# FIRST MOBILE GROUP HOLDINGS LIMITED
# 第一電訊集團有限公司

Stock code : 865
股票編號 : 865

FIRST MOBILE GROUP

ANNUAL REPORT 2009 二零零九年年報

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## BOARD OF DIRECTORS

NG KOK HONG
NG KOK TAI
NG KOK YANG

## COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

MAH KWONG CHEE DYLAND

## REGISTERED OFFICE

P.O. BOX 309, UGLAND HOUSE,
GRAND CAYMAN,
KY1-1104 CAYMAN ISLANDS

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

SUITE 1915, 19TH FLOOR,
GRANDTECH CENTRE, 8 ON PING STREET,
SHATIN, NEW TERRITORIES, HONG KONG

## COMPANY WEBSITE

WWW.FIRSTMOBILE.COM

## AUDITOR

ANDA CPA LIMITED

## LEGAL ADVISER AS TO HONG KONG LAW

HAMMONDS

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

BUTTERFIELD FUND SERVICES (CAYMAN) LIMITED
BUTTERFIELD HOUSE, 68 FORT STREET,
P.O. BOX 705, GRAND CAYMAN,
KY1-1107 CAYMAN ISLANDS

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

TRICOR ABACUS LIMITED
26TH FLOOR, TESBURY CENTRE,
28 QUEEN'S ROAD EAST,
WANCHAI, HONG KONG

On behalf of the Board of Directors of First Mobile Group Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group" or "FMG"), I hereby present the Annual Report of the Company for the financial year ended 31 December 2009 ("FY2009").

2009 has been a very challenging year for the Group. The Group recorded a total revenue of HK$3,272 million for FY2009, representing a decrease of 56% from the previous financial year. The loss attributable to owners of the Company was HK$2,164 million for FY2009.

At the request of the Company, dealing in the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") has been suspended since 27 November 2009.

On 17 December 2009, the Company appointed Deloitte Touche Tohmatsu ("Deloitte") as its Independent Financial Adviser to review the financial, operational and business position of the Group and to assist the Company in formulating a turnaround strategy and a workout proposal with the Company's key trade and bank creditors.

In its letter to the Company dated 3 June 2010, the Stock Exchange had set out the conditions for the resumption of trading in the Company's shares on the Stock Exchange, and said conditions were published in the Company's announcement on 7 June 2010.

The Company, together with its financial and legal advisors, are currently working on the resumption proposal to address all the conditions raised by the Stock Exchange and the Company will submit said resumption proposal to the Stock Exchange as soon as practicable.

On 25 June 2010, an exclusivity agreement (the "Exclusivity Agreement") was entered into between the Company, Asia Debt Management Hong Kong Limited and its nominee Jinwu Limited (the "Investor"), the major shareholders of the Company and Deloitte for the proposed restructuring of the Company (the "Proposed Restructuring"). In accordance with the terms of the Exclusivity Agreement, it was determined on 12 August 2010 that the Proposed Restructuring will be carried out by way of a Scheme of Arrangement pursuant to section 166 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

To this end, the Company entered into a subscription agreement with the Investor on 27 August 2010 (the "Subscription Agreement"). Pursuant to the Subscription Agreement, and subject to the terms and conditions therein, the Company agreed to allot and issue to the Investor and the Investor agreed to subscribe for new shares in the Company for a total cash consideration of HK$162 million. This proposed subscription for new shares, together with the proposed capital reorganisation, proposed creditors schemes and Group reorganisation, and the Investor's proposed application for the granting of a whitewash waiver, are the principal components of the Proposed Restructuring. Details of the Proposed Restructuring are further described in the Company's announcement on 16 September 2010.

## LOOKING AHEAD

The Group will remain focused on its core business of mobile phone trading and distribution, and in particular, will further develop and grow its house brand mobile phone distribution business. Since 2008, the Group has been marketing and distributing house brand mobile phones in key emerging markets and this focus is set to continue for the current financial year.

Additionally, we will continue to explore viable and profitable business opportunities in the near future to enhance shareholders’ value and strengthen the Group’s financial foundations.

It is envisaged that the financial position of the Group will be improved upon the successful implementation of the Proposed Restructuring.

## ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to express my most sincere gratitude to all our shareholders, management team and dedicated staff, bankers, creditors, professional advisors, customers and business partners for your continued support and understanding through this difficult and challenging period.

**Ng Kok Hong**
*Executive Chairman*

Hong Kong, 21 September 2010

## BUSINESS REVIEW

During the financial year under review, the Group experienced a significant contraction of its working capital as a result of various external factors, including the withdrawal of credit facilities by the Group's banks. Consequently, the Group was unable to sustain its usual working capital cycle, and this led to a significant curtailment of its ability to purchase from its key suppliers, which in turn created a further downward spiralling of the situation.

To minimise the impact of the then financial uncertainties and to reduce its overheads and financial commitments, the Group ceased its retail business in Malaysia and disposed its Hong Kong retail business during the year.

## FINANCIAL REVIEW

### OVERVIEW

The Group recorded a turnover of HK$3,263 million in the financial year ended 31 December 2009 ("FY2009"), representing a decrease of 56% over the previous financial year. The decrease in turnover is mainly attributed to the generally weak market conditions in the region for the most part of the year and the Group's financial situation following the significant withdrawal of trade credit facilities.

The loss attributable to owners of the Company was HK$2,164 million for FY2009, primarily due to the impairment of trade receivables of HK$1,850 million for the year and included under general and administrative expenses.

Loss per share from continuing operation was HK109.80 cents for FY2009 as compared to an earnings per share of HK2.67 cents for the preceding year.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2009, bank and cash balances of the Group were approximately HK$61 million (2008: HK$507 million), of which approximately HK$43 million (2008: HK$409 million) were pledged for general banking facilities.

The Group's gearing ratio (measured as total borrowings over total assets) as at 31 December 2009 was 336% (2008: 25%).

As at 31 December 2009, investment property, freehold properties and certain leasehold land and buildings of the Group with carrying values of approximately HK$54 million (2008: HK$56 million) were pledged as security for the Group's general banking facilities.

### CAPITAL STRUCTURE

On 23 October 2009, the subscription rights attaching to 300,000 share options were exercised at the subscription price of HK$0.265 per share, resulting in the issuance of 300,000 new shares in the Company of HK$0.10 each for a total cash consideration, before expenses, of HK$79,500.

There were no other changes in the Company's share capital during the year.

## FINANCIAL RISK MANAGEMENT

Details of the Group's financial risk management are set out in note 6 to the financial statements.

## CAPITAL COMMITMENTS

The Group and the Company did not have any significant capital commitments at 31 December 2009 and 2008.

Details of commitments under operating leases are set out in note 39(a) to the financial statements.

## CONTINGENT LIABILITIES

The Group and the Company did not have any significant contingent liabilities at 31 December 2009 and 2008.

## EMPLOYEES

As at 31 December 2009, the Group had 498 (2008: 726) employees. The total of employee remuneration, including that of the Directors, for the year ended 31 December 2009 amounted to approximately HK$85 million (2008: HK$102 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition, the Group has share option schemes for Directors and employees, details of which are disclosed in the section on "Share Option Scheme" in the Directors' Report and note 36 to the financial statements.

## STRATEGIES FOR 2010

The Group will remain focused on its core business of mobile phone trading and distribution, and in particular, will further develop and grow its house brand mobile phone distribution business. Since 2008, the Group has been marketing and distributing house brand mobile phones in key emerging markets and this focus is set to continue into the current financial year.

Additionally, the Group will continue to explore viable and profitable business opportunities in the near future to enhance shareholders' value and strengthen its financial foundations.

## EXECUTIVE DIRECTORS

**Mr. NG Kok Hong**, aged 46, Executive Chairman of the Group. Mr. Ng is involved in the strategic planning and operation of the Group. Since he co-founded the business with Mr. Ng Kok Tai in 1989 to distribute mobile phones in Malaysia, Mr. Ng Kok Hong has been actively involved in the mobile phone industry. Mr. Ng has successfully grown the Group's business to cover most major markets in the Asia Pacific region. Mr. Ng has contributed significantly to the strategic relationship between the Group and various renowned mobile handset manufacturers.

**Mr. NG Kok Tai**, aged 49, Executive Deputy Chairman of the Group. He is also the President and Executive Director of First Mobile Group Sdn. Bhd., Mobile Distribution (M) Sdn. Bhd., Exquisite Model Sdn. Bhd. as well as a Director of First Telecom International Limited. He began his career in the Malaysian financial sector in 1981. In 1989, he and Mr. Ng Kok Hong ventured into the mobile phone industry and became one of the top mobile phone dealers in Kuala Lumpur. He is the elder brother of Mr. Ng Kok Hong and Mr. Ng Kok Yang.

**Mr. NG Kok Yang**, aged 42, Chief Executive Officer of the Group. Having obtained his law degree from the University of London, he read for the Bar at Lincoln's Inn and was admitted to the Bar of England and Wales in 1991. Upon his return to Malaysia, he was admitted to the rolls as an Advocate and Solicitor of Malaysia. From 1992 to 1996, Mr. Ng Kok Yang practised law in Malaysia. In 1996, he joined First Telecom International Limited and shared in Mr. Ng Kok Hong's vision of a global mobile phone distribution network. Since then, his contribution has been invaluable to the growth of the Group, including establishing a strong supply network worldwide as well as a solid and extensive distribution channel in Asia Pacific. He is the younger brother of Mr. Ng Kok Hong and Mr. Ng Kok Tai.

## SENIOR MANAGEMENT

**Mdm. ENG Sew Chin**, aged 62, Group Treasurer. Mdm. Eng is also the Chief Financial Officer of First Mobile Group Sdn. Bhd. in Malaysia and has more than 37 years of experience in the accounting and financial field. Prior to joining the Group in July 2000, Mdm. Eng was the Financial Controller of a big group of companies involved in manufacturing, services, trading, and plantations in Malaysia. Mdm. Eng is the elder sister of Mr. Ng Kok Hong, Mr. Ng Kok Tai and Mr. Ng Kok Yang.

**Mr. MAH Kwong Chee Dyland**, aged 42, Chief Financial Officer of the Group and the Company Secretary and Qualified Accountant of the Company. Mr. Mah is a fellow of the Association of Chartered Certified Accountants and brings with him over 19 years of professional experience. Prior to joining the Group, he has held senior positions around the region with multinational corporations and a public-listed company.

**Mr. WONG Wai Hoe**, aged 42, Senior Vice President (Hong Kong Operation) of First Telecom International Limited. Mr. Wong is a fellow of the Association of Chartered Certified Accountants. Prior to joining the Group in 2000, Mr. Wong worked in the corporate finance department of a merchant bank in Malaysia and an accounting firm in London.

The directors of the Company (the "Directors") hereby submit to shareholders their report together with the audited financial statements of First Mobile Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities and other particulars of the principal subsidiaries are set out in note 41 to the financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 7 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 19.

The Directors do not recommend the payment of any dividend for the year ended 31 December 2009.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in consolidated statement of changes in equity and note 35(b) to the financial statements.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$131,400.

## PROPERTY, PLANT AND EQUIPMENT, LEASEHOLD LAND AND INVESTMENT PROPERTY

Details of the movements in property, plant and equipment, leasehold land and investment property are set out in notes 18, 19 and 20 to the financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 34 to the financial statements.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the published results, assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 78. This summary does not form part of the audited financial statements.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31 December 2009, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

## DIRECTORS

The Directors in office during the year and up to the date of this report are:

**Executive Directors**
Mr. Ng Kok Hong
Mr. Ng Kok Tai
Mr. Ng Kok Yang

**Independent Non-Executive Directors ("INED")**
Mr. See Tak Wah
Mr. Wu Wai Chung Michael
Mr. Wong Tin Sang Patrick

All three INEDs resigned with effect from 2 December 2009.

In accordance with Article 116 of the Company's Articles of Association, Mr. Ng Kok Yang shall retire at the forthcoming annual general meeting and, being eligible, offers himself for re-election.

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

A profile of the Directors and senior management are set out on page 7.

## DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company under which they act as executive Directors for an initial term of three years commencing from 1 January 2001 and shall continue thereafter until terminated by either party giving to the other not less than six months' notice in writing. The executive Directors are entitled to a discretionary bonus calculated as a percentage of the audited consolidated profit of the Group attributable to owners of the Company. The percentage shall be determined by the Board of Directors but in any case the aggregate amount payable in each financial year to all the executive Directors of the Company shall not exceed 10% of such profit.

Based on the audited financial results of the Group for the year ended 31 December 2009, the executive Directors shall not be entitled to any discretionary bonus for the year ended 31 December 2009 (2008: waived).

Save as disclosed above, the Director standing for re-election at the forthcoming annual general meeting does not have a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company or 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.

## SHARE OPTION SCHEME

Details of Share Option Scheme of the Company are set out in note 36 to the financial statements.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2009, the interests and short positions of the Directors and chief executive of the Company in the shares of the Company (the "Shares"), underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

### SHARES IN THE COMPANY

| | Number of Shares of HK$0.10 each | | | | Percentage |
|---|---|---|---|---|---|
| Name of Director | Personal interests | Family interests (note (i)) | Corporate interests (note (ii)) | Total | of issued share capital |
| Mr. Ng Kok Hong | 596,766,389 | 9,088,625 | — | 605,855,014 | 31.14% |
| Mr. Ng Kok Tai | — | — | 596,766,389 | 596,766,389 | 30.67% |
| Mr. Ng Kok Yang | 146,944,889 | — | — | 146,944,889 | 7.55% |

Notes:

(i) These Shares are held by Ms. Tan Sook Kiang, the spouse of Mr. Ng Kok Hong, and therefore Mr. Ng Kok Hong is deemed by virtue of the SFO to be interested in these Shares.

(ii) These Shares are held by NKT Holdings Sdn. Bhd., a company incorporated in Malaysia, which is owned as to 50% by Mr. Ng Kok Tai and as to 50% by Ms. Siew Ai Lian, the spouse of Mr. Ng Kok Tai. Mr. Ng Kok Tai is deemed by virtue of the SFO to be interested in these Shares.

**SHARES IN AN ASSOCIATED CORPORATION**

| | Number of non-voting deferred shares of HK$1.00 each in First Telecom International Limited | | |
|---|---|---|---|
| **Name of Director** | **Personal interests** | **Family interests** (note) | **Total** |
| Mr. Ng Kok Hong | 1,239,326 | 18,878 | 1,258,204 |
| Mr. Ng Kok Tai | 1,239,326 | — | 1,239,326 |
| Mr. Ng Kok Yang | 305,160 | — | 305,160 |

Note: These shares are held by Ms. Tan Sook Kiang, the spouse of Mr. Ng Kok Hong, and therefore Mr. Ng Kok Hong is deemed by virtue of the SFO to be interested in these shares.

