discovery of the breach, the directors of the Company informed the lenders and commenced a renegotiation of the terms of the loan with the relevant bankers. As at 31st December, 2008, those negotiations had not been concluded. Accordingly, the loans were classified as current liabilities in the consolidated financial statements for the year ended 31st December, 2008. The negotiations of the terms of loans with the bankers are still in progress. The directors of the Company are confident that their negotiations will ultimately reach a successful conclusion. In any event, should the lenders call for immediate repayment of the loans, the directors of the Company believe that adequate alternative sources of finance are available to ensure that the Group can operate as a going concern.

34. DEFERRED TAX ASSETS

The following are the deferred tax assets recognised and movements thereon during the current and prior year:

	Allowance for inventories	**Allowance for trade and other receivables**	**Total**
	HK$'000	HK$'000	HK$'000
At 1st January, 2007	841	1,856	2,697
Exchange adjustments	25	24	49
Charge to consolidated income statement for the year (note)	(866)	(1,880)	(2,746)
At 31st December, 2007 and 31st December, 2008	—	—	—

note: The deferred tax assets were charged to consolidated financial statements during the year ended 31st December, 2007. In the opinion of directors, it was no longer probable that sufficient taxable profit would be available to allow all of the deferred tax assets to be recovered.

35. ACQUISITION OF A SUBSIDIARY

On 18th October, 2007, the Group acquired 51% of the issued share capital of Zhuhai Reminda for a total consideration of HK$13,276,000. This transaction was accounted for using the purchase method.

The net assets acquired in the transaction, and the goodwill arising are as follows:

	Carrying amount and fair value HK$'000
Net assets acquired:	
Plant and equipment	2,005
Inventories	7,070
Trade and other receivables	7,606
Bank balances and cash	923
Trade and other payables	(7,288)
	10,316
Minority interests	(5,055)
	5,261
Goodwill (note i)	8,015
Total consideration	13,276
Satisfied by:	
Cash	2,073
Issue of shares (note ii)	11,120
Expenses incurred for the acquisition	83
	13,276
Net cash outflow arising on acquisition:	
Cash consideration paid	(2,073)
Cash and cash equivalents acquired	923
Expenses paid for the acquisition	(83)
	(1,233)

notes:

i. The goodwill arising is attributable to the anticipated profitability of the mobile phones retailing business carried on by the subsidiary.

ii. As part of the consideration for the acquisition of Zhuhai Reminda, 8,000,000 ordinary shares of HK$0.10 each in the Company were issued. The fair value of the shares, determined using the published price available at the date of the acquisition, amounted to HK$11,120,000.

35. ACQUISITION OF A SUBSIDIARY *(Continued)*

Zhuhai Reminda contributed approximately HK$8,498,000 and approximately HK$343,000 to the Group's revenue and loss for the period between the date of acquisition and the balance sheet date.

Had the acquisition been completed on 1st January, 2007, total group revenue for the year ended 31st December, 2007 would have been approximately HK$2,787,535,000, and loss for the year would have been approximately HK$253,504,000. This pro forma information is for illustration purposes only and is not necessarily indicative of the revenue and results of the operation of the Group that actually could have been achieved had the acquisition been completed on 1st January, 2007, nor is it intended to be a projection of future results.

36. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2007, the Group acquired a subsidiary and certain associates by the issue of the Company's ordinary shares. Details of the transactions are set out in note 30.

37. OPERATING LEASES

The Group as lessee

During the year, the Group made minimum lease payments of approximately HK$4,827,000 (2007: HK$2,896,000) under operating leases.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable leases in respect of rented premises which fall due as follows:

	2008 **HK$'000**	2007 HK$'000
Within one year	**2,925**	4,927
In the second to fifth years inclusive	**1,924**	4,817
Over five years	**1,520**	2,309
	6,369	12,053

Operating lease payments represent rentals payable by the Group for certain of its office properties and retail shops. Leases are negotiated and rentals are fixed for terms ranging from one to ten years.

The Group as lessor

Property rental income earned during the year was nil (2007: HK$309,000).

At 31st December, 2008 and 2007 the Group had not contracted with tenants for future minimum lease payments.

38. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged to banks to secure general banking facilities made available to the Group.

