Fortune Telecom Holdings Limited

(Incorporated in Bermuda with limited liability)
Stock Code: 0110

Annual Report 2006

Oriental Wisdom ╬ Western Strategy

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Major Business Partners

Board of Directors

Chairman
Lau Siu Ying

Executive Director
Luo Xi Zhi

Non-executive Directors
Fung Oi Ip, Alfonso
Lo Wing Yat

Independent Non-executive Directors
Chang Wing Seng, Victor
Wong Lit Chor, Alexis
Chen Yi Gang

Company Secretary
Fok Wai Ming, Eddie

Audit Committee

Chang Wing Seng, Victor
Fung Oi Ip, Alfonso
Wong Lit Chor, Alexis

Registered Office

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

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

China Head Office
Room C, E & F, 8/F., East Tower,
Shanghai Hi-Tech King World,
666 Beijing East Road, Huang Pu District, Shanghai,
PRC.

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

Principal Share Registrar and Transfer Office
The Bank of Bermuda Limited
Bank of Bermuda Building,
6 Front Street, Hamilton HM11,
Bermuda.

Hong Kong Branch Share Registrar and Transfer Office
Abacus Share Registrars Limited
26/F., Tesbury Centre,
28 Queen's Road East, Wanchai,
Hong Kong.

Auditor

Deloitte Touche Tohmatsu

Legal Advisors

Conyers Dill & Pearman

Principal Bankers

CITIC Ka Wah Bank
Hang Seng Bank
Standard Chartered Bank
China Merchants Bank
Xiamen International Bank

Corporate Websites

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

Stock Code

110

Corporate Profile

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

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

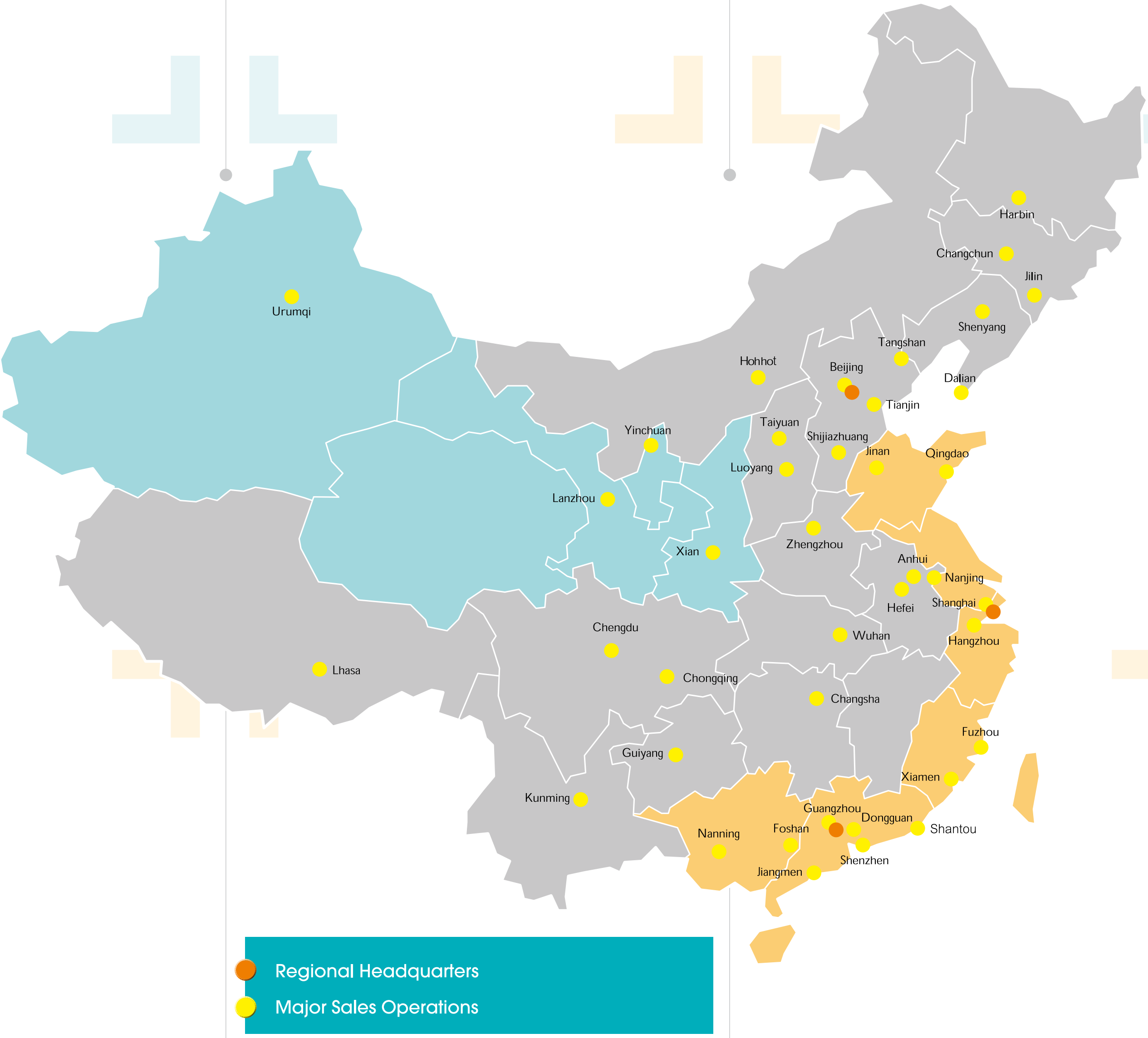
Customers and major business partners include leading network in the PRC and Hong Kong such as CSL, Smartone-Vodafone, China Mobile, China Unicom, wholesalers, resellers, retailers, internet service providers and operators, Government authorities and corporate customers.