Save as disclosed above, as at 31 December 2009, none of the Directors, chief executive or their associates had any interests, short positions or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors (including their spouses or children under 18 years of age) or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

Save as disclosed in the section headed "Directors' Interests and Short Positions in Shares" above, as at 31 December 2009, there were no other persons who had interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## COMPETING INTEREST

None of the Directors or the management shareholders of the Company had an interest in a business which competes or may compete with the business of the Group.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

| | |
|---|---|
| **Sales** | |
| – the largest customer | 4.6% |
| – five largest customers combined | 15.3% |
| **Purchases** | |
| – the largest supplier | 52.1% |
| – five largest suppliers combined | 71.1% |

None of the Directors, their associates or any shareholder (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

## CORPORATE GOVERNANCE

The Company's Corporate Governance Report is set out on pages 13 to 16.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

## AUDITOR

PricewaterhouseCoopers resigned as auditors of the Company on 2 June 2010 and ANDA CPA Limited was appointed by the Directors to fill the casual vacancy so arising. There have been no other changes of auditors in the past three years. A resolution for re-appointment of ANDA CPA Limited as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Ng Kok Hong**
*Executive Chairman*
Hong Kong, 21 September 2010

## CORPORATE GOVERNANCE PRACTICES

The Company's code on corporate governance practices is modelled after and adopted by reference to the provisions of the Code on Corporate Governance Practices (the "CG Code") as set out by the Stock Exchange of Hong Kong Limited (the "Stock Exchange") in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Company has not complied with the CG Code throughout the financial year ended 31 December 2009 following the resignations of all three of the Company's independent non-executive Directors ("INED") on 2 December 2009. Arrangements will be made to appoint the appropriate number of INEDs to reconstitute the Board of Directors and the Audit, Nomination and Remuneration Committees as soon as practicable to comply with the CG Code.

## BOARD OF DIRECTORS

The Board of Directors (the "Board") is presently composed of three members, comprising of executive Directors. All Directors had served throughout the year ended 31 December 2009. The Directors are, collectively and individually, aware of their responsibilities to the shareholders. The Directors' profiles are set out on page 7. The three executive Directors are brothers.

All the INEDs are appointed for a specific term. The Board evaluates the independence of all INEDs on an annual basis and has received written confirmation from each INED regarding his independence. During the year ended 31 December 2009, the Board is satisfied that all such Directors are in full compliance with the independence guideline as laid down in the Listing Rules.

The Board members as at 31 December 2009 were:

**Executive Directors**
Mr. Ng Kok Hong *(Executive Chairman)*
Mr. Ng Kok Tai *(Executive Deputy Chairman)*
Mr. Ng Kok Yang *(Chief Executive Officer)*

The INEDs in office during the year and up to 2 December 2009 were:

**Independent Non-Executive Directors**
Mr. See Tak Wah
Mr. Wu Wai Chung Michael
Mr. Wong Tin Sang Patrick

All three INEDs resigned with effect from 2 December 2009.

The Board is responsible for directing the Group to success and enhancing shareholders' value by formulating the Group's overall strategy, key objectives and policies. The Board monitors and oversees the operating and financial performance of the Group pursuant to these objectives.

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

The Board has also delegated the day-to-day management and operation of the Group's business to the management team.

The Board meets regularly at least four times a year and additional meetings are convened as and when the Board considers necessary. In 2009, five Board meetings were held. The Directors' attendance at Board meetings held during the year is set out below:

| | **Attendance/ No. of meeting held** |
|---|---|
| **Executive Directors** | |
| Mr. Ng Kok Hong *(Executive Chairman)* | 5/5 |
| Mr. Ng Kok Tai *(Executive Deputy Chairman)* | 3/5 |
| Mr. Ng Kok Yang *(Chief Executive Officer)* | 3/5 |
| **Independent Non-Executive Directors** | |
| Mr. See Tak Wah | 5/5 |
| Mr. Wu Wai Chung Michael | 5/5 |
| Mr. Wong Tin Sang Patrick | 5/5 |

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of Chairman and Chief Executive Officer are segregated and their positions held by different individuals to ensure their respective independence, accountability and responsibility.

The Chairman is responsible for providing leadership to and overseeing the function of the Board while the Chief Executive Officer is responsible for implementing the Board's strategy and managing the Group's business and operations.

## NON-EXECUTIVE DIRECTORS

There are currently no non-executive Directors on the Board following the resignation of all three INEDs on 2 December 2009.

## AUDIT COMMITTEE

The Audit Committee was established on 15 December 2000 and during the year up to 2 December 2009, comprised the three INEDs:

Mr. See Tak Wah *(Committee Chairman)*
Mr. Wu Wai Chung Michael
Mr. Wong Tin Sang Patrick

All three INEDs resigned with effect from 2 December 2009

The terms of reference of the Audit Committee was revised on 17 April 2009 in accordance with the requirements of the CG Code as set out by the Stock Exchange. The primary duties of the Audit Committee include the review of financial information, overseeing the financial reporting system and internal control procedures as well as maintaining a working relationship with the external auditors.

In 2009, two Audit Committee meetings were held to review, consider and discuss the appointment, scope, plan and fee of the external auditors; the external and internal auditors' audit findings covering internal control and risk management issues; the interim and annual financial results and statements and other financial reporting matters. Attendance of the members at Audit Committee meetings held during the year is set out below:

| | **Attendance/ No. of meeting held** |
|---|---|
| Mr. See Tak Wah *(Committee Chairman)* | 2/2 |
| Mr. Wu Wai Chung Michael | 2/2 |
| Mr. Wong Tin Sang Patrick | 2/2 |

The audited financial results and statements of the Company for the year ended 31 December 2009 have not been reviewed by the Audit Committee as there were no INEDs to constitute the Audit Committee.

## REMUNERATION COMMITTEE

The Remuneration Committee was established on 9 March 2006 and during the year up to 2 December 2009, was made up of the three INEDs:

Mr. Wong Tin Sang Patrick *(Committee Chairman)*
Mr. Wu Wai Chung Michael
Mr. See Tak Wah

All three INEDs resigned with effect from 2 December 2009

The terms of reference of the Remuneration Committee was formulated in accordance with the requirements of the CG Code. The Remuneration Committee is responsible for developing the remuneration policies of Directors and senior management.

The Remuneration Committee met on 21 January 2009 to consider the remuneration of executive Directors and senior management for the year 2009 and submitted their recommendations to the Board for approval. Attendance of the members at Remuneration Committee meetings held during the year is set out below:

| | **Attendance/ No. of meeting held** |
|---|---|
| Mr. Wong Tin Sang Patrick *(Committee Chairman)* | 1/1 |
| Mr. Wu Wai Chung Michael | 1/1 |
| Mr. See Tak Wah | 1/1 |

## NOMINATION COMMITTEE

The Nomination Committee was established on 9 March 2006 and during the year up to 2 December 2009, was made up of the three INEDs:

Mr. Wu Wai Chung Michael *(Committee Chairman)*
Mr. Wong Tin Sang Patrick
Mr. See Tak Wah

All three INEDs resigned with effect from 2 December 2009

The terms of reference of the Nomination Committee was formulated in accordance with the requirements of the CG Code. The Nomination Committee is responsible for making recommendations to the Board on the appointment of Directors.

As there was no selection and recommendation of candidates for directorship during the year, no meeting of the Nomination Committee was held.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct (the "Code of Conduct") governing securities transactions by its Directors modelled on terms no less exacting than the required standard as set out in Appendix 10 of the Listing Rules, as amended from time to time.

Having made specific enquiry, all Directors have confirmed compliance with the Code of Conduct throughout the year ended 31 December 2009.

Relevant employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subjected to similar compliance.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group and that the financial statements are issued in accordance with statutory requirements and applicable accounting standards.

## INTERNAL CONTROLS

A sound and effective internal control system is important to safeguard the shareholders' interest and the Group's assets. During the year, the Board had reviewed the effectiveness of the system of internal control of the Group. The review covers all material controls, including financial, operational and compliance controls and risk management functions of the Group.

Additionally, the Company shall appoint an independent professional firm to perform a review on the Group's internal control system and to take remedial actions to rectify control failings or weaknesses, if any, that the independent professional firm may identify or recommend.

## AUDITOR'S REMUNERATION

ANDA CPA Limited ("Anda") was appointed as the Company's external auditor. The external auditor is primarily responsible for providing audit services in connection with the annual consolidated financial statements. During the year, the total remuneration in respect of audit services provided by Anda amounted to approximately HK$1,100,000.

## INVESTOR RELATIONS

The Company maintains a website at www.firstmobile.com to disseminate all necessary information to shareholders, including but not limited to annual reports, interim reports, announcements, circulars, notices of shareholders' meetings and media releases.

## TO THE SHAREHOLDERS OF
## FIRST MOBILE GROUP HOLDINGS LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

We were engaged to audit the consolidated financial statements of First Mobile Group Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 19 to 77, which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' responsibility for the financial statements

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

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work and the material uncertainty relating to the going concern basis as described in the basis for disclaimer of opinion paragraphs, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the basis for disclaimer of opinion paragraphs, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for disclaimer of opinion

**(1) Scope limitation – opening balances and corresponding figures**

The consolidated financial statements of the Group for the year ended 31 December 2008 which form the basis for the corresponding figures presented in the current year's consolidated financial statements were not audited by us. There were no satisfactory audit procedures to ascertain the existence, accuracy, presentation and completeness of the opening balances and corresponding figures shown in the current year's consolidated financial statements.

**(2) Scope limitation – inventories**

We were initially appointed as auditor subsequent to the end of the reporting period of 31 December 2009. In consequence we were unable to attend the physical count of the Group's inventories as at 31 December 2009 and 2008. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the existence, quantities, conditions and carrying amounts of these inventories appearing in the consolidated statements of financial position of approximately HK$14,258,000 and HK$551,687,000 as at 31 December 2009 and 2008 respectively.

**(3) Scope limitation – disposal of subsidiaries**

As further explained in note 37(a) to the consolidated financial statements, the Group had disposed of its entire interests in certain subsidiaries to two independent third parties during the year. The Directors have represented to us that they were unable to obtain certain books and records of the disposed subsidiaries following the disposals. Due to lack of complete books and records of these disposed subsidiaries, we are unable to assess as to whether the value of the related balances were free from material misstatements, as particularly highlighted below:

(i) the net assets, in aggregate, of approximately HK$12,679,000 disposed of by the Group as at the disposal dates and hence the gain on disposal of approximately HK$7,321,000 arising thereon;

(ii) the net cash inflow of cash and cash equivalents of approximately HK$17,514,000 in respect of the disposal included in the consolidated statement of cash flows; and

(iii) turnover of approximately HK$104,150,000 and loss for the year of approximately HK$893,000 in relation to the disposed subsidiaries included in the consolidated income statement for the period up to the disposal dates.

**(4) Material uncertainty relating to the going concern basis**

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements which explains that a proposal for the financial restructuring of the Group and resumption of trading in the Company's shares (the "Restructuring and Resumption Proposal") will be submitted to the Stock Exchange of Hong Kong Limited (the "Stock Exchange") as soon as practicable.

The consolidated financial statements have been prepared on a going concern basis on the assumption that the Restructuring and Resumption Proposal of the Group will be successfully completed, and the Group will continue to meet in full its financial obligations as they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from a failure to complete the Restructuring and Resumption Proposal. We consider that the disclosures are adequate. However, in view of the extent of the material uncertainty relating to the completion of the restructuring, we disclaim our opinion in respect of the material uncertainty relating to the going concern basis.

Any adjustment that might have been found to be necessary in respect of the matters set out in point (1) to (3) above would have significant consequential effects on the financial positions of the Group as at 31 December 2009 and 2008, the Group's results and its cash flows for the two years then ended, and the related disclosures thereof in the consolidated financial statements.

## Disclaimer of opinion: disclaimer on view given by the financial statements

Because of the significance of the scope limitation and the material uncertainty relating to going concern basis as described in the basis for disclaimer of opinion paragraphs, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**ANDA CPA Limited**
*Certified Public Accountants*
**Chen Chi Hing**
Practising Certificate Number P05068

Hong Kong, 21 September 2010

For the year ended 31 December 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **CONTINUING OPERATION** | | | |
| **Revenue** | 8 | **3,106,161** | 7,115,314 |
| Cost of sales | | **(3,094,463)** | (6,796,584) |
| **Gross profit** | | **11,698** | 318,730 |
| Other income and gains | 9 | **13,131** | 13,338 |
| Selling and distribution expenses | | **(51,054)** | (42,520) |
| General and administrative expenses | | **(1,959,543)** | (121,745) |
| Other operating expenses | | **(40,573)** | (40,860) |
| **(Loss)/profit from operations** | | **(2,026,341)** | 126,943 |
| Finance costs | 10 | **(97,839)** | (45,603) |
| Share of loss of an associate | | **(1,642)** | (75) |
| **(Loss)/profit before tax from continuing operation** | | **(2,125,822)** | 81,265 |
| Income tax | 11 | **(10,855)** | (29,260) |
| **(Loss)/profit for the year from continuing operation** | | **(2,136,677)** | 52,005 |
| **DISCONTINUED OPERATION** | 12 | | |
| Loss for the year from discontinued operation | | **(27,927)** | (10,966) |
| **(Loss)/profit for the year** | 13 | **(2,164,604)** | 41,039 |
| **Attributable to:** | | | |
| Owners of the Company | 14 | **(2,164,419)** | 40,953 |
| Minority interests | | **(185)** | 86 |
| | | **(2,164,604)** | 41,039 |
| **(Loss)/earnings per share** | 17 | | |
| From continuing and discontinued operations | | | |
| – Basic and diluted (HK cents per share) | | **(111.23)** | 2.11 |
| From continuing operation | | | |
| – Basic and diluted (HK cents per share) | | **(109.80)** | 2.67 |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| **(Loss)/profit for the year** | **(2,164,604)** | 41,039 |
| **Other comprehensive income:** | | |
| Exchange differences on translation of foreign operations | **(4,145)** | (8,379) |
| **Total comprehensive income for the year** | **(2,168,749)** | 32,660 |
| **Attributable to:** | | |
| Owners of the Company | **(2,168,561)** | 32,581 |
| Minority interests | **(188)** | 79 |
| | **(2,168,749)** | 32,660 |