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
CARRYING VALUE		
Bank deposits	**30,392**	75,010
Asset classified as held for sale	**—**	11,800
	30,392	86,810

39. CONTINGENT LIABILITIES

A subsidiary of the Group is a defendant in a legal action brought by a Taiwanese supplier for a trade payable of HK$4.6 million plus overdue interest and related legal expenses of HK$0.6 million in relation to goods purchased from the supplier in August 2006. The trade payable of HK$4.6 million has been recognised in the consolidated financial statements. However, in the opinion of the directors, it is not probable that it will be eventually required to pay the interest and legal expenses and therefore, no provision for any overdue interest and legal expenses has been made in the consolidated financial statements.

40. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "Scheme") for all its qualifying employees in Hong Kong. The assets of the Scheme are held separately from those of the Group, in funds under the control of trustees. Under the rules of the Scheme, the employer and its employees are required to make contributions to the Scheme at rates specified in the rules. The only obligation of the Group with respect to the Scheme is to make the required contributions under the Scheme.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a fixed rate of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

The total cost charged to the consolidated income statement of approximately HK$616,000 (2007: HK$579,000) represents contributions payable to these schemes by the Group in respect of the current year.

41. RELATED PARTY DISCLOSURES

(a) During the year ended 31st December, 2007, the undertakings given by Mr. Lau to a syndicate of banks in respect of his shareholding in, and management of, the Company were released following the early repayment of the relevant bank loans by the Group.

(b) Details of the Group's outstanding balances with related parties at the balance sheet date are set out in the consolidated balance sheet and note 25.

(c) Details of certain agreements entered into with Mr. Lau during the year which were not completed at 31st December, 2008 are set out in note 42.

(d) Compensation of key management personnel

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

	2008 **HK$'000**	2007 HK$'000
Short-term benefits	**6,291**	6,085
Post-employment benefits	**72**	60
Share-based payment expenses	**—**	2,252
	6,363	8,397

The remuneration of directors and other members of key management was determined by the remuneration committee having regard to the performance of individuals and market trends.

42. OTHER INFORMATION AND POST BALANCE SHEET EVENTS

The Group had the following significant post balance sheet events:

(i) On 24th July, 2007, the Group entered into an agreement (as amended on 27th July, 2007 and 1st November, 2007) with Mr. Lau and his affiliates, pursuant to which the Group agreed to acquire from Mr. Lau and his affiliates the entire equity interest of Richly Giant International Limited ("Richly Giant"), which in turn holds a 40.8% equity interest in a mining company in the PRC (the "PRC Mining Company") for a consideration of HK$367,200,000, to be satisfied by cash of HK$40,000,000 and the balance by the issue of 240,000,000 ordinary shares of HK$0.10 each in the Company at an offer price of HK$1.3633 per share ("Acquisition").

On 12th November, 2007, the Group entered into a further agreement with 佛山市高訊通信發展有限公司 ("Foshan Goldsonic"), another shareholder in the PRC Mining Company, pursuant to which the Group agreed to acquire from that other shareholder a further 10% equity interest in the PRC Mining Company for a consideration of HK$90,000,000 to be satisfied by the issue of 66,016,300 ordinary shares of HK$0.10 each in the Company at an offer price of HK$1.3633 per share ("Further Acquisition").

Pursuant to the above agreements, both vendors agreed to undertake that the profit before tax of the PRC Mining Company for the year ended 31st December, 2008 would not be less than RMB80 million, and that any shortfall in profit would be compensated to the Group based on the respective equity interest in the PRC Mining Company that they dispose to the Group.

On 27th August, 2008, the Group entered into supplemental agreements with both vendors to change the consideration and payment terms of the Acquisition and the Further Acquisition. The consideration of the Acquisition was adjusted downward from HK$367,200,000 to HK$319,653,542, to be satisfied by (i) cash of HK$40,000,000; (ii) 240,000,000 ordinary shares of HK$0.10 each in the Company at an offer price of HK$0.55 per share; (iii) non-interest bearing promissory notes at a nominal value of HK$67,653,542 and (iv) convertible bonds at a nominal value of HK$80,000,000, and the consideration of the Further Acquisition was adjusted downward from HK$90,000,000 to HK$78,346,458, to be satisfied by (i) 66,016,300 ordinary shares of HK$0.10 each in the Company at an offer price of HK$0.55 per share; (ii) non-interest bearing promissory notes at a nominal value of HK$22,037,493 and (iii) convertible bonds at a nominal value of HK$20,000,000. In addition, pursuant to the variation in terms, both vendors agreed to undertake that the profit before tax of the PRC Mining Company for the first twelve months following the completion of acquisition will not be less than RMB72 million, and that any shortfall in profit will be compensated to the Group based on respective equity interest in the PRC Mining Company that they dispose to the Group.