The Group also provides integrated distribution services which include sourcing, warehousing, promotional marketing, wholesale, direct selling, retailing and express delivery of mobile phones, PDAs, Wireless LAN and all related accessories.

Fortune Telecom possesses an extensive distribution and services network, with operations in Hong Kong, Beijing, Shanghai, Guangzhou and over 70 sales operations in province/city levels across the PRC with more than 1,500 operating and sales personnel, The Group has about 10,000 active customers and supplies directly to over 30,000 mobile and IT retail shops in the PRC and Hong Kong.

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

Distribution Coverage in the PRC



Business Structure

FORTUNE TELECOM HOLDINGS LIMITED
(HKSE Code:110)

Telecommunications

Mobile Phone Distribution and After Sales Services

Authorised Distribution Network in the PRC

Information Technology

Wireless Data and Broadband Communication

PDA

Logistics System

Networking Products

System Integration

Telecommunications Industry

Wireless LAN

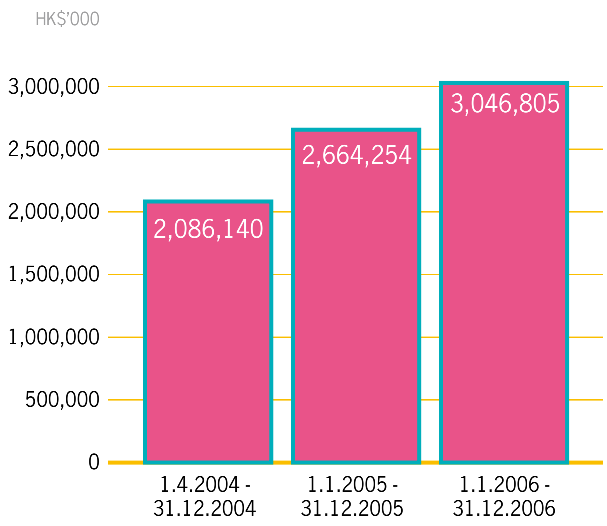
Finance Industry

Procurement

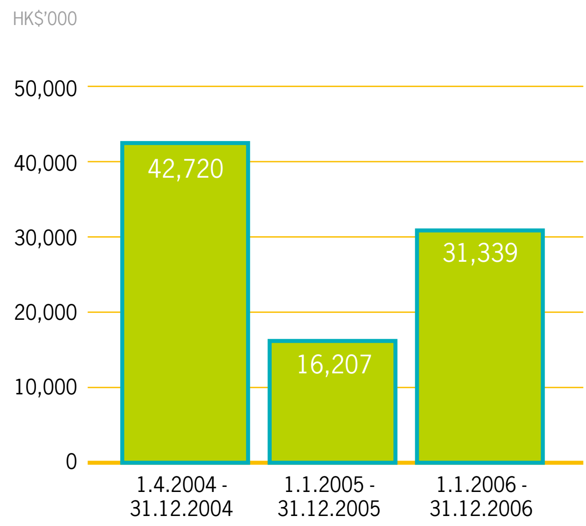
Retail Industry

Fulfillment

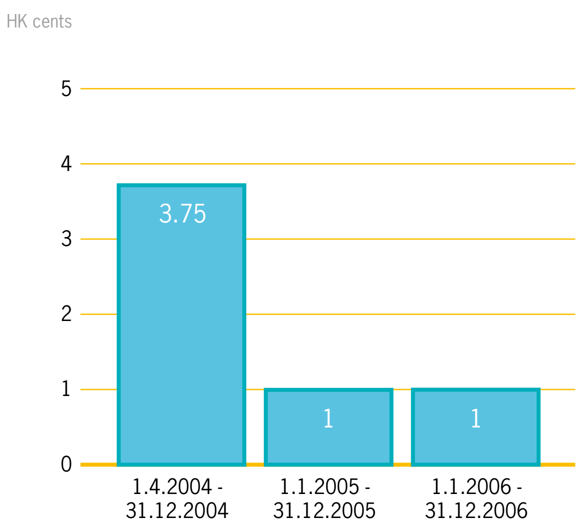
Revenue



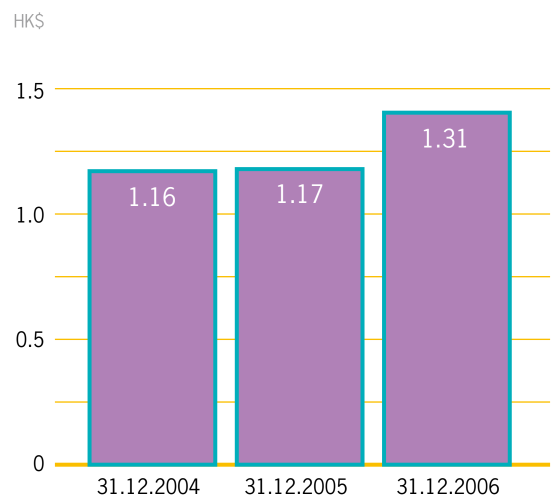
Profit



Dividend per Share



Net Assets Value per Share



Corporate Milestones

92	02.18	The former trading arm of the Group – Express Fortune Limited ("EFL") was founded by Mr. Lau and his brothers in Hong Kong.
92-94		EFL became one of Nokia's earliest authorized distributors in PRC.