As at 31 December 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 18 | **30,359** | 47,702 |
| Prepaid land lease payments | 19 | **20,644** | 22,411 |
| Investment property | 20 | **8,539** | 8,650 |
| Investment in an associate | 22 | **–** | 2,331 |
| Deferred tax assets | 33 | **–** | 14,254 |
| | | **59,542** | 95,348 |
| **Current assets** | | | |
| Inventories | 23 | **14,258** | 551,687 |
| Trade receivables | 24 | **16,882** | 1,637,999 |
| Financial assets at fair value through profit or loss | 25 | **–** | 614 |
| Prepayments, deposits and other receivables | 26 | **24,138** | 106,797 |
| Prepaid land lease payments | 19 | **587** | 598 |
| Derivative financial instruments | 27 | **–** | 1,425 |
| Current tax assets | | **16,116** | 17,377 |
| Pledged bank deposits | 28 | **42,926** | 409,427 |
| Bank and cash balances | 28 | **18,414** | 97,983 |
| | | **133,321** | 2,823,907 |
| **Current liabilities** | | | |
| Trade and bills payables | 29 | **585,768** | 1,114,530 |
| Accruals and other payables | | **147,445** | 96,028 |
| Current portion of long-term borrowings | 31 | **67,394** | 4,157 |
| Current tax liabilities | | **864** | 6,696 |
| Short-term borrowings | 30 | **578,909** | 713,327 |
| | | **1,380,380** | 1,934,738 |
| **Net current (liabilities)/assets** | | **(1,247,059)** | 889,169 |
| **Total assets less current liabilities** | | **(1,187,517)** | 984,517 |
| **Non-current liabilities** | | | |
| Long-term borrowings | 31 | **998** | 7,365 |
| Deferred tax liabilities | 33 | **5,976** | 3,886 |
| | | **6,974** | 11,251 |
| **NET (LIABILITIES)/ASSETS** | | **(1,194,491)** | 973,266 |
| **Capital and reserves** | | | |
| Share capital | 34 | **194,600** | 194,570 |
| Reserves | 35 | **(1,389,091)** | 778,525 |
| Equity attributable to owners of the Company | | **(1,194,491)** | 973,095 |
| Minority interests | | **–** | 171 |
| **TOTAL EQUITY** | | **(1,194,491)** | 973,266 |

Approved by the Board of Directors on 21 September 2010

**Ng Kok Hong**
*Director*

**Ng Kok Yang**
*Director*

# Statement of Financial Position

As at 31 December 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Non-current asset** | | | |
| Investments in subsidiaries | 21 | **–** | 233,433 |
| **Current assets** | | | |
| Amount due from a subsidiary | 21 | **–** | 340,967 |
| Other receivable | | **–** | 245 |
| Bank and cash balances | | **136** | 59 |
| | | **136** | 341,271 |
| **Current liabilities** | | | |
| Accruals and other payables | | **1,435** | 1,533 |
| Financial guarantee liabilities | 32 | **1,050,599** | 58,229 |
| | | **1,052,034** | 59,762 |
| **Net current (liabilities)/assets** | | **(1,051,898)** | 281,509 |
| **NET (LIABILITIES)/ASSETS** | | **(1,051,898)** | 514,942 |
| **Capital and reserves** | | | |
| Share capital | 34 | **194,600** | 194,570 |
| Reserves | 35 | **(1,246,498)** | 320,372 |
| **TOTAL EQUITY** | | **(1,051,898)** | 514,942 |

Approved by the Board of Directors on 21 September 2010

**Ng Kok Hong**
*Director*

**Ng Kok Yang**
*Director*

For the year ended 31 December 2009

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium account HK$'000 | Merger reserve HK$'000 | Foreign currency translation reserve HK$'000 | Share-based payment reserve HK$'000 | Retained profits/ (accumulated losses) HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
| At 1 January 2008 | 194,570 | 127,258 | 3,982 | 34,376 | 9,644 | 577,519 | 947,349 | – | 947,349 |
| Total comprehensive income for the year | – | – | – | (8,372) | – | 40,953 | 32,581 | 79 | 32,660 |
| 2007 final dividend paid | – | – | – | – | – | (9,728) | (9,728) | – | (9,728) |
| Contribution from a minority shareholder | – | – | – | – | – | – | – | 92 | 92 |
| Share-based payments | – | – | – | – | 2,893 | – | 2,893 | – | 2,893 |
| At 31 December 2008 and at 1 January 2009 | 194,570 | 127,258 | 3,982 | 26,004 | 12,537 | 608,744 | 973,095 | 171 | 973,266 |
| Total comprehensive income for the year | – | – | – | (4,142) | – | (2,164,419) | (2,168,561) | (188) | (2,168,749) |
| Contributions from minority shareholders | – | – | – | – | – | – | – | 44 | 44 |
| Disposal of subsidiaries | – | – | – | – | – | – | – | (27) | (27) |
| Share-based payments | – | – | – | – | 895 | – | 895 | – | 895 |
| Issue of ordinary shares upon exercise of share options | 30 | 281 | – | – | (231) | – | 80 | – | 80 |
| At 31 December 2009 | 194,600 | 127,539 | 3,982 | 21,862 | 13,201 | (1,555,675) | (1,194,491) | – | (1,194,491) |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2009

| | Notes | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| (Loss)/profit before tax: | | | |
| From continuing operation | | **(2,125,822)** | 81,265 |
| From discontinued operation | | **(26,016)** | (11,606) |
| Adjustments for: | | | |
| Interest income | | **(4,455)** | (11,573) |
| Finance costs | | **98,630** | 46,005 |
| Share-based payments | | **895** | 2,893 |
| Share of loss of an associate | | **1,642** | 75 |
| Depreciation of property, plant and equipment | | **6,975** | 8,050 |
| Gains on disposal of property, plant and equipment | | **(5,020)** | (598) |
| Amortisation of prepaid land lease payments | | **595** | 598 |
| Depreciation of investment property | | **179** | 189 |
| Gain on disposal of subsidiaries | 37(a) | **(7,321)** | – |
| Impairment of investment in an associate | | **1,785** | – |
| Impairment of property, plant and equipment | | **2,691** | – |
| Impairment of prepaid land lease payments | | **776** | – |
| Inventories written off | | **17,081** | 3,342 |
| Reversal on impairment of inventories | | **(25,726)** | (12,156) |
| Impairment of trade receivables | | **1,850,088** | 9,954 |
| Bad debts written off | | **24,473** | 454 |
| Loss on financial assets at fair value through profit or loss | | **614** | 59 |
| Impairment of prepayments, deposits and other receivables | | **19,893** | – |
| Write back of accruals and other payables | | **–** | (12,000) |
| Operating (loss)/profit before working capital changes | | **(168,043)** | 104,951 |
| Decrease/(increase) in inventories | | **540,760** | (48,103) |
| Increase in trade receivables | | **(254,102)** | (147,962) |
| Decrease/(increase) in derivative financial instruments | | **1,425** | (1,330) |
| Decrease in prepayments, deposits and other receivables | | **56,736** | 39,470 |
| Decrease in trade and bills payables | | **(524,147)** | (180,418) |
| Decrease in accruals and other payables | | **(665)** | (14,523) |
| Cash used in operations | | **(348,036)** | (247,915) |
| Hong Kong profits tax paid | | **(3,954)** | (19,590) |
| Hong Kong profits tax refunded | | **–** | 407 |
| Overseas tax paid | | **(4,695)** | (14,170) |
| Overseas tax refunded | | **6,128** | 6,099 |
| Interest received | | **4,455** | 11,573 |
| Interest paid | | **(44,167)** | (46,005) |
| **Net cash used in operating activities** | | **(390,269)** | (309,601) |

For the year ended 31 December 2009

| | Notes | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| **Cash flows from investing activities** | | | |
| Investment in an associate | | **(1,145)** | (2,404) |
| Purchases of property, plant and equipment | | **(2,488)** | (4,841) |
| Proceeds from disposals of property, plant and equipment | | **13,019** | 1,339 |
| Proceeds from disposal of prepaid land lease payments | | **407** | – |
| Disposal of subsidiaries, net of cash disposed | 37(a) | **17,514** | 14,000 |
| Decrease in pledged bank deposits | | **364,574** | 46,068 |
| **Net cash generated from investing activities** | | **391,881** | 54,162 |
| **Cash flows from financing activities** | | | |
| Dividend paid to owners of the Company | | **–** | (9,728) |
| Contributions from minority shareholders | | **44** | 92 |
| Proceeds from issue of ordinary shares | | **80** | – |
| Repayment of long-term bank borrowings | | **(2,964)** | (19,649) |
| Repayment of finance leases payables | | **(3,499)** | (2,607) |
| (Repayment of)/new short-term bank borrowings | | **(203,772)** | 269,566 |
| New long-term bank borrowings | | **62,843** | 3,255 |
| **Net cash (used in)/generated from financing activities** | | **(147,268)** | 240,929 |
| **Net decrease in cash and cash equivalents** | | **(145,656)** | (14,510) |
| Effect of changes in foreign exchange rates | | **(3,267)** | (6,831) |
| Cash and cash equivalents at beginning of year | | **92,290** | 113,631 |
| **Cash and cash equivalents at end of year** | | **(56,633)** | 92,290 |
| **Analysis of cash and cash equivalents** | | | |
| Bank and cash balances | | **18,414** | 97,983 |
| Bank overdrafts, secured | | **(75,047)** | (5,693) |
| | | **(56,633)** | 92,290 |

## 1. General information

First Mobile Group Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The address of its registered office is P.O. Box 309, Ugland House, Grand Cayman, KY1-1104 Cayman Islands. The address of its principal place of business is Suite 1915, 19th Floor, Grandtech Centre, 8 On Ping Street, Shatin, New Territories, Hong Kong. The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company and its subsidiaries (collectively the "Group") is principally engaged in the trading, distribution and retailing of mobile phones and accessories. During the year ended 31 December 2009, the Group discontinued the operation of its retail sales of mobile phones and accessories. The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 41 to the financial statements.

## 2. Going concern basis

The Group incurred a loss attributable to owners of the Company of approximately HK$2,164,419,000 (2008: a profit of approximately HK$40,953,000) for the year ended 31 December 2009 and as at that date, the Group had net current liabilities of approximately HK$1,247,059,000 (2008: net current assets of approximately HK$889,169,000) and net liabilities of approximately HK$1,194,491,000 (2008: net assets of approximately HK$973,266,000) respectively.

As disclosed in the Company's announcement on 26 November 2009, the Group had received written demands from certain bank creditors requiring the immediate repayment of debts. The Group was unable to immediately satisfy the said demands and consequently, defaulted in the repayment of the bank borrowings, which in turn triggered cross-default provisions in other credit facilities and became repayable on demand. At 31 December 2009, non-current portion of bank borrowings of the Group amounted to approximately HK$20,726,000 were reclassified as current portion and became repayable on demand as a result of the default. Trading in the shares of the Company has been suspended since 27 November 2009 at the request of the Company. Pursuant to the letter from the Stock Exchange on 3 June 2010, among other things, the Company is required to submit a viable resumption proposal (the "Resumption Proposal") to the Stock Exchange, which should meet the following conditions:

(a) publish all outstanding financial results and address any audit qualifications;

(b) demonstrate sufficiency of working capital for at least twelve months from the resumption date;

(c) demonstrate adequate internal controls to meet obligations under the Hong Kong listing rules; and

(d) inform the market of all material information for it to appraise the Group's position.

The Company is currently reviewing the Group's existing operations. The Company, with the assistance of its financial advisor, Asian Capital (Corporate Finance) Limited, is in the course of preparing the Resumption Proposal which will be submitted to the Stock Exchange as soon as practicable.

The conditions above indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. To address the issues above, the Group has been in discussion and negotiation with the creditors to explore the possibility of seeking a forbearance of the Group's payables and with the potential investor to explore the possibility of injecting new funds into the Group through the proposed restructuring (the "Proposed Restructuring").

As described in the Company's announcement dated 5 July 2010, the Company, the potential investor, the major shareholders and the authorised agent of the creditors, Deloitte Touche Tohmatsu ("Deloitte"), entered into the exclusivity agreement (the "Exclusivity Agreement") on 25 June 2010 for the purpose of the Proposed Restructuring. The Proposed Restructuring will be carried out by way of either the debt acquisition or the scheme of arrangement depending on the indication of preference by the creditors during the creditors' election period.

## 2. Going concern basis (continued)

On 18 August 2010, the Company announced that, upon the expiry of the creditors' election period, it was determined on 12 August 2010 that the Proposed Restructuring will be carried out by way of the scheme of arrangement in accordance with the Exclusivity Agreement as determined by the indication of preference received from the relevant creditors during the creditors' election period. Furthermore, creditors whose indebtedness represents more than 75% in value of the total indebtedness had executed the standstill agreement with the Group during the creditors' election period.

The Proposed Restructuring involves the proposed capital reorganisation, proposed creditor schemes and group reorganisation, and proposed subscription for new shares and proposed application for the granting of the whitewash waiver. The completion of the Proposed Restructuring is conditional upon fulfilment of certain conditions precedent which include, among other things, the passing of the resolutions by the shareholders of the Company at the extraordinary general meeting; the granting of the whitewash waiver by the Securities and Futures Commission of Hong Kong; the capital reorganisation becoming effective; and the submission of the Resumption Proposal to the Stock Exchange and the satisfaction of the conditions set out in the letter by the Stock Exchange to the Company granting in-principle approval to the Resumption Proposal. Details of the conditions precedent are further described in the announcement of the Company on 16 September 2010 (hereinafter referred to as the "Announcement"). The Proposed Restructuring, if successfully implemented, consists of, among other things, the principal elements as summarised below. Unless otherwise specified, capitalised terms used herein shall have the same meanings as in the Announcement.

### (a) Capital Reorganisation

The Company will undergo the Capital Reorganisation comprising the Capital Reduction, Share Premium Cancellation and Share Consolidation. Before the Capital Reorganisation, the authorised share capital of the Company is HK$300,000,000 divided into 3,000,000,000 Shares of HK$0.10 each, and the issued share capital of the Company is HK$194,599,656.50 divided into 1,945,996,565 Shares of HK$0.10 each. Immediately after completion of the Capital Reorganisation, the authorised share capital of the Company will be HK$500,000,000 divided into 50,000,000,000 Adjusted Shares of HK$0.01 each and the issued share capital of the Company will be reduced to HK$4,864,991.41 divided into 486,499,141 Adjusted Shares of HK$0.01 each. The Adjusted Shares after Capital Reorganisation will be identical and rank pari passu in all respects with each other.

### (b) Creditor Schemes

Pursuant to the proposed Creditor Schemes, upon it becoming effective, all or any claims against the Company will be compromised and discharged through (i) a cash payment of HK$162 million (which will be funded by the Company out of the proceeds of the Subscription); (ii) the funds received through the realisation or winding up of the Scheme Subsidiaries after payment of their respective liabilities; and (iii) assignments and/or transfers of balances between Scheme Subsidiaries and the Company together with the Retained Subsidiaries up to the Effective Date to Newco or the Administrators (or their nominees) for the purpose of the Creditor Schemes.

### (c) Group Reorganisation

The proposed Creditor Schemes and Group Reorganisation will split the Group into a group comprising the Company and certain subsidiaries (the "Retained Subsidiaries") retained under the control of the Company through its newly-incorporated wholly-owned subsidiary (the "SPV") (altogether with the Company referred to as the "Retained Group") and a group comprising the other subsidiaries (the "Scheme Subsidiaries") to be held outside the Retained Group by a Newco which is wholly owned by the Administrators for the purpose of holding the Scheme Subsidiaries.