42. OTHER INFORMATION AND POST BALANCE SHEET EVENTS *(Continued)*

On 6th January, 2009, the Group entered into a Termination Deed with Foshan Goldsonic to terminate the Further Acquisition after the transfer of a 10% equity share of the PRC Mining Company from Foshan Goldsonic to Richly Giant, and entered into a further supplemental agreement with Mr. Lau and his affiliates, pursuant to which the Group will acquire a total of 50.8% equity interest in the PRC Mining Company (the "Revised Acquisition") for a revised consideration of HK$398,000,000, which will be satisfied by (i) cash of HK$40,000,000; (ii) 306,016,300 ordinary shares of HK$0.10 each in the Company at an offer price of HK$0.55 per share; (iii) non-interest bearing promissory notes at a nominal value of HK$89,691,035; and (iv) convertible bonds at a nominal value of HK$100,000,000.

At 31st December, 2008 and 2007, a cash deposit of HK$25 million was paid by the Group.

The Revised Acquisition was approved by the Company's independent shareholders in a special general meeting held on 18th February, 2009. Completion of the Revised Acquisition is subject to fulfillment of other condition precedents.

(ii) On 17th October, 2007, the Group and Mr. Lau entered into an agreement pursuant to which Mr. Lau will acquire a 49% interest in the Group's mobile phone distribution business at a cash consideration of HK$57,800,000. The transaction was approved by the Company's shareholders in a special general meeting held on 18th December, 2007 and its completion is subject to fulfillment of other condition precedents. The transaction has not been completed at the report date.

(iii) On 30th December, 2008, the Group entered into a memorandum of understanding ("MOU") with Shanghai Eternal Asia Supply Chain Management Limited, an independent third party (the "Purchaser"), pursuant to which the Group intended to dispose of certain equity interests in Shanghai TeleFortune Trading Company Limited ("Shanghai Telefortune"), a wholly owned subsidiary of the Company, to the Purchaser (the "Possible Disposal"). On 9th January, 2009, the Purchaser paid a sum of HK$55 million as earnest monies to the Company, which would be applied as consideration of the Possible Disposal if the Possible Disposal materialised to completion. If the Possible Disposal did not materialise to completion, the earnest monies would be refunded to the Purchaser together with interest at 6% per annum. On 10th March, 2009, the Possible Disposal was expired and the Group refunded the earnest monies of HK$55 million with interest of HK$0.5 million to the Purchaser.

(iv) On 15th January, 2009, the Group paid HK$45.5 million to TeleChoice to settle part of the other liabilities as set out in note 32.

(v) As set out in note 21(i), the Group has engaged a third party to identify potential investment opportunities in mining operations in the PRC during the period from 1st October, 2007 to 31st March, 2009 and the Group paid RMB10 million to the third party as an initial deposits for such potential investment. On 31st March, 2009, the Group entered into an agreement with the third party, pursuant to which the third party will refund the deposits to the Group in four quarterly installments together with an effective interest rate of 6% per annum during the period from 1st April, 2009 to 31st March, 2010. In April 2009, RMB2.6 million was received from the third party.

43. SUMMARISED BALANCE SHEET OF THE COMPANY

	2008	2007
	HK$'000	HK$'000
Investments in subsidiaries	**41,148**	41,148
Investment in an associate	**—**	618
Amounts due from subsidiaries	**238,873**	300,734
Other current assets	**4,762**	545
Amounts due to subsidiaries	**(6,520)**	(2,020)
Other current liabilities	**(1,761)**	(1,841)
Bank borrowings	**(31,000)**	(94,000)
	245,502	245,184
Share capital	**37,279**	37,279
Reserves	**208,223**	207,905
	245,502	245,184

Notes to the Consolidated Financial Statements

For the Year Ended 31st December, 2008

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2008 and 31st December, 2007 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company	Principal activity
Express Fortune Holdings Limited	British Virgin Islands ("BVI")	Ordinary US$100	100%	Investment holding
Express Fortune Limited	Hong Kong	Ordinary HK$10 Non-voting deferred HK$5,000,000 (note)	100%	Maintaining the corporate office
Fortune Shanghai	Wholly foreign owned enterprise established in the PRC	US$28,100,000	100%	Trading in mobile phones
Fortune Telecom International Company Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
Shanghai Telefortune	Wholly foreign owned enterprise established in the PRC	US$6,000,000	100%	Trading in mobile phones
Shanghai Yuanjia	Wholly foreign owned enterprise established in the PRC	US$6,000,000	100%	Trading in mobile phones
Synergy Technologies	Hong Kong	Ordinary HK$5,000,000	100%	Trading in computer products