97		Commenced Fortune Telecom Group's franchise retail business in PRC.
00	02.16	Listed on GEM Board of the Hong Kong Stock Exchange (Stock code: 8040).
	12	A USD 12 million syndicated loan was successfully arranged.
01	07	Completed the acquisition of 51% shareholdings of Synergy Pacific (Holding) Limited ("Synergy Pacific").
02	05	Fortune Shanghai was acknowledged by Shanghai Waigaoqiao Free Trade Zone Management Committee as one of the best enterprises for commodity sales.
	09	A HKD 160 million syndicated loan was successfully arranged.
03	03	The Group has achieved a record annual sale of 2.1 million sets of mobile phones and a record net profit over HKD 60 million.
	06	For a consecutive year, Fortune Shanghai was again acknowledged by Shanghai Waigaoqiao Free Trade Zone Management Committee as one of the best enterprises for commodity sales.
04	01.26	Listed on the Main Board of the Hong Kong Stock Exchange (Stock code: 110).
	05	The Group started to distribute BenQ's mobile phones in PRC.
05	05	The Group started to distribute NEC's mobile phones in PRC.
	09	A USD 16 million syndicated loan was successfully arranged.
	11	Fortune Shanghai increased its share capital from USD 6 million to USD 25 million.
	12	Successfully completed the acquisition of 100% shareholdings of Synergy Technologies (Asia) Limited, a former wholly-owned subsidiary of Synergy Pacific, and the disposal of 46% shareholdings of Synergy Pacific.
06	01	Newly obtained the nationwide distributorship of Samsung mobile phones.
	09	Successfully obtained the Fulfillment Distributorship for all Nokia Stores/Nokia Professional Centers in PRC.