## 2. Going concern basis (continued)

### (d) Subscription for New Shares

Pursuant to the Subscription Agreement dated 27 August 2010 (as supplemented, amended or modified from time to time), the Company has conditionally agreed to allot and issue to the Investor, and the Investor has conditionally agreed to subscribe for 9,257,142,857 Subscription Shares of HK$0.01 each, representing approximately 95% of the Enlarged Capital of the Company, at a Subscription Price of approximately HK$0.0175 per Subscription Share, resulting in the cash consideration, before expenses, of HK$162 million.

The consolidated financial statements have been prepared on a going concern basis even though the Group is currently in the process of exploring the possibility of implementing a restructuring scheme as the Directors are of the view that it is more probable than not that the major procedures of the Proposed Restructuring will eventually be agreed upon by the Company's Creditors, the Investor, and the Company's shareholders, and successfully implemented.

Should the Group be unable to achieve a successful restructuring as mentioned above, or alternatively under other available options of restructuring, and therefore be unable to continue in business as a going concern, adjustments might have to be made to the carrying amounts of the Group's assets to state them at their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and liabilities to current assets and liabilities, respectively.

## 3. Adoption of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2009. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below:

### (a) Presentation of financial statements

HKAS 1 (Revised) "Presentation of Financial Statements" affects certain disclosures and presentation of the financial statements. The balance sheet is renamed as the statement of financial position and the cash flow statement is renamed as the statement of cash flows. All income and expenses arising from transactions with non-owners are presented in the income statement and the statement of comprehensive income, and the total carried to the statement of changes in equity. The owners' changes in equity are presented in the statement of changes in equity. HKAS 1 (Revised) also requires disclosures of the reclassification adjustments and tax effects relating to each component of other comprehensive income for the year. HKAS 1 (Revised) has been applied retrospectively.

### (b) Operating segments

HKFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. Previously, HKAS 14 "Segment Reporting" required an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's system of internal financial reporting to key management personnel serving as the starting point for the identification of such segments. The primary segments reported under HKAS 14 are the same as the segments reported under HKFRS 8. HKFRS 8 has been applied retrospectively.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

## 4. Significant accounting policies

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

These financial statements have been prepared under the historical cost convention, as modified by certain financial assets at fair value through profit or loss and derivative financial instruments which are carried at their fair values. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise its judgements in the process of applying the accounting policies. These areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are further disclosed in note 5 to the financial statements.

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

**Consolidation**

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

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

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its carrying amount together with any remaining goodwill relating to the subsidiary and also any related accumulated foreign currency translation reserve.

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

## 4. Significant accounting policies (continued)

**Consolidation (continued)**

Minority interests represent the portion of interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement and consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between minority and owners of the Company (majority interests). Losses applicable to the minority in excess of the minority interests in the subsidiary's equity are allocated against the majority interests except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interests until the minority's share of losses previously absorbed by the majority has been recovered.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Associates**

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

The Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its carrying amount together with any remaining goodwill relating to the associate and also any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

**Foreign currency translation**

**(a) Functional and presentation currency**

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

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

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in the income statement.

## 4. Significant accounting policies (continued)

**Foreign currency translation (continued)**

**(b) Transactions and balances in each entity's financial statements (continued)**

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in income statement, any exchange component of that gain or loss is recognised in the income statement.

**(c) Translation on consolidation**

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

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

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

(iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

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

**Property, plant and equipment**

Land and buildings comprise mainly offices. Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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

Freehold land is not subject to amortisation while other property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|---|---|
| Buildings | 2% - 4% |
| Leasehold improvements | 20% - 25% |
| Motor vehicles | 20% - 25% |
| Furniture, fixtures and equipment | 8% - 25% |

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

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

## 4. Significant accounting policies (continued)

**Prepaid land lease payment**

Prepaid land lease payment represents interest in land held under operating lease arrangements and is amortised on a straight-line basis over the lease terms.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipments. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

**Investment properties**

Investment properties are land and/or buildings held to earn rentals and/or for capital appreciation. An investment property is measured initially at its cost including all direct costs attributable to the property.

After initial recognition, investment property is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The depreciation is calculated using the straight line method to allocate the cost to the residual value over its estimated useful life of fifty years.

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

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of an investment property is the difference between the net sales proceeds and the carrying amount of the property, and is recognised in the income statement.

**Leases**

**(a) Operating leases**

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

**(b) Finance leases**

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

## 4. Significant accounting policies (continued)

**Discontinued operation**

Discontinued operation is a component of the Group, the operation and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operation, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operation, or is a subsidiary acquired exclusively with a view to resale.

Classification as discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale in accordance with HKFRS 5, if earlier. It also occurs when the operation is abandoned.

When an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

(a) The post-tax profit or loss of the discontinued operation; and

(b) The post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group constituting the discontinued operation.

**Inventories**

Inventories primarily comprise mobile phones and accessories for resale and are stated at the lower of cost and net realisable value. Cost is determined using weighted average basis and comprise invoiced value of purchases, and where appropriate, freight, insurance and delivery charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

**Recognition and derecognition of financial instruments**

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

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

**Investments**

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs except in the case of financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in the income statement.

## 4. Significant accounting policies (continued)

**Trade and other receivables**

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount of the receivables and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

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

**Cash and cash equivalents**

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

**Financial liabilities and equity instruments**

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

**Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

**Financial guarantee contract liabilities**

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

(a) the amount of the obligations under the contracts, as determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and

(b) the amount initially recognised less cumulative amortisation recognised in the income statement on a straight-line basis over the terms of the guarantee contracts.

**Trade and other payables**

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

## 4. Significant accounting policies (continued)

**Equity instruments**

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

**Derivative financial instruments**

Derivatives are initially recognised and subsequently measured at fair value.

Changes in the fair value of derivatives are recognised in the income statement as they arise.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with changes in fair value recognised in the income statement.

**Revenue recognition**

Revenue comprises the fair value of the consideration for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts allowed and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Revenue from the sale of mobile phones and accessories is recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the mobile phones and accessories are delivered to customers and title has passed to the customers;

(b) Revenue from the provision of repair services for mobile phones is recognised when the services are rendered;

(c) Rental income is recognised on a straight-line basis over the period of each lease; and

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

**Employee benefits**

**(a) Employee leave entitlements**

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

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

**(b) Profit sharing and bonus plans**

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for profit sharing and bonus plans are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

## 4. Significant accounting policies (continued)

**Employee benefits (continued)**

**(c) Pension obligations**

Pursuant to the relevant regulations of the governments in Malaysia, Philippines and Singapore, the subsidiaries of the Group in these countries participate in respective government retirement benefit schemes (the "Schemes") whereby these subsidiaries are required to contribute to Schemes to fund the retirements benefits of the eligible employees. Contributions made to the Schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums for each employees with reference to the salary scale, as stipulated under the requirements in respective countries. The governments of respective countries are responsible for the entire pension obligations payable to retired employees. The Schemes are defined contribution schemes. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Schemes. Contributions under the Schemes are charged to the income statement as incurred.

Subsidiaries in Hong Kong operate defined contribution schemes. Monthly contributions made by the subsidiaries in Hong Kong are calculated based on certain percentage of the applicable payroll costs on fixed sums as stipulated under the relevant requirements, as appropriate. Additional contributions to the scheme are at fixed sums payable monthly and agreed between the subsidiaries and the relevant employees. The assets of the schemes in Hong Kong are held separately from those of subsidiaries in independently administered funds.

**(d) Share-based compensation**

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exerciseable. The total amount expensed is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to become exercisable based on the non-market vesting conditions. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

**Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

## 4. Significant accounting policies (continued)

### Taxation

Income tax represents the sum of the current tax and deferred tax.

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in the income statement, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

### Related parties

A party is related to the Group if:

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

(b) the party is an associate;

(c) the party is a joint venture;

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

(e) the party is a close member of the family of any individual referred to in (a) or (d);

## 4. Significant accounting policies (continued)

**Related parties (continued)**

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

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

**Segment reporting**

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

**Impairment of assets**

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

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

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

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

**Provisions and contingent liabilities**

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

## 4. Significant accounting policies (continued)

**Provisions and contingent liabilities (continued)**

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

**Events after the reporting period**

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

## 5. Critical judgements and key estimates

**Critical judgements in applying accounting policies**

In the process of applying the accounting policies, the Directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

**Going concern basis**

These financial statements have been prepared on a going concern basis, the validity of which depends upon the successful conclusion of the Group's Proposed Restructuring as explained in note 2 to the financial statements.

**Key sources of estimation uncertainty**

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

**(a) Impairment of assets**

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (i) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (ii) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

**(b) Property, plant and equipment and depreciation**

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

## 5. Critical judgements and key estimates (continued)

### (c) Deferred tax

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Further details are contained in note 33 to the financial statements.

### (d) Income tax

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

### (e) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

### (f) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions in response to serve industry cycles. The Group will reassess the estimates by the end of each reporting period.

## 6. Financial risk management

The major financial instruments of the Group include trade and other receivables, bank and cash balances, trade payables, bills payables and borrowings. The activities of the Group expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Risk management is carried out by the Directors under policies approved by the Board of Directors. The Directors identify, evaluate and hedge financial risks in close co-operation with the Group's operating units.

## 6. Financial risk management (continued)

### (a) Market risk

**Foreign exchange risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar ("USD") and Euro ("EUR"). To manage foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, entities in the Group use forward contracts to hedge against such risk. Foreign exchange risk arises when future commercial transactions or recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

Pursuant to Hong Kong's Linked Exchange Rate System under which HK$ is pegged to USD, management considers there are no significant foreign exchange risks arising from the Group's operation in Hong Kong with respect to transactions denominated in USD.

At 31 December 2009, if USD had weakened or strengthened by 5% (2008: 5%) against Malaysia Ringgit ("RM"), with all other variables held constant, loss (2008: profit) before tax for the year would have been approximately HK$3,933,000 (2008: HK$6,854,000) higher or lower, mainly as a result of foreign exchange gains or losses on translation of USD-denominated trade receivables, bank and cash balances, trade payables and bills payables in relation to the operation in Malaysia.

At 31 December 2009, if HK$ had weakened or strengthened by 5% (2008: 5%) against EUR, with all other variables held constant, loss (2008: profit) before tax for the year would have been approximately HK$805,000 (2008: HK$3,469,000) lower or higher, mainly as a result of foreign exchange gains or losses on translation of EUR-denominated trade receivables, derivative financial instruments, trade payables and short term bank borrowings in relation to the operation in Hong Kong.

**Interest rate risk**

The Group's interest rate risk arises from bank and cash balances, and bank borrowings. Bank and cash balances, and bank borrowings with variable rates expose the Group to cash flow interest rate risk.

The Group has followed a policy which involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favorable pricing opportunities arise.

At the end of the reporting period, if interest rates had been increased or decreased by 50 basis points (2008: 50 basis points) and all other variables were held constant, the loss (2008: profit) before tax of the Group would increase or decrease by approximately HK$3,738,000 (2008: decrease or increase by approximately HK$2,999,000) mainly as a result of higher or lower interest expenses on floating rate borrowings.

### (b) Credit risk

The Group is exposed to credit risk mainly in relation to its trade and other receivables, cash deposits with banks and derivative financial instruments and maximum exposure of credit risk is equal to the carrying amounts of these financial assets. Derivative and cash transactions counter parties are limited to financial institutions with good credit rating.

## 6. Financial risk management (continued)

### (b) Credit risk (continued)

The Group has no significant concentration of credit risk with respect to trade receivable as the Group has a large number of customers that are internationally dispersed. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group reviews the recoverable amount of the trade and other receivables on a regular basis and provision for doubtful debts is made in accordance with the Group's policies. The Group has also taken out credit insurance policy to cover certain specific credit risk which is beyond the Group's tolerance level. In addition, the Directors review the recoverable amount of each individual trade debt regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, the Directors consider that the Groups credit risk is significantly reduced.

### (c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Directors have given careful consideration on the measures currently undertaken in respect of the Group's liquidity position. The Directors believe that the Group will be able to meet in full its financial obligations as they fall due upon the completion of the Proposed Restructuring, as further explained in note 2 to the financial statements.

The following table detailed the contractual maturity of the Group for its financial liabilities. The table has been drawn up based on the undiscounted cash flow of financial liabilities based on the earliest date on which the Group can be required to pay. The amounts represented both interest and principal cash flow.

| | **Within 1 year HK$'000** | **Between 1 and 2 years HK$'000** | **Between 2 and 5 years HK$'000** | **Over 5 years HK$'000** | **Total HK$'000** |
|---|---|---|---|---|---|
| **At 31 December 2009:** | | | | | |
| Interest-bearing borrowings | **647,160** | **676** | **491** | **–** | **648,327** |
| Trade and bills payables | **636,290** | **–** | **–** | **–** | **636,290** |
| Accruals and other payables | **147,445** | **–** | **–** | **–** | **147,445** |
| Total | **1,430,895** | **676** | **491** | **–** | **1,432,062** |

| | Within 1 year HK$'000 | Between 1 and 2 years HK$'000 | Between 2 and 5 years HK$'000 | Over 5 years HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **At 31 December 2008:** | | | | | |
| Interest-bearing borrowings | 722,360 | 3,372 | 2,893 | 1,501 | 730,126 |
| Trade and bills payables | 1,114,530 | – | – | – | 1,114,530 |
| Accruals and other payables | 96,028 | – | – | – | 96,028 |
| Total | 1,932,918 | 3,372 | 2,893 | 1,501 | 1,940,684 |

## 6. Financial risk management (continued)

### (d) Categories of financial instruments at the end of the reporting period

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| **Financial assets:** | | |
| Financial assets at fair value through profit or loss | **–** | 614 |
| Derivative financial instruments | **–** | 1,425 |
| Loans and receivables (including cash and cash equivalents) | **101,165** | 3,130,991 |
| | **101,165** | 3,133,030 |
| **Financial liabilities:** | | |
| Financial liabilities at amortised cost | **1,380,514** | 1,935,407 |

### (e) Fair value

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

The fair value of the Group's financial assets at fair value through profit or loss and derivative financial instruments are measured based on quoted prices in active markets for identical assets or liabilities.

## 7. Segment information

The Group has two reportable segments which is the trading and distribution of mobile phones and accessories, and retail sales of mobile phones and accessories. During the year, the Group discontinued the operation of its retail sales of mobile phones and accessories.

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies. Other operations of the Group include the provision of repair services for mobile phones and holding of properties, none of them meet any of the quantitative thresholds for determining a reportable segment separately. The presentation of information for other operations are included in the trading and distribution of mobile phones and accessories segment.