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company	Principal activity
Telefortune	Hong Kong	Ordinary HK$40,000,000	100%	Investment holding and provision of consultancy services in trading of mobile phones
Top Emperor Investments Limited	Hong Kong	Ordinary HK$10,000	100%	Property holding
Zhuhai Reminda	Sino-foreign equity joint ventures established in the PRC	RMB10,000,000	51%	Trading in mobile phones

The Company directly holds the interest in Express Fortune Holdings Limited, all other interests shown above are indirectly held by the Company.

The principal activities are carried out in the place of incorporation/establishment except for Express Fortune Holdings Limited and Telefortune which mainly carried out businesses in the PRC.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

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

note: The deferred shares carry practically no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective company or to participate in any distribution on winding up.

45. PARTICULARS OF ASSOCIATES

Details of the Company's associates at 31st December, 2008 and 31st December, 2007 are as follows:

Name	Form of business structure	Place of incorporation/ operation	Nominal value of issued capital/ registered capital held indirectly by the Company	Principal activities
Artchief Industries Limited	Incorporated	Hong Kong	50%	Trading in electronic products
Intelligence Tech	Incorporated	Hong Kong	25%	Development and distribution of mobile phones
DW Mobile (note)	Incorporated	BVI	50%	Trading in mobile phones

note: DW Mobile was disposed of during the year ended 31st December, 2008.

Financial Summary

RESULTS

	Nine months period ended 31st December,	Year ended 31st December,			
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008 HK$'000**
Revenue	2,086,140	2,664,254	3,046,805	2,744,597	**2,097,593**
Cost of sales	(1,993,615)	(2,569,618)	(2,933,472)	(2,838,162)	**(2,063,001)**
Gross profit (loss)	92,525	94,636	113,333	(93,565)	**34,592**
Other income	5,643	13,485	17,904	17,791	**11,262**
Selling and distribution costs	(15,210)	(31,138)	(36,716)	(50,623)	**(23,092)**
Administrative expenses					
– share-based payment expenses	—	—	—	(14,816)	**—**
– other administrative expenses	(19,314)	(27,710)	(24,122)	(31,490)	**(29,090)**
Allowance for trade and other receivables	(847)	(7,029)	(5,380)	(46,379)	**(47,364)**
Impairment loss recognised in respect of available-for-sale investment	—	—	—	—	**(632)**
Impairment loss recognised in respect of goodwill	—	—	—	—	**(5,105)**
Impairment loss recognised in respect of interests in associates	—	—	—	(18,193)	**(5,725)**
Fair value gain on an investment property	—	200	60	2,240	**—**
Fair value gain on an embedded non-option derivative	—	—	—	—	**5,538**
Surplus arising on revaluation of an investment property	1,800	—	—	—	**—**
Gain on disposal of an associate	—	—	—	—	**104**
Share of results of associates	—	—	—	(2,125)	**(4,036)**
Finance costs	(12,788)	(22,100)	(27,535)	(26,350)	**(11,837)**
Profit (loss) before taxation	51,809	20,344	37,544	(263,510)	**(75,385)**
Income tax expense	(9,089)	(4,137)	(6,205)	(3,337)	**(3,459)**
Profit (loss) for the period/year	42,720	16,207	31,339	(266,847)	**(78,844)**
Attributable to:					
Equity holders of the parent	42,916	11,380	31,339	(266,679)	**(78,719)**
Minority interests	(196)	4,827	—	(168)	**(125)**
	42,720	16,207	31,339	(266,847)	**(78,844)**

Financial Summary

ASSETS AND LIABILITIES

	At 31st December,				
	2004 HK$'000	2005 HK$'000	2006 HK$'000	2007 HK$'000	**2008** **HK$'000**
Total assets	873,500	682,513	1,183,024	520,982	**385,332**
Total liabilities	(515,986)	(328,599)	(786,856)	(260,843)	**(190,552)**
	357,514	353,914	396,168	260,139	**194,780**
Equity attributable to equity holders of the parent	348,954	353,156	395,410	255,063	**189,498**
Share option reserve of a subsidiary	—	758	758	—	**—**
Minority interests	8,560	—	—	5,076	**5,282**
	357,514	353,914	396,168	260,139	**194,780**