Significant Events during the Year

In Jan 2006, the Group obtained nationwide distributorship for Samsung mobile phones in PRC.

In Jun 2006, the Group obtained nationwide distribution rights of 6 new Samsung mobile phone models in PRC.

In Aug 2006, the Group launched wireless multi-media product "Slingbox" in Hong Kong.

the Group obtained distributorship for Nokia "E Series" products for IT/computer centre channels in Hong Kong.

In Sep 2006, the Group obtained the Fulfillment Distributorship for all Nokia Stores/Nokia Professional Centres in PRC.

In Oct 2006, the Group established its Corporate Communications Department to enhance the PR and IR affairs handling.

In Nov 2006, the Group launched Palm Treo 750v PDA mobile phones in Hong Kong.

In Dec 2006, the Group launched Palm Treo 680 PDA mobile phones in Hong Kong.

Our fundamentals remained strong and, looking forwards to **the future,** the Group will continue to seek for opportunities for long term growth under **structural and prudent strategies.**

Lau Siu Ying
Chairman and Chief Executive Officer

Dear shareholders,

I am pleased to report that the Group continued to record an overall growth during the year. It is the seventh consecutive year for the Group to record a profit since its first listing in 2000. This indicated that our fundamentals remained strong and stable. Looking forwards to the future, the Group will continue to seek for opportunities for long term growth under structural and prudent strategies. Other than obtaining more national distribution rights for new model, the Group continued the magnificent business partnership with Nokia during the year and obtained the Fulfillment Distributorship for around a hundred Nokia Stores and Nokia Professional Centres all over China. By obtaining this new fulfillment distribution right, the distribution product line of the Group is widened and the revenue becomes more stable.

On the other hand, the Group started the business relationship with another leading mobile brand – Samsung during the year. The nationwide distribution rights of eight new Samsung models were granted to the Group. This new business partnership helps the Group to enrich its product line mix and ensures the diversification of the Group's business module.

HANDSET DISTRIBUTION IN CHINA

Challenges are still everywhere. The PRC mobile phone industry was overwhelmingly competitive during the year, especially among the distribution market. Competitors like other nationwide-distributors and chain stores were eager to enlarge their market shares. Inter-brand competitions were still keen, domestic and foreign leading brands established different direct and indirect distribution channels in order to deepen their infiltration. As concerned, the potential market of traditional mobile phone distribution is narrowing down chronically. The senior management team is intently monitoring this phenomenon. The Group, notwithstanding, recorded a net profit attributable to shareholders of HK$31.3 million

for the year as compared with that of HK$11.4 million for last year, as a result of the diversification strategy carried out successfully.

The top three brands, Nokia, Motorola and Samsung still dominated the market and continued to increase their market shares in 2006. The domestic brands, nevertheless, still found their rooms of survival. According to the figures of Ministry of Information Industry ("MII"), the PRC, 480 million of domestic brand handsets were manufactured during the year. This figure showed that there is a massive demand of domestic made handsets in the market. As the MII pledged that 3G service will be available during the Beijing 2008 Olympic Game, it is presumed that the 3G licenses will come down to a decision within 2007. It is expected that the operators will play an important role in the market in the coming 3G era. As a result, to establish good relationships and cooperation with all these market players becomes a key successful factor to secure a leading position in the market. The Group will continue to strengthen our existing relationships with the leading manufacturers and to look for new cooperation opportunities with all other manufacturers and operators with a view to establish a firm foundation for our future growth.