The accounting policies of the operating segments are the same as those described in note 4 to the financial statements. Segment profits or losses do not include dividend income, interest income, finance costs, share of results of an associate, income tax and unallocated corporate income and expenses. Segment assets and liabilities are those operating assets and liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets consist primarily of property, plant and equipment, inventories, trade receivables, other receivables, prepayments and operating cash, and mainly exclude tax assets and other unallocated corporate assets. Segment liabilities comprise operating liabilities and exclude items such as borrowings and tax payables. Segment non-current assets do not include financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

## 7. Segment information (continued)

**Information about reportable segment profit or loss, assets and liabilities:**

| | Trading and distribution of mobile phones and accessories HK$'000 | Retail sales of mobile phones and accessories (Discontinued operation) HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Year ended 31 December 2009:** | | | |
| Revenue from external customers | 3,106,161 | 165,842 | 3,272,003 |
| Segment loss | (2,030,066) | (25,955) | (2,056,021) |
| Interest income | 3,725 | 730 | 4,455 |
| Interest expense | 97,839 | 791 | 98,630 |
| Depreciation and amortisation | 6,477 | 1,272 | 7,749 |
| Income tax | 10,855 | 1,911 | 12,766 |
| Other material non-cash items: | | | |
| Inventories written off | 15,411 | 1,670 | 17,081 |
| Reversal on impairment of inventories | (22,472) | (3,254) | (25,726) |
| Impairment of trade receivables | 1,837,004 | 13,084 | 1,850,088 |
| Bad debts written off | 20,471 | 4,002 | 24,473 |
| Impairment of property, plant and equipment | 2,289 | 402 | 2,691 |
| Impairment of prepaid land lease payments | 776 | – | 776 |
| Impairment of prepayments, deposits and other receivables | 19,634 | 259 | 19,893 |
| Loss on financial assets at fair value through profit or loss | 614 | – | 614 |
| (Gain)/loss on disposal of property plant and equipment | (5,398) | 378 | (5,020) |
| Additions to segment non-current assets | 2,331 | 690 | 3,021 |
| **At 31 December 2009:** | | | |
| Segment assets | 159,851 | 16,896 | 176,747 |
| Segment liabilities | 731,063 | 2,150 | 733,213 |

## 7. Segment information (continued)

| | Trading and distribution of mobile phones and accessories HK$'000 | Retail sales of mobile phones and accessories (Discontinued operation) HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Year ended 31 December 2008:** | | | |
| Revenue from external customers | 7,115,314 | 279,825 | 7,395,139 |
| Segment profit/(loss) | 117,903 | (13,737) | 104,166 |
| Interest income | 9,040 | 2,533 | 11,573 |
| Interest expense | 45,603 | 402 | 46,005 |
| Depreciation and amortisation | 6,816 | 2,021 | 8,837 |
| Income tax | 29,260 | (640) | 28,620 |
| Other material non-cash items: | | | |
| Inventories written off | 3,329 | 13 | 3,342 |
| Reversal on impairment of inventories | (9,191) | (2,965) | (12,156) |
| Impairment of trade receivables | 8,527 | 1,427 | 9,954 |
| Bad debts written off | 438 | 16 | 454 |
| Loss on financial assets at fair value through profit or loss | 59 | – | 59 |
| (Gain)/loss on disposal of property, plant and equipment | (898) | 300 | (598) |
| Additions to segment non-current assets | 6,384 | 1,748 | 8,132 |
| **At 31 December 2008:** | | | |
| Segment assets | 2,738,007 | 147,286 | 2,885,293 |
| Segment liabilities | 1,168,628 | 41,930 | 1,210,558 |

## 7. Segment information (continued)

**Reconciliations of reportable segment revenue, profit or loss, assets and liabilities:**

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| **Revenue:** | | |
| Total revenue of reportable segments | **3,272,003** | 7,395,139 |
| Elimination of discontinued operation | **(165,842)** | (279,825) |
| Consolidated revenue from continuing operation | **3,106,161** | 7,115,314 |
| **Profit or loss:** | | |
| Total profit or loss of reportable segments | **(2,056,021)** | 104,166 |
| Corporate and unallocated profit or loss | **(108,583)** | (63,127) |
| Elimination of discontinued operation | **27,927** | 10,966 |
| Consolidated (loss)/profit from continuing operation | **(2,136,677)** | 52,005 |
| **Assets:** | | |
| Total assets of reportable segments | **176,747** | 2,885,293 |
| Corporate and unallocated assets | **16,116** | 33,962 |
| Consolidated total assets | **192,863** | 2,919,255 |
| **Liabilities:** | | |
| Total liabilities of reportable segments | **733,213** | 1,210,558 |
| Corporate and unallocated liabilities | **654,141** | 735,431 |
| Consolidated total liabilities | **1,387,354** | 1,945,989 |

**Geographical information:**

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 | **2009 HK$'000** | 2008 HK$'000 |
| Hong Kong | **2,372,945** | 6,256,749 | **34,699** | 45,460 |
| Malaysia | **305,818** | 488,047 | **22,764** | 30,248 |
| Singapore | **290,761** | 268,500 | **–** | 112 |
| Philippines | **23,827** | 119,911 | **420** | 1,980 |
| Other countries | **278,652** | 261,932 | **1,659** | 3,294 |
| Discontinued operation | **(165,842)** | (279,825) | **–** | (5,537) |
| Consolidated total for continuing operation | **3,106,161** | 7,115,314 | **59,542** | 75,557 |

In presenting the geographical information, revenue is based on the location of the customers. Segment non-current assets do not include financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.

## 8. Revenue

Revenue comprises the fair value of the consideration for the sale of goods and services in the ordinary course of the Group's activities, gross rental income received and receivable, and repair service income during the year. Revenue is shown net of value-added tax, returns, rebates and discounts allowed and after eliminating sales within the Group. An analysis of the Group's revenue is as follows:

| | **2009**<br>**HK$'000** | 2008<br>HK$'000 |
|---|---|---|
| Turnover from sales of mobile phones and accessories, net | **3,263,274** | 7,388,879 |
| Other revenue: | | |
| Rental income | **8,454** | 4,242 |
| Repair service income | **275** | 2,018 |
| Total revenue | **3,272,003** | 7,395,139 |
| Representing: | | |
| Continuing operation | **3,106,161** | 7,115,314 |
| Discontinued operation (note 12) | **165,842** | 279,825 |
| | **3,272,003** | 7,395,139 |

## 9. Other income and gains

| | **2009**<br>**HK$'000** | 2008<br>HK$'000 |
|---|---|---|
| Realised/unrealised gain on derivative financial instruments | **503** | 1,330 |
| Compensation from insurance claim | **827** | 754 |
| Interest income | **4,455** | 11,573 |
| Exchange gains, net | **2,303** | – |
| Gain on disposal of property, plant and equipment | **5,020** | 598 |
| Others | **4,694** | 1,706 |
| | **17,802** | 15,961 |
| Representing: | | |
| Continuing operation | **13,131** | 13,338 |
| Discontinued operation (note 12) | **4,671** | 2,623 |
| | **17,802** | 15,961 |

## 10. Finance costs

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Interest on bank and other borrowings: | | |
| Continuing operation | **97,839** | 45,603 |
| Discontinued operation (note 12) | **791** | 402 |
| | **98,630** | 46,005 |

## 11. Income tax

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Current tax: | | |
| – Hong Kong profits tax | **–** | 15,907 |
| – Overseas | **977** | 2,631 |
| (Over)/under provision in prior years | **(2,971)** | 1,414 |
| Deferred tax (note 33) | **14,760** | 8,668 |
| | **12,766** | 28,620 |
| Representing: | | |
| Continuing operation | **10,855** | 29,260 |
| Discontinued operation (note 12) | **1,911** | (640) |
| | **12,766** | 28,620 |

No provision for Hong Kong profits tax is required since the Group has no assessable profit for the year. The amount provided for the year ended 31 December 2008 was calculated at 16.5% based on the assessable profit for that year. Tax on overseas profits has been calculated on the estimated assessable profits for the year at the rates of tax prevailing in the countries in which the Group operates.

## 11. Income tax (continued)

The reconciliation between the income tax and (loss)/profit before tax multiplied by the Hong Kong profits tax rate is as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| (Loss)/profit before tax: | | |
| From continuing operation | **(2,125,822)** | 81,265 |
| From discontinued operation | **(26,016)** | (11,606) |
| | **(2,151,838)** | 69,659 |
| Calculated at a domestic tax rate of 16.5% (2008: 16.5%) | **(355,053)** | 11,494 |
| Effect of different tax rates in other countries | **(11,067)** | (1,141) |
| Income not subject to tax | **(15,010)** | (5,961) |
| Expenses not deductible for tax purpose | **34,886** | 18,165 |
| Utilisation of previously unrecognised tax losses | **(5,109)** | (1,101) |
| (Over)/under provision of tax in prior years | **(2,971)** | 1,414 |
| Effect on opening deferred tax assets due to change in tax rate | **138** | 337 |
| Tax losses not recognised | **366,952** | 5,413 |
| | **12,766** | 28,620 |

## 12. Discontinued operation

During the year, the Group had ceased its operation in retail sales of mobile phones and accessories. The Group has decided to orderly discontinue the business in retail sales of mobile phones and accessories, because the Group plans to focus its resources on the business of trading and distribution of mobile phones and accessories.

The loss for the year from the discontinued operation is analysed as follows:

| | Note | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|---|
| Loss of discontinued operation | | **(35,248)** | (10,966) |
| Gain on disposal of subsidiaries | 37(a) | **7,321** | – |
| | | **(27,927)** | (10,966) |

## 12. Discontinued operation (continued)

The results of the discontinued operation which have been included in the consolidated income statement are as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| **Revenue** | **165,842** | 279,825 |
| Cost of sales | **(150,928)** | (244,158) |
| **Gross profit** | **14,914** | 35,667 |
| Other income and gains | **4,671** | 2,623 |
| Selling and distribution expenses | **(11,151)** | (17,832) |
| General and administrative expenses | **(36,730)** | (26,972) |
| Other operating expenses | **(4,250)** | (4,690) |
| **Loss from operation** | **(32,546)** | (11,204) |
| Finance costs | **(791)** | (402) |
| **Loss before tax** | **(33,337)** | (11,606) |
| Income tax | **(1,911)** | 640 |
| **Loss for the year** | **(35,248)** | (10,966) |

The net cash (outflows)/inflows incurred by the operation in retail sales of mobile phones and accessories are as follows:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Operating activities | **(72,929)** | (6,297) |
| Investing activities | **51,782** | 319 |
| Financing activities | **(22,326)** | 6,443 |
| Net cash (outflows)/inflows | **(43,473)** | 465 |

## 13. (Loss)/profit for the year

The Group's (loss)/profit for the year was arrived at after charging/(crediting) the amounts as set out below. The disclosures presented in this note included those amounts charged/(credited) in respect of the discontinued operation.

| | 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Cost of inventories sold | 3,245,391 | 7,040,742 |
| Amortisation of prepaid land lease payments | 595 | 598 |
| Auditors' remuneration: | | |
| – provision for the year | 1,760 | 3,195 |
| – under provision in prior years | 755 | 61 |
| Depreciation: | | |
| – property, plant and equipment | 6,975 | 8,050 |
| – investment property | 179 | 189 |
| Direct operating expenses arising from investment property that generate rental income | 220 | 249 |
| Exchange (gains)/losses, net* | (2,303) | 9,845 |
| Loss on financial assets at fair value through profit or loss* | 614 | 59 |
| (Gains)/losses on derivative financial instruments*: | | |
| – unrealised | 1,425 | (1,330) |
| – realised | (503) | 13,749 |
| Operating leases: | | |
| – land and buildings | 18,435 | 20,857 |
| – office equipment | 518 | 453 |
| Pre–operating costs | 333 | 82 |
| Impairment of investment in an associate* | 1,785 | – |
| Impairment of property, plant and equipment* | 2,691 | – |
| Impairment of prepaid land lease payments* | 776 | – |
| Inventories written off (included in cost of inventories sold) | 17,081 | 3,342 |
| Impairment of trade receivables** | 1,850,088 | 9,954 |
| Bad debts written off** | 24,473 | 454 |
| Impairment of prepayments, deposits and other receivables* | 19,893 | – |
| Staff costs (including Directors' remuneration): | | |
| – salaries, bonuses and allowances | 79,075 | 93,393 |
| – equity-settled share-based payments | 895 | 2,893 |
| – retirement benefits scheme contributions | 4,664 | 5,971 |
| | 84,634 | 102,257 |
| Gains on disposal of property, plant and equipment* | (5,020) | (598) |
| Gain on disposal of subsidiaries | (7,321) | – |
| Reversal of impairment of inventories# (included in cost of inventories sold) | (25,726) | (12,156) |
| Write back of accruals and other payables | – | (12,000) |

* These items were included in other income or other operating expenses.

** These items were included in general and administrative expenses.

# The impairments of inventories were reversed as their carrying amounts were subsequently recovered with the higher net realisable values.

## 14. (Loss)/profit for the year attributable to owners of the company

The loss for the year attributable to owners of the Company is dealt with in the financial statements of the Company to the extent of approximately HK$1,567,815,000 (2008: profit of approximately HK$9,795,000).

## 15. Director's and senior management's emoluments

### (a) Directors' emoluments

The remuneration of each Director for the year ended 31 December 2009 is set out below:

| Name of Director | Fees HK$'000 | Salary HK$'000 | Other benefits HK$'000 | Retirement benefit costs HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| *Executive Director:* | | | | | |
| Ng Kok Hong | – | 3,534 | 1,125 | 12 | 4,671 |
| Ng Kok Tai | – | 1,864 | 44 | 131 | 2,039 |
| Ng Kok Yang | – | 2,166 | 660 | 12 | 2,838 |
| *Independent non-executive Director:* | | | | | |
| See Tak Wah* | 275 | – | – | – | 275 |
| Wu Wai Chung, Michael* | 275 | – | – | – | 275 |
| Wong Tin Sang, Patrick* | 275 | – | – | – | 275 |
| | 825 | 7,564 | 1,829 | 155 | 10,373 |

* Resigned as a director on 2 December 2009

The remuneration of each Director for the year ended 31 December 2008 is set out below:

| Name of Director | Fees HK$'000 | Salary HK$'000 | Other benefits HK$'000 | Retirement benefit costs HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| *Executive Director:* | | | | | |
| Ng Kok Hong | – | 4,014 | 1,101 | 12 | 5,127 |
| Ng Kok Tai | – | 2,104 | 144 | 141 | 2,389 |
| Ng Kok Yang | – | 2,735 | 431 | 12 | 3,178 |
| *Independent non-executive Director:* | | | | | |
| See Tak Wah | 292 | – | – | – | 292 |
| Wu Wai Chung, Michael | 300 | – | – | – | 300 |
| Wong Tin Sang, Patrick | 300 | – | – | – | 300 |
| | 892 | 8,853 | 1,676 | 165 | 11,586 |

## 15. Director's and senior management's emoluments (continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are as follows:

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Directors | **9,548** | 10,694 |
| Employees | **3,593** | 5,363 |
| | **13,141** | 16,057 |

Details of the aggregate emoluments to the employees are as follows:

| | **2009** **HK$'000** | 2008 HK$'000 |
|---|---|---|
| Salaries, allowances and benefit-in-kind | **3,023** | 4,119 |
| Equity-settled share-based payments | **413** | 873 |
| Bonuses | **133** | 347 |
| Retirement benefit costs | **24** | 24 |
| | **3,593** | 5,363 |

The number of employees whose remuneration fell within the following bands are as follows:

| | **Number of individuals** | |
|---|---|---|
| | **2009** | 2008 |
| HK$1,000,000 to HK$1,500,000 | **1** | – |
| HK$1,500,001 to HK$2,000,000 | **–** | – |
| HK$2,000,001 to HK$2,500,000 | **1** | 1 |
| HK$2,500,001 to HK$3,000,000 | **–** | – |
| HK$3,000,001 to HK$3,500,000 | **–** | 1 |
| | **2** | 2 |

Based on the audited results of the Group for the year ended 31 December 2009, the executive Directors were not entitled to any of the performance-based discretionary bonus during the year. The executive Directors waived all their entitled discretionary bonus of approximately HK$4,000,000 for the year ended 31 December 2008.