SMARTPHONE DISTRIBUTION IN HONG KONG

The Group, through its wholly-owned subsidiary, Synergy Technologies (Asia) Limited ("Synergy"), obtained the distribution rights of new smartphone models, namely Treo 680 and 750v, in Hong Kong from Palm during the year. Synergy has been the authorized distributor of Palm in Hong Kong for more than 10 years and our good relationship is expected to continue strengthening the Group's distribution business in Hong Kong.

NEW INVESTMENTS

During the year, the Group has made a significant investment – the acquisition of the controlling stake in a retail chain stores group in Zhuhai, the PRC, namely 珠海市雷鳴達通訊設備有限公司. It sets the debut step of the Group's new diversification strategy in the PRC telecom market. That is one small step for the Group, one giant leap for the meaning.

Another significant step that the Group made during the year was the acquisition of 50% stake in DW Mobile Technology Limited, which is specialized in outlook and content design, marketing and distribution of licensed, characterized and premium mobile phones. I believe that the said acquisition could consolidate the fundamental basis of the Group further and marks the new era of the Group's diversified development.

On 23rd April, 2007, the Company has entered into a non-binding memorandum with TeleChoice International Limited ("TeleChoice"), a company incorporated in Singapore and listed on the Main-Board of the Singapore Exchange Securities Trading Limited, to establish a joint venture company to be principally engaged in the mobile fulfillment business in the PRC. TeleChoice is a regional diversified provider and enabler of innovative communications and is a subsidiary of Singapore Technologies Telemedia Pte Ltd., a leading info-communications company with operations in Asia-Pacific, the Americas and Europe. This co-operation with a leading company in telecommunications industry will no doubt enhance the Group's competitive edges in this business area.

APPRECIATION

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

Lau Siu Ying
Chairman and Chief Executive Officer
Hong Kong, 23rd April, 2007

Management Discussion and Analysis

Review and outlook

Financial Review

During the year, the Group obtained nationwide distribution rights for one more Nokia's new handset model, namely E50. Nokia model E50 is belong to business-themed E-Series which is targeted at the business users and supports today's most popular and newly announced corporate mobile email solutions. Although E50 was launched in the mainland China market in last October and thus not forming a very significant part in the Group's total sales turnover, its contribution towards the Group's result was promising. The Group's sales turnover for the year was mainly contributed by other Nokia models, namely 7610, 3220, 6708 and 2600.

In September 2006, the Group reached an agreement with Nokia regarding the Fulfillment Distributorship for Nokia Stores and Nokia Professional Centres ("NPCs"). According to the said agreement, the Group was appointed as the fulfillment distributor for NPCs in mainland China and supplies to approximately 100 NPCs all over the country. The Group is entitled to certain types of rebates according to the rebate scheme as agreed with Nokia from time to time. At present, the Group is the sole fulfillment distributor for NPCs in mainland China. In order to facilitate the order placing and management processes, the Group self-invented a web-based distribution resources planning system. The NPCs can place orders and make enquiry on order status real-time on-line. The fulfillment distributorship of Nokia creates more business opportunity and generates comparatively stable revenue and profit for the Group.

In this year, the Group firstly obtained nationwide distribution rights in mainland China for eight Samsung's new handset models, namely D848, E778, E788, i858, X508, X518, X638 and X688. Together with the long-term partnership with Nokia, the Group's distribution foundation is further enhanced. The Samsung handset models D848 and E788 also had an outstanding contribution towards the Group's sales turnover and result during the year.

The Group recorded a consolidated turnover during the year of total HK$3,047 million as compared with that of HK$2,664 million for last year. The total number of handsets sold in 2006 of approximately 2,802,000 sets was around 2% higher than that of 2005 which was approximately 2,760,000 sets. Both the sales turnover and the number of handsets sold increased mainly because the Group has started the new businesses as stated above. The gross margin did not have any significant change and stayed at 3.7% as compared to 3.6% last year.

To increase the geographical coverage, to deepen market penetration and to cope with the increase of models being distributed, the distribution costs showed an increase of 18% in comparison with that of last year. With tightening control over various administrative functions, the administrative expenses dropped for 15% as compared to last year. The raise in bank borrowings due to the commencement of new businesses in the year led to an increase in finance costs of 25% over last year.

As a result, the Group reported a profit before taxation of HK$37 million for the year, an increase of HK$17 million in comparison with that of HK$20 million for the year ended 31st December, 2005. The net profit attributable to shareholders for the year was HK$31 million, increased by 182% as compared with that of HK$11 million for the year ended 31st December, 2005. The net asset value of the Group as at 31st December, 2006 amounted to HK$396 million or HK$1.31 per share versus HK$354 million or HK$1.17 per share as at 31st December, 2005. The earning per share for the year ended 31st December, 2006 was HK10.4 cents, while the earning per share for the year ended 31st December, 2005 was HK3.8 cents.

As at 31st December, 2006, the Group's aggregate borrowings amounted to approximately HK$677 million, of which HK$458 million was revolving working capital loans denominated in Renminbi to provide flexibility to the Group in response to the changing monthly trading volume. The increase in bank borrowing from HK$272 million as at 31st December, 2005 to HK$677 million was mainly attributable to the increase in working capital requirement arising from the commencement of new businesses during the year. There was a 3-year syndicated loan of US$13 million as at 31st December, 2006, which was raised in September 2005 and amounted to US$16 million as at 31st December, 2005. Due to the breach in certain financial covenants, the loan was classified as short-term in accordance with the corresponding accounting standards. The Group was granted a waiver from strict compliance with the relevant covenants on 13th April, 2007. The Group did not have any gearing as the Group did not have any long-term liability as of 31st December, 2006. The total bank deposits and cash balances amounted to approximately HK$201 million, of which HK$151 million has been pledged to banks. The finance costs for the year of HK$28 million were higher than that of last financial year because of the raise in borrowings which was in turn due to the commencement of new businesses. The interest cover was 2.4 times. To cope with the high bank borrowing ratio, the Group continues to monitor its working capital requirement closely with a view to reduce its total bank borrowings and lower the finance costs accordingly.

During the year, there was no material change in the Group's funding and treasury policy. As over 90% of the Group's sales and purchases are denominated in Renminbi and the exchange rate of Renminbi against Hong Kong dollar is relatively predictable, the risk of currency exposure is considered minimal.

The amount of inventory as at 31st December, 2006 was HK$601 million, which represented approximately 75 days stock turnover as compared to 26 days stock turnover based on the inventory level of HK$181 million as at 31st December, 2005. The increase in stock turnover period was mainly attributable to the commencement of NPC fulfillment distribution and Samsung mobile phone distribution businesses. Inventory level tends to be higher during the preliminary stage of a new business, but it is expected to go down to a lower level as the businesses approach their maturity in the year of 2007. The Group keeps on taking a cautious approach in inventory ordering and price negotiation with the suppliers. Any drop in price of the product has no material impact on the financial position of the Group as most inventories are covered by the pre-arranged price protection rebates from the suppliers. The Group was only required to make a small provision of HK$5 million for slow-moving and obsolete stocks for the year as most inventories were current models of mobile phones as at 31st December, 2006.

The amount of trade receivable as at 31st December, 2006 was HK$171 million, which represented approximately 20 days debtor turnover period as compared to 11 days last year. The increase in debtor turnover period was also because of the commencement of the two new businesses during the year. As the businesses approach their maturity in 2007, the debtor turnover period is expected to decrease accordingly. The Group adopts a tight credit control policy and most of the sales are on either cash basis or limited credit period of less than 30 days. As at 31st December, 2006, more than 60% of trade and bills receivables were aged less than 30 days. Bad debts written off for the year was HK$0.8 million or 0.03% of the Group's turnover. As normal practice and for prudence sake, the Group made an additional allowance for the year of HK$5 million, which represented approximately 0.2% of the Group's turnover.

As at 31st December, 2006, the Group had a total number of 1,620 employees, which included 1,531 marketing representatives and non-contracted promoters in various cities in the mainland China. The increase in the number of employees was mainly due to the commencement of the two new businesses during the year. Employees were remunerated according to the nature of their jobs and market trend. Quarterly performance evaluation is done in order to determine rewards in motivating individual employee. The Group provided staff welfare and fund contribution to its employees in accordance with prevailing regulations in the PRC and Hong Kong. There was no material change in remuneration policy, bonus and share option scheme since 31st December, 2005. No option had been granted during the year.