Save as disclosed above, during the year, no other emoluments had been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

## 16. Dividend

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2009 (2008: HK$nil).

## 17. (Loss)/earnings per share

### (a) From continuing and discontinued operations

The calculation of basic (loss)/earnings per share attributable to owners of the Company was based on the loss for the year attributable to owners of the Company of approximately HK$2,164,419,000 (2008: profit of approximately HK$40,953,000) and the weighted average number of 1,945,754,099 (2008: 1,945,696,565) ordinary shares in issue during the year.

### (b) From continuing operation

The calculation of basic (loss)/earnings per share from continuing operation attributable to owners of the Company was based on the loss for the year from continuing operation attributable to owners of the Company of approximately HK$2,136,509,000 (2008: profit of approximately HK$51,919,000) and the denominators for number of shares in issue were the same as that detailed above for basic (loss)/earnings per share from continuing and discontinued operations.

### (c) From discontinued operation

Basic loss per share from the discontinued operation was HK1.43 cents per share (2008: HK0.56 cents per share) based on the loss for the year from discontinued operation attributable to the owners of the Company of approximately HK$27,910,000 (2008: HK$10,966,000) and the denominators for number of shares in issue were the same as that detailed above for basic (loss)/earnings per share from continuing and discontinued operations.

The Company's share options has not had a dilutive effect on (loss)/earnings per share for the two years ended 31 December 2009 and 2008.

## 18. Property, plant and equipment

| | Group | | | | | |
|---|---|---|---|---|---|---|
| | Freehold property | Leasehold buildings | Leasehold improvements | Motor vehicles | Furniture, fixtures and equipment | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Cost:** | | | | | | |
| At 1 January 2008 | 12,468 | 23,213 | 12,752 | 13,858 | 37,789 | 100,080 |
| Additions | – | – | 1,163 | 3,919 | 3,050 | 8,132 |
| Disposals | – | – | (778) | (2,696) | (1,494) | (4,968) |
| Exchange differences | (543) | – | (291) | (383) | (1,169) | (2,386) |
| At 31 December 2008 and 1 January 2009 | 11,925 | 23,213 | 12,846 | 14,698 | 38,176 | 100,858 |
| Additions | – | – | 830 | 757 | 1,434 | 3,021 |
| Disposals | – | (1,487) | (3,976) | (8,179) | (5,712) | (19,354) |
| Disposal of subsidiaries | – | – | (2,500) | – | (1,484) | (3,984) |
| Transfers | – | – | 10 | – | (10) | – |
| Exchange differences | 104 | – | 64 | 137 | 268 | 573 |
| At 31 December 2009 | 12,029 | 21,726 | 7,274 | 7,413 | 32,672 | 81,114 |
| **Accumulated depreciation and impairment losses:** | | | | | | |
| At 1 January 2008 | 245 | 7,314 | 7,754 | 6,955 | 28,373 | 50,641 |
| Charge for the year | 78 | 917 | 1,581 | 2,191 | 3,283 | 8,050 |
| Disposals | – | – | (484) | (2,590) | (1,153) | (4,227) |
| Exchange differences | (19) | – | (151) | (262) | (876) | (1,308) |
| At 31 December 2008 and 1 January 2009 | 304 | 8,231 | 8,700 | 6,294 | 29,627 | 53,156 |
| Charge for the year | 74 | 902 | 961 | 2,162 | 2,876 | 6,975 |
| Disposals | – | (109) | (2,212) | (4,729) | (3,396) | (10,446) |
| Disposal of subsidiaries | – | – | (1,113) | – | (889) | (2,002) |
| Transfers | – | – | 4 | – | (4) | – |
| Impairments | – | 136 | 696 | – | 1,859 | 2,691 |
| Exchange differences | 6 | – | 51 | 80 | 244 | 381 |
| At 31 December 2009 | 384 | 9,160 | 7,087 | 3,807 | 30,317 | 50,755 |
| **Carrying amount:** | | | | | | |
| At 31 December 2009 | 11,645 | 12,566 | 187 | 3,606 | 2,355 | 30,359 |
| At 31 December 2008 | 11,621 | 14,982 | 4,146 | 8,404 | 8,549 | 47,702 |

## 18. Property, plant and equipment (continued)

(a) The recoverable amount of impaired asset is estimated in order to determine the extent of any impairment loss on property, plant and equipments (the "PPE"). The recoverable amount of the PPE is the higher of their estimated fair value less cost to sell and value in use. Due to the cessation of the Group's business in retail sales of mobile phones and accessories during the year and the uncertainties relating to the implementation of the future business plan of the Group pursuant to the Proposed Restructuring, the Directors considered that it is more appropriate to determine the recoverable amounts of the PPE on the basis of their estimated fair values less cost to sell. The fair values of the Group's PPE have been estimated by reference to market evidence of recent transactions for similar assets. The impairment loss is recognised and charged to the income statement in the period in which it arises to the extent that the carrying amount exceeds its recoverable amount.

Having regard to the market conditions and the existing use of the Group's PPE, the Directors carried out a review on the recoverable amount of the Group's PPE at 31 December 2009. The review led to the recognition of an impairment loss of approximately HK$2,691,000 (2008: HK$nil) that was recognised and charged to the consolidated income statement.

(b) At the end of the reporting period, the Group's interest in freehold property and leasehold buildings, located in and outside Hong Kong, are analysed at their carrying amounts as follows:

| | **2009**<br>**HK$'000** | 2008<br>HK$'000 |
|---|---|---|
| Freehold property outside Hong Kong | **11,645** | 11,621 |
| Leasehold buildings in Hong Kong – leases between 10 – 50 years | **12,566** | 14,982 |

(c) The carry amounts of assets under finance leases were HK$3,247,000 (2008: HK$8,824,000).

(d) At 31 December 2009, the freehold property and certain leasehold buildings with the carrying amounts of approximately HK$24,211,000 (2008: HK$25,180,000) were pledged to secure the Group's bank borrowings (notes 30 and 31).

## 19. Prepaid land lease payments

The Group's interests in leasehold land represented prepaid land lease payments and their carrying amounts are analysed as follows:

| | **2009**<br>**HK$'000** | 2008<br>HK$'000 |
|---|---|---|
| At 1 January | **23,009** | 23,607 |
| Amortisation | **(595)** | (598) |
| Impairments | **(776)** | – |
| Disposals | **(407)** | – |
| At 31 December | **21,231** | 23,009 |
| Current portion | **(587)** | (598) |
| Non-current portion | **20,644** | 22,411 |

## 19. Prepaid land lease payments (continued)

The Group's leasehold land was held under the following lease terms:

| | **2009** | 2008 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| In Hong Kong and held on leases of between 10 to 50 years | **21,231** | 23,009 |

At 31 December 2009, the leasehold land with the carrying amount of approximately HK$21,231,000 (2008: HK$22,594,000) was pledged to secure the Group's bank borrowings as further detailed in notes 30 and 31 to the financial statements.

## 20. Investment property

| | **Group** | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| **Cost:** | | |
| At 1 January | **9,105** | 9,506 |
| Exchange differences | **77** | (401) |
| At 31 December | **9,182** | 9,105 |
| **Accumulated depreciation:** | | |
| At 1 January | **455** | 285 |
| Charge for the year | **179** | 189 |
| Exchange differences | **9** | (19) |
| At 31 December | **643** | 455 |
| **Carrying amounts:** | | |
| At 31 December | **8,539** | 8,650 |

(a) The investment property is freehold property located at Suite 3A-5, Level 5, Block 3A, Plaza Sentral, Jalan Stesen Sentral 5, 50470 Kuala Lumpur, Malaysia. The estimated fair value of the property at 31 December 2009 was approximately HK$17,445,000 (2008: HK$17,299,000) which was determined based on recent market transactions.

(b) The investment property with the carrying amount of approximately HK$8,539,000 (2008: HK$8,650,000) was pledged to secure the Group's bank borrowings (notes 30 and 31).

(c) The Group had no unprovided contractual obligations for future repairs and maintenance.

## 21. Investments in subsidiaries

| | Notes | Company 2009 HK$'000 | Company 2008 HK$'000 |
|---|---|---|---|
| Unlisted shares, at cost | (a) | **233,433** | 233,433 |
| Less: Impairments | (c) | **(233,433)** | – |
| | | **–** | 233,433 |
| Amount due from a subsidiary | (b) | **339,880** | 340,967 |
| Less: Impairments | (c) | **(339,880)** | – |
| | | **–** | 340,967 |

Notes:

(a) Particulars of principal subsidiaries are set out in note 41 to the financial statements.

(b) The amount due from a subsidiary was unsecured, interest free and had no fixed terms of repayment. The carrying amount of the balance due from a subsidiary approximated its amortised cost, net of impairments.

(c) At 31 December 2009, the Directors performed an impairment test on the Group's investments in subsidiaries and the amount due from a subsidiary, and they considered that their carrying amounts are in excess of the recoverable amounts as a result of the continuing operating losses of the relevant subsidiaries and discontinuation of the business in retail sales of mobile phones and accessories. Accordingly, the provisions for impairment of approximately HK$233,433,000 (2008: HK$nil) against the investments in subsidiaries and approximately HK$339,880,000 (2008: HK$nil) against the amount due from a subsidiary were recognised and charged in the income statement of the Company.

## 22. Investment in an associate

| | Group 2009 HK$'000 | Group 2008 HK$'000 |
|---|---|---|
| Share of net assets | **–** | 546 |
| Goodwill | **1,785** | 1,785 |
| | **1,785** | 2,331 |
| Less: Impairments (note) | **(1,785)** | – |
| | **–** | 2,331 |

Note: At 31 December 2009, the Directors performed an impairment test on the Group's investment in an associate, and they considered that its carrying amount is in excess of the recoverable amount as a result of the continuing operating losses of the associate. Accordingly, a provision for impairment of approximately HK$1,785,000 (2008: HK$nil) was recognised and charged in the consolidated income statement.

## 22. Investment in an associate (continued)

Summarised financial information in respect of the Group's associate is set out below:

| | 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| **At 31 December:** | | |
| Total assets | **3,047** | 2,033 |
| Total liabilities | **(3,973)** | (354) |
| | **(926)** | 1,679 |
| **For the year ended 31 December:** | | |
| Revenue | **10,562** | 2,290 |
| Loss for the year | **(5,861)** | (231) |

Details of the Group's associate at the end of the reporting period are as follows:

| Name of the associate | Place or country of incorporation/ operation | Issued share capital | Effective percentage of issued capital held by the Company indirectly 2009 | 2008 | Principal activities |
|---|---|---|---|---|---|
| Mobile FPX Sdn. Bhd. | Malaysia | RM1,000,000 | **32.50%** | 32.50% | Designing, developing, integrating, producing, distributing and operating the secured mobile payment system/platform and the finished products |

The Group had unrecognised loss for the year and the accumulated losses at the end of the reporting period of approximately HK$268,000 (2008: HK$nil) in respect of its share of equity interest in Mobile FPX Sdn. Bhd.

## 23. Inventories

| | Group 2009<br>HK$'000 | 2008<br>HK$'000 |
|---|---|---|
| Merchandises | **24,818** | 588,498 |
| Less: Impairments | **(10,560)** | (36,811) |
| | **14,258** | 551,687 |

## 24. Trade receivables

The normal credit period granted to the customers of the Group is up to 90 days, except for sales made to certain creditworthy customers to which a longer credit period may be granted on a case by case basis. At the end of the reporting period, the ageing analysis of the trade receivables is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| 1-30 days | **12,405** | 323,634 |
| 31-60 days | **18,492** | 386,735 |
| 61-90 days | **34,871** | 438,962 |
| 91-120 days | **36,594** | 501,313 |
| Over 120 days | **1,835,833** | 58,372 |
| Less: Impairments | **(1,921,313)** | (71,017) |
| | **16,882** | 1,637,999 |

At the end of the reporting period, the ageing analysis of net trade receivables, which was past due but not impaired, is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| 91-120 days | **–** | 464,974 |
| Over 120 days | **–** | 23,694 |
| | **–** | 488,668 |

At the end of the reporting period, trade receivables of the Group amounting to HK$1,921,313,000 (2008: HK$71,017,000) were impaired. The individually impaired trade receivables mainly related to customers that had prolonged their repayment due to unexpected financial difficulties.

Movements on the impairment of trade receivables are as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| At 1 January | **71,017** | 64,643 |
| Impairments for the year | **1,850,088** | 9,954 |
| Release on disposal of subsidiaries | **(795)** | – |
| Exchange differences | **1,003** | (3,580) |
| At 31 December | **1,921,313** | 71,017 |

## 24. Trade receivables (continued)

The creation or release of provision for impaired trade receivable have been included in "General and administrative expenses" of the consolidated income statement. Impaired amounts were directly written off against trade receivables when there was no expectation of recovering additional cash.

The gross amounts of the Group's trade receivables were denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| HK$ | **1,818,053** | 1,517,357 |
| RM | **56,144** | 87,047 |
| USD | **38,289** | 56,810 |
| Indonesia Rupiah ("IDR") | **10,558** | – |
| EUR | **183** | 16,186 |
| Philippines Peso ("P$") | **–** | 19,443 |
| Other | **14,968** | 12,173 |
| | **1,938,195** | 1,709,016 |

## 25. Financial assets at fair value through profit or loss

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Money market fund, at fair value – unlisted | **–** | 614 |

At 31 December 2008, the investment above represented investments in unlisted money market fund which was denominated in Euro that offer the Group the opportunity for return through dividend income and/or fair value gains. They had no fixed maturity or coupon rate.

## 26. Prepayment, deposits and other receivables

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Prepayments | **1,339** | 3,053 |
| Deposits and other receivables | **42,692** | 103,744 |
| | **44,031** | 106,797 |
| Less: Impairments | **(19,893)** | – |
| | **24,138** | 106,797 |

Included in the impairments recognised in respect of prepayments, deposits and other receivables were individually impaired deposits and other receivables with the aggregate amounts of approximately HK$19,893,000 with the equivalent gross amounts at 31 December 2009. The individually impaired amounts relate to counterparties that were in default of repayment. The Group did not hold any collateral or other credit enhancements over these balances.

Save as disclosed, none of the above assets was either past due nor impaired and the financial assets included in the above balances related to receivables for which there was no recent history of default.

## 27. Derivative financial instruments

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Forward foreign exchange contracts | **–** | 1,425 |

Derivative was initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at its fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group's derivative instruments did not qualify for hedge accounting. Changes in the fair value of any derivative instruments that did not qualify for hedge accounting are recognised immediately in the income statement under other income/expenses.

During the year ended 31 December 2008 and as at that date, the Group had entered into six structured forward contracts with two banks in Hong Kong with contract period ending July 2009, August and September 2010. Pursuant to the contract terms, the Group was obligated to purchase a pre-determined amount of USD at an exchange rate of approximately HK$7.73 per USD1 ("Contract Rate") on a monthly basis. Subject to the spot HK$/USD exchange rate at each transaction date, amount of USD the Group was obligated to purchase in years 2010 pursuant to these contracts ranged from USD5 million to USD120 million. Also, these contracts were knocked out if accumulated profits earned by the Group for each individual contract reached HK$800,000 or the contract resulted in a gain position for the Group for any twelve months during the contract period.

There were five structured forward contracts with a bank outstanding at 31 December 2009. Subsequent to the end of the reporting period, on 7 January 2010, these contracts were early terminated by the bank with a penalty charged to the Group of US$98,000 (approximately HK$764,000). A provision for the penalty has been recorded in the accruals of the Group at 31 December 2009.

## 28. Pledged deposits and cash and bank balances

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Pledged bank deposits (note) | **42,926** | 409,427 |
| Cash and bank balances | **18,414** | 97,983 |
| | **61,340** | 507,410 |

Note: These bank deposits were pledged as collateral for the Group's short-term banking facilities.

Cash at banks earned interest at floating rates based on daily bank deposit rates. Short term time deposits were made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earned interest at the respective short term time deposit rates. The bank balances and pledged deposits were deposited with creditworthy banks with no recent history of default.

Cash and bank balances were denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| USD | **11,425** | 184,550 |
| RM | **38,397** | 178,104 |
| HK$ | **6,855** | 126,561 |
| P$ | **960** | 9,082 |
| Singapore Dollar ("S$") | **550** | 4,359 |
| Others | **3,153** | 4,754 |
| | **61,340** | 507,410 |

## 29. Trade and bills payables

At the end of the reporting period, the ageing analysis of the trade payables is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| 1-30 days | **4,534** | 293,367 |
| 31-60 days | **3,591** | 380,834 |
| 61-90 days | **33,593** | 126,579 |
| 91-120 days | **82,886** | 1,285 |
| Over 120 days | **318,010** | 8,660 |
| | **442,614** | 810,725 |

Included in trade payables at the end of the reporting period, approximately HK$412,341,000 (2008: HK$458,516,000) of which were secured by certain corporate guarantees granted by the Company to the largest supplier of the Group and certain trade insurance companies. Included in the guaranteed trade payables, approximately HK$344,500,000 (2008: HK$nil) of which were interest-bearing at 2.5% per month.

## 29. Trade and bills payables (continued)

The carrying amounts of the Group's trade and bills payables were denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| USD | **427,608** | 708,038 |
| EUR | **80,389** | 214,732 |
| RM | **70,225** | 181,447 |
| HK$ | **2,931** | 9,109 |
| Others | **4,615** | 1,204 |
| | **585,768** | 1,114,530 |

## 30. Short-term borrowings

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| Short-term bank borrowings, secured | **503,862** | 707,634 |
| Bank overdrafts, secured | **75,047** | 5,693 |
| | **578,909** | 713,327 |

(a) The carrying amounts of the short-term borrowings were denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| USD | **273,585** | 367,735 |
| HK$ | **225,473** | 279,381 |
| RM | **73,535** | 292 |
| EUR | **6,316** | 65,917 |
| Others | **–** | 2 |
| | **578,909** | 713,327 |

(b) Short-term bank borrowings and overdrafts were repayable within one year.

## 30. Short-term borrowings (continued)

(c) The effective interest rates of short-term borrowings at the end of the reporting period were as follows:

| | Bank borrowings | | Bank overdrafts | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| USD | **5.6%** | 4.0% | **–** | – |
| HK$ | **4.2%** | 4.3% | **6.0%** | 5.3% |
| RM | **–** | – | **7.5%** | 7.4% |
| EUR | **4.4%** | 6.2% | **–** | – |

(d) At 31 December 2009, the Group's bank borrowings were secured by the corporate guarantees granted by the Company and the freehold property, leasehold land and buildings, and investment property of the Group with the aggregate carrying amounts of approximately HK$53,981,000 (2008: HK$56,424,000).

## 31. Long-term borrowings

(a) The analysis of the Group's long-term borrowings is as follows:

| | Bank borrowings – secured | | Finance leases payable – note 31 (b) | | Total | |
|---|---|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Amounts repayable: | | | | | | |
| Within one year or on demand | **66,749** | 1,480 | **645** | 2,677 | **67,394** | 4,157 |
| In the second year | **–** | 1,500 | **579** | 1,657 | **579** | 3,157 |
| In the third to fifth years, inclusive | **–** | 1,513 | **419** | 1,194 | **419** | 2,707 |
| After five years | **–** | 1,501 | **–** | – | **–** | 1,501 |
| | **66,749** | 5,994 | **1,643** | 5,528 | **68,392** | 11,522 |
| Less: current portion | | | | | **(67,394)** | (4,157) |
| Non-current portion | | | | | **998** | 7,365 |

## 31. Long-term borrowings (continued)

(b) At the end of the reporting period, the total future minimum lease payments under finance leases and their present values were as follows:

| | Group | | | |
|---|---|---|---|---|
| | **Minimum lease payments 2009 HK$'000** | Minimum lease payments 2008 HK$'000 | **Present value of minimum lease payments 2009 HK$'000** | Present value of minimum lease payments 2008 HK$'000 |
| Amounts payable: | | | | |
| Within one year | **758** | 2,954 | **645** | 2,677 |
| In the second to fifth years, inclusive | **676** | 1,860 | **579** | 1,657 |
| After five years | **491** | 1,380 | **419** | 1,194 |
| Total minimum finance lease payments | **1,925** | 6,194 | **1,643** | 5,528 |
| Future finance charges | **(282)** | (666) | | |
| Total net finance lease payables | **1,643** | 5,528 | | |
| Portion classified as current liabilities | **(645)** | (2,677) | | |
| Non-current portion | **998** | 2,851 | | |

(c) The carrying amounts of long-term borrowings were denominated in the following currencies:

| | Group | |
|---|---|---|
| | **2009 HK$'000** | 2008 HK$'000 |
| HK$ | **19,194** | 5,232 |
| RM | **35,275** | 5,350 |
| USD | **13,582** | 208 |
| Others | **341** | 732 |
| | **68,392** | 11,522 |

## 31. Long-term borrowings (continued)

(d) The interest rates of long-term borrowings at the end of the reporting period were as follows:

| | Bank borrowings – secured | | Finance lease payables | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| HK$ | **4.03%** | 1.70% | **3.9%** | 3.3% |
| RM | **7.20%** | 6.90% | **3.9%** | 4.1% |
| USD | **2.24%** | – | **–** | 13.4% |
| P$ | **–** | – | **–** | 10.7% |

(e) At 31 December 2009, the Group's bank borrowings were secured by the corporate guarantees granted by the Company and the freehold property, leasehold land and buildings, and investment property of the Group with the aggregate carrying amounts of approximately HK$53,981,000 (2008: HK$56,424,000).

(f) During the year ended 31 December 2009 and as at that date, the Group has breached certain bank covenant requirements and defaulted in repayment of the bank borrowings as detailed in notes 30 and 31, and the related bank borrowings hence became repayable on demand. At 31 December 2009, non-current portion of bank borrowings of the Group amounted to approximately HK$20,726,000 were reclassified as current portion and became repayable on demand as a result of the breaches.

## 32. Financial guarantee liabilities

At 31 December 2009, the Company has given corporate guarantees to certain banks, trade insurance companies and the largest supplier of the Group to secure for general banking facilities and trade credits granted to certain of its subsidiaries, and approximately HK$1,050,599,000 of which were utilised by the subsidiaries as at that date. As further explained in notes 2 and 31 to the financial statements, the Group has breached certain bank covenant requirements and defaulted in repayment of certain bank borrowings. At the end of the reporting period, it is probable that the Company will be liable to the potential claims under any of these guarantees. Accordingly, a provision for financial guarantee liabilities of approximately HK$1,050,599,000 for the Company has been made against the probable uncovered exposures to be borne by the Company under those guarantees at 31 December 2009.

## 33. Deferred tax

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| At 1 January | **10,368** | 18,834 |
| Charged to the consolidated income statement (note 11) | **(14,760)** | (8,668) |
| Disposal of subsidiaries | **(1,305)** | – |
| Exchange differences | **(279)** | 202 |
| At 31 December | **(5,976)** | 10,368 |

## 33. Deferred tax (continued)

At 31 December 2008, deferred tax assets were recognised for tax losses carried to the extent that realisation of the related tax benefit through taxable profits is probable. At 31 December 2009, no deferred tax asset has been recognised due to the unpredictability of future profit streams of the Group.

Subject to agreement with the tax authorities, the Group had unrecognised tax losses of approximately HK$2,239,851,000 (2008: HK$117,017,000) to carry forward against future taxable profits. Included in unrecognised tax losses were losses of approximately HK$32,477,000 (2008: HK$31,692,000) that will expire in the years from 2014 to 2018. Other tax losses may be carried forward indefinitely.

No liability has been recognised in respect of the temporary differences associated with undistributed earnings of subsidiaries and the associate of the Group, because these timing differences were insignificant at end of the reporting period.

The movements in the Group's deferred tax assets/(liabilities) during the year are as follows:

| | Group | | | | |
|---|---|---|---|---|---|
| | **Provision** | **Accelerated tax depreciation** | **Tax losses** | **Others** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2008 | 22,782 | (619) | 1,529 | (4,858) | 18,834 |
| (Charged)/credited to the consolidated income statement | (7,455) | 248 | (45) | (1,416) | (8,668) |
| Exchange differences | (627) | 25 | (17) | 821 | 202 |
| At 31 December 2008 and at 1 January 2009 | 14,700 | (346) | 1,467 | (5,453) | 10,368 |
| (Charged)/credited to the consolidated income statement | (14,551) | 371 | (227) | (353) | (14,760) |
| Disposal of subsidiaries | (6) | (63) | (1,236) | – | (1,305) |
| Exchange differences | (160) | 9 | (4) | (124) | (279) |
| At 31 December 2009 | (17) | (29) | – | (5,930) | (5,976) |

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **HK$'000** | HK$'000 |
| **At 31 December:** | | |
| Deferred tax assets | **–** | 14,254 |
| Deferred tax liabilities | **(5,976)** | (3,886) |
| | **(5,976)** | 10,368 |

## 34. Share capital

| | Company Number of ordinary shares HK$0.10 each | HK$'000 |
|---|---|---|
| Authorised: | | |
| At 31 December 2009 and 2008 | 3,000,000,000 | 300,000 |
| Issued and fully paid: | | |
| At 31 December 2008 and 1 January 2009 | 1,945,696,565 | 194,570 |
| Share options exercised* (note 36) | 300,000 | 30 |
| At 31 December 2009 | 1,945,996,565 | 194,600 |

* On 23 October 2009, the subscription rights attaching to 300,000 share options were exercised at the subscription price of HK$0.265 per share (note 36), resulting in the issue of 300,000 additional shares of HK$0.10 each for a total cash consideration, before expenses, of HK$79,500.

**Capital management**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. Except for the compliance of certain bank covenants for maintaining the Group's banking facilities, the Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the two years ended 31 December 2009 and 2008.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 30 and 31, and equity attributable to owners of the Company, comprising share capital and reserves. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares as well as increase or decrease the level of borrowings.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as debt to total assets. Debt is calculated as total borrowings (including current and non-current borrowings but excluding bills payables, as shown in the consolidated statement of financial position).

The gearing ratios at 31 December 2009 and 2008 were as follows:

| | Group 2009 HK$'000 | 2008 HK$'000 |
|---|---|---|
| Total borrowings | **647,301** | 724,849 |
| Total assets | **192,863** | 2,919,255 |
| Gearing ratio | **336%** | 25% |

## 34. Share capital (continued)

### Capital management (continued)

The higher gearing ratio resulted primarily from the increased difficulties to recover certain of the Group's trade receivables to finance its working capital. The Directors have given careful consideration on the measures currently undertaken in respect of the Group's liquidity position. The Directors believe that the Group will be able to meet in full its financial obligations as they fall due upon the completion of the Proposed Restructuring, as further explained in note 2 to the financial statements.

## 35. Reserves

### (a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

### (b) Company

| | Share premium HK$'000 | Share-based payment reserve HK$'000 | Retained profits/ (accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2008 | 287,000 | 9,644 | 20,768 | 317,412 |
| Profit for the year | – | – | 9,795 | 9,795 |
| Share-based payments | – | 2,893 | – | 2,893 |
| 2007 final dividend paid | – | – | (9,728) | (9,728) |
| At 31 December 2008 and at 1 January 2009 | 287,000 | 12,537 | 20,835 | 320,372 |
| Issue of ordinary shares upon exercise of share options (note 36) | 281 | (231) | – | 50 |
| Loss for the year | – | – | (1,567,815) | (1,567,815) |
| Share-based payments | – | 895 | – | 895 |
| At 31 December 2009 | 287,281 | 13,201 | (1,546,980) | (1,246,498) |

### (c) Nature and purpose of reserves of the Group

#### (i) Share premium account

Pursuant to the Companies Law (1998 Revision) of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

## 35. Reserves (continued)

### (c) Nature and purpose of reserves of the Group (continued)

#### (ii) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefor.

#### (iii) Share-based payment reserve

The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 4 to the financial statements.

#### (iv) Foreign currency translation reserve

The foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 4 to the financial statements.

## 36. Share option scheme

The purpose of the share option scheme ("Scheme") is for the Company to attract, retain and motivate talented participants to strive for the goals of the Group and to provide the Company with a flexible means of giving incentives, rewarding, remunerating, compensating and/or providing benefits to the participants. Eligible participants include executive directors, non-executive directors, employees, consultants, professional and other advisers of the Group, chief executives, substantial shareholders and its employees, and any associates of directors, chief executives or substantial shareholders of the Company, as absolutely determined by the Board. The Scheme became effective on 29 April 2003 and unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme must not in aggregate exceed 10% of the shares of the Company in issue at any time. Notwithstanding the foregoing, the shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other option schemes at any time shall not exceed 30% of the shares in issue from time to time.

The maximum number of shares issuable to each participant in the Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share option granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to the issue of a circular by the Company and the shareholders' approval in general meeting.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 by the grantee. Options granted under this Scheme may be exercised within a period to be notified by the Board or the Committee to each grantee as being the period during which an option may be exercised, and in any event, such period shall not be longer than 10 years from the date of grant of the option.

## 36. Share option scheme (continued)

The exercise price of the share options is determined by the Directors, but may not be less than the higher of (i) the closing price of the Shares as stated in the Exchange's daily quotation sheet on the date of offer, which must be a business day; (ii) the average closing price of the Shares as stated in the Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of a Share.

On 23 October 2009, the subscription rights attaching to 300,000 share options were exercised at the subscription price of HK$0.265 per share (note 34), resulting in the issue of 300,000 additional shares of HK$0.10 each for a total cash consideration, before expenses, of HK$79,500. During the year, the Group has charged share-based payments of approximately HK$895,000 (2008: HK$2,893,000) against the Group's results. The outstanding options at 31 December 2009 had a remaining contractual life of approximately 1.03 years (2008: 2.03 years)

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

| Category of participant | At 1 January | Forfeited/ lapsed during the year | Exercised during the year | At 31 December | Date of grant of share options | Exercise period of share options | Exercise price of share options |
|---|---|---|---|---|---|---|---|
| Employees in aggregate: | | | | | | | |
| 2009 | 92,000,000 | – | – | 92,000,000 | 11 July 2007 | 11 July 2007 to 10 January 2011 | HK$0.265 |
| | 79,600,000 | (3,000,000) | – | 76,600,000 | 11 July 2007 | 11 October 2007 to 10 January 2011 | HK$0.265 |
| | 13,100,000 | – | (300,000) | 12,800,000 | 11 July 2007 | 11 November 2007 to 10 January 2011 | HK$0.265 |
| | 184,700,000 | (3,000,000) | (300,000) | 181,400,000 | | | |
| Exercisable at the end of the year | | | | 170,161,324 | | | |

| Category of participant | At 1 January | Forfeited/ lapsed during the year | Exercised during the year | At 31 December | Date of grant of share options | Exercise period of share options | Exercise price of share options |
|---|---|---|---|---|---|---|---|
| Employees in aggregate: | | | | | | | |
| 2008 | 92,000,000 | – | – | 92,000,000 | 11 July 2007 | 11 July 2007 to 10 January 2011 | HK$0.265 |
| | 79,600,000 | – | – | 79,600,000 | 11 July 2007 | 11 October 2007 to 10 January 2011 | HK$0.265 |
| | 18,300,000 | (5,200,000) | – | 13,100,000 | 11 July 2007 | 11 November 2007 to 10 January 2011 | HK$0.265 |
| | 189,900,000 | (5,200,000) | – | 184,700,000 | | | |
| Exercisable at the end of the year | | | | 139,004,000 | | | |

## 37. Notes to the consolidated statement of cash flows

### (a) Disposal of subsidiaries

On 14 October 2009, the Group entered into an agreement to dispose of the Group's entire interest in a subsidiary, namely First Design Limited, to Corporate Global Limited, an independent third party, at a cash consideration of HK$1. On 26 October 2009, the Group entered into another agreement to dispose of the Group's entire interests in five wholly-owned subsidiaries, namely Unipearl Pacific Limited, Mobile City (Hong Kong) Limited ("Mobile City"), New Precision Limited ("New Precision"), Wireless City Limited and Uprun Limited, to Spirit Union International Limited, an independent third party, at a cash consideration of HK$20 million. During the year, Mobile City and New Precision were involved in retail sales of mobile phones and accessories in Hong Kong, and the rest of the disposed subsidiaries were inactive.

| | HK$'000 |
|---|---|
| Net assets at the date of disposals were as follows: | |
| Property, plant and equipment | 1,982 |
| Deferred tax assets | 1,305 |
| Inventories | 5,314 |
| Trade receivables | 658 |
| Prepayments, deposits and other receivables | 6,030 |
| Pledged bank deposits | 1,927 |
| Cash and bank balances | 2,486 |
| Trade payables | (4,615) |
| Accruals and other payables | (2,381) |
| Minority interests | (27) |
| | 12,679 |
| Gain on disposal of subsidiaries | 7,321 |
| Satisfied by cash | 20,000 |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | HK$'000 |
|---|---|
| Cash consideration | 20,000 |
| Bank balances disposed of | (2,486) |
| Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries | 17,514 |

During the year ended 31 December 2008, the net inflow of cash and cash equivalents of approximately HK$14,000,000 in respect of consideration settlement for disposal of subsidiaries in prior year.

## 37. Notes to the consolidated statement of cash flows (continued)

### (b) Major non-cash transactions

(i) During the year ended 31 December 2009, part of the sales proceeds from the disposal of the motor vehicles held under finance leases of approximately HK$908,000 (2008: HK$nil) were used to settle the finance lease payable with the equivalent amounts.

(ii) During the year, the Group entered into finance lease arrangements in respect of motor vehicles with a total capital value at the inception of the contracts of approximately HK$533,000 (2008: HK$3,291,000).

## 38. Contingent liabilities

The Group and the Company did not have any significant contingent liabilities at 31 December 2009 and 2008.

## 39. Commitments

### (a) Commitments under operating leases

(i) The Group leases certain of its office properties, staff quarters and office equipment under operating lease arrangements. Leases for properties and staff quarters are negotiated for terms ranging from 1 to 2 years, and those for office equipment are for terms ranging between 1 and 3 years. At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Land and buildings | | Office equipment | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **3,562** | 16,048 | **14** | 45 |
| In the second to fifth years, inclusive | **2,062** | 7,023 | **9** | 70 |
| | **5,624** | 23,071 | **23** | 115 |

(ii) At the end of the reporting period, the Group had future aggregate minimum lease income receivable under non-cancellable operating leases as follows:

| | Land and buildings | | Office equipment | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **2,352** | 1,686 | **–** | 130 |
| In the second to fifth years, inclusive | **173** | 1,302 | **–** | – |
| | **2,525** | 2,988 | **–** | 130 |

## 39. Commitments (continued)

### (b) Other commitments

At the end of the reporting period, the Group had notional amounts of approximately HK$nil (2008: HK$38,057,000) outstanding forward exchange contracts to hedge against outstanding purchase orders denominated in foreign currencies.

## 40. Events after the reporting period

(a) Subsequent to the end of the reporting period, on 19 January 2010, as a result of the default in repayment of certain bank borrowings, a leasehold land and building of the Group with the carrying amount of approximately HK$4,266,000 at 31 December 2009 was repossessed by Citic Ka Wah Bank (the "Bank") for subsequent sale of that property for partial settlement of the indebtedness of approximately HK$18,437,000 due to the Bank at the end of the reporting period.

(b) As further detailed in note 2 to the financial statements, the Group has been unable to service certain repayments of their mortgage loans during the year ended 31 December 2009. On 6 January 2010, one of the bank creditors, Public Bank (Hong Kong) Limited (the "Plaintiff" and as the mortgagor), issued the originating summons with the High Court of Hong Kong against First Telecom International Limited (the "1st Defendant" and as the borrower), an indirect wholly-owned subsidiary of the Company, for vacant possession of five mortgaged properties with the carrying amounts of approximately HK$29,531,000 at 31 December 2009 and for repayment of all moneys due to the Plaintiff under the mortgages of approximately HK$72,544,000 at the end of the reporting period and against the Company (the "2nd Defendant") for two guarantees associated with mortgages with the equivalent amounts, together with the related interest and costs, on a full indemnity basis, and further and/or other relief.

Upon the joint application of the Plaintiff and the 1st and 2nd Defendants by way of the consent summons filed on 22 January 2010, it was agreed that the Plaintiff will gradually take possession of the mortgaged properties starting from 25 January 2010. Subsequently, from 24 May 2010 to 21 June 2010, the Plaintiff had exercised its power of sale as conferred upon it by virtue of the mortgages and sold three out of five mortgaged properties at the cash considerations of approximately HK$10,500,000 which were fully used to settle part of the outstanding mortgage loans due to the Plaintiff.

(c) First Mobile Group Sdn. Bhd., an indirect wholly-owned subsidiary of the Company, entered into the sale and purchase agreement on 25 March 2010 in relation to the disposal of certain freehold properties at a total consideration of approximately HK$15,720,000 which were fully used to settle part of the outstanding mortgage loans.

(d) As disclosed in the Company's announcement dated 5 July 2010, the Company, the Investor, the Major Shareholders and Deloitte entered into the Exclusivity Agreement on 25 June 2010 for the purpose of the Proposed Restructuring. In accordance with the indication of preference by the Creditors upon the expiry of the Creditors' Election Period, the Proposed Restructuring will be carried out by way of Scheme of Arrangement.

Subsequently, for the purpose of the Proposed Restructuring, the Company entered into a subscription agreement with the Investor on 27 August 2010 (the "Subscription Agreement"). Pursuant to the Subscription Agreement, and subject to the terms and conditions therein, the Company agreed to allot and issue to the Investor and the Investor agreed to subscribe for new shares in the Company for a total cash consideration of HK$162 million.

Further details of the Proposed Restructuring are explained in note 2 to the financial statements and the Company's announcement on 16 September 2010.

## 41. Particulars of the principal subsidiaries

The Directors are of the opinion that a complete list of the particulars of all subsidiaries would be of excessive length and therefore the following list contains only the subsidiaries which principally affect the results or assets of the Group at the end of the reporting period.

| Name of the subsidiary | Place of incorporation/ registration/ operation | Issued and paid-up share capital/ registered capital | Percentage of equity interest attributable to the Croup | | Principal activities |
|---|---|---|---|---|---|
| | | | **2009** | 2008 | |
| **Direct subsidiary:** | | | | | |
| E-Tech Resources Limited | British Virgin Islands | 10,000 shares of US$1 each | **100%** | 100% | Investment holding |
| **Indirect subsidiaries:** | | | | | |
| Contact Mobile Pte. Ltd. | Singapore | 10,000 ordinary shares of S$1 each | **100%** | 100% | Trading and distribution of mobile phones* |
| East-Tel International Limited | Hong Kong | 20,000 shares of HK$1 each | **100%** | 100% | Trading of mobile phones* |
| Exquisite Model Sdn. Bhd. | Malaysia | 1,000,000 ordinary shares of RM1 each | **100%** | 100% | Trading and retailing of mobile phones* |
| First Asia Mobile, Inc. | Republic of the Philippines | 12,500,000 shares of P$1 each | **100%** | 100% | Trading and distribution of mobile phones* |
| First Mobile Group Sdn. Bhd. | Malaysia | 500,000 ordinary shares of RM1 each | **100%** | 100% | Trading and distribution of mobile phones* |
| First Telecom International Limited | Hong Kong | 50,000,000 ordinary shares of HK$1 each | **100%** | 100% | Trading and distribution of mobile phones* |
| | | 3,019,944 non-voting deferred shares of HK$1 each | **–** | – | |

## 41. Particulars of the principal subsidiaries (continued)

| Name of the subsidiary | Place of incorporation/ registration/ operation | Issued and paid-up share capital/ registered capital | Percentage of equity interest attributable to the Croup | | Principal activities |
|---|---|---|---|---|---|
| | | | 2009 | 2008 | |
| Generation Mobile Pte. Ltd. | Singapore | 2 shares of S$1 each | 100% | 100% | Trading and distribution of mobile phones* |
| Lets Do Mobile Philippines Inc. | Republic of the Philippines | 85,000,000 shares of P$1 each | 100% | 100% | Trading and distribution of mobile phones* |
| Mobile Distribution (M) Sdn. Bhd. | Malaysia | 200,000 ordinary shares of RM1 each | 100% | 100% | Trading and distribution of mobile phones* |
| Mobileperformances SARL | France | 850 shares of 10 EUR each | 100% | 100% | Trading of mobile phones* |
| Precision SARL | France | 850 shares of 10 EUR each | 100% | 100% | Trading of mobile phones* |
| é-Touch Mobile Private Limited | India | 10,000 shares of Indian Rupees 10 each | 95% | 95% | Trading and distribution of mobile phones |
| PT. Comworks Indonesia | Indonesia | 330,000 shares of USD1 each | 100% | 100% | Trading and distribution of mobile phones |

* Business activities downsized during the year.

## 42. Comparative figures

As further explained in note 3 to the financial statements, due to the adoption of certain revised HKFRSs during the current year, the presentation of certain items, balances and the related explanatory notes to the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative figures have been re-presented to conform with the current year's presentation. In addition, the comparative income statement has been re-presented as if the operation discontinued during the current year had been discontinued at the beginning of the comparative period (note 12).

## 43. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 21 September 2010.

# Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below. The amounts for each year in the five year financial summary have been adjusted for the effects of the discontinued operation during the current year.

## Results

| | For the years ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Continuing operation** | | | | | |
| Revenue | **3,106,161** | 7,115,314 | 7,769,094 | 7,620,417 | 6,489,740 |
| Profit/(loss) before tax | **(2,125,822)** | 81,265 | 124,898 | 101,181 | 50,517 |
| Income tax | **(10,855)** | (29,260) | (26,044) | (38,896) | (31,362) |
| Profit/(loss) for the year from continuing operation | **(2,136,677)** | 52,005 | 98,854 | 62,285 | 19,155 |
| **Discontinued operation** | | | | | |
| Loss for the year from discontinued operation | **(27,927)** | (10,966) | (35,323) | (21,874) | (12,832) |
| **Profit/(loss) for the year** | **(2,164,604)** | 41,039 | 63,531 | 40,411 | 6,323 |
| **Attributable to:** | | | | | |
| Owners of the Company | **(2,164,419)** | 40,953 | 63,543 | 40,715 | 8,498 |
| Minority interests | **(185)** | 86 | (12) | (304) | (2,175) |
| | **(2,164,604)** | 41,039 | 63,531 | 40,411 | 6,323 |

## Assets and liabilities

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2009** | 2008 | 2007 | 2006 | 2005 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Non-current assets | **59,542** | 95,348 | 103,063 | 84,206 | 159,299 |
| Current assets | **133,321** | 2,823,907 | 2,753,508 | 2,653,515 | 2,324,598 |
| Current liabilities | **(1,380,380)** | (1,934,738) | (1,900,145) | (1,838,290) | (1,615,505) |
| Non-current liabilities | **(6,974)** | (11,251) | (9,077) | (24,473) | (50,753) |
| **Net assets/(liabilities)** | **(1,194,491)** | 973,266 | 947,349 | 874,958 | 817,639 |
| **Attributable to:** | | | | | |
| Owners of the Company | **(1,194,491)** | 973,095 | 947,349 | 874,946 | 817,284 |
| Minority interests | **–** | 171 | – | 12 | 355 |
| **Total equity** | **(1,194,491)** | 973,266 | 947,349 | 874,958 | 817,639 |