Operational Review

Market Overview

According to the statistics released by the Ministry of Information Industry ("MII"), the PRC, there were more than 461 million subscribers to mobile phone services in the mainland China as at the end of 2006, equivalent to a penetration rate of 35.3 users per 100 persons. The number of mobile phone users in China increased by approximately 67.7 million during the year. The existing penetration rate is, nevertheless, still low in comparison with that of other developed countries of more than 50%. With a continuous economic growth rate of more than 8% per annum in the PRC, it is expected that the PRC mobile phone market will continue to grow at a double-digit figure per annum.

The Chinese government has not yet confirmed the time of issuing 3G licenses but it is expected that the licenses will be issued within the year of 2007 and 3G phones services will be provided during the 2008 Beijing Olympic Games, as pledged by the MII last December. The launch of 3G phones will definitely attract new customers and create additional demands for the market. However, as 3G phone requires a substantial supports and add-on services from operators, operators should then play a more active role in pushing the sales and this may differ from the existing distribution modes.

The mobile phone market remains competitive with over 1,000 models at various price ranges. Foreign brands, however, especially the top three brands: Nokia, Motorola and Samsung, continues to increase their markets shares and together capture more than half of the overall market shares. As the PRC government released the production licenses for the domestic brands, some domestic manufacturers started to produce low-end handsets. The MII recorded a figure of 480 million handsets produced in the PRC during the year. Domestic brands' low production cost and high channel profit develops a huge market of low-to-mid-end handsets, which unquestionably creates some impacts to the existing market. The senior management of the Group is closely monitoring this phenomenon.

Business Review

Mobile phone distribution continued to be the Group's core business for the year, which accounted for over 90% of the Group's turnover and operation profit. For low-end market, Nokia's models 2600 and 3220 accounted for approximately 7% and 19% respectively of the Group's turnover during the year. In mid to high-end market segment, the performance of Nokia's models 6708, 7610 and Samsung model D848 were promising which accounted for approximately 8%, 24% and 7% respectively of the Group's turnover during the year.

With continuous effort in expanding the Group's distribution network and deepening market penetration in the past few years, the Group maintained a customer base of more than 10,000 active customers by the end of 2006. The Group would continue to pay more attention on the quality of the customers and provide them with high standard services with a view to generate more sales revenue and profits per customer.

In Hong Kong, the Group's wholly-owned subsidiary, Synergy Technologies (Asia) Limited launched a number of new products, namely Slingbox and Palm Treo 680 and 750v, in the year. At the same time, the distribution of network systems continued to maintain a stable growth.

Prospect and Outlook

During the year, the Group was granted NPC Fulfillment Distributorship from Nokia. This business provides the Group with the opportunity to carry the full range of Nokia mobile phone models and generate stable revenue and profit in the future.

In the same period, the Group obtained the national distribution rights for eight Samsung handset models. This is the first Samsung distributorship for the Group and it is expected that more new models will be brought into the Group in the coming year. The development of this business will continue to improve the Group's distribution portfolio.

In earlier 2007, the Group fixed two merger and acquisition ("M&A") deals in which the Group acquired 51% stake and 50% stake in 珠海市雷鳴達通訊設備有限公司 and DW Mobile Technology Limited respectively. The Group believes that these two investments will further diversify the income sources of the Group and are in line with the Group's current business strategy. Notwithstanding the Group's diversified business scope within the industry of wireless communications, it has always maintained a key focus in the mobile phone distribution business.

The Group will continue to seek for other business opportunities which include developing other fulfillment and/or distribution modes in order to provide added value to suppliers as well as operators for the upcoming 3G phones; expanding existing brand portfolio to cover more major foreign brands of mobile phones in mainland China; and cooperating with internet services providers in providing application software based on the Group's self-invented web-based distribution resources planning system. The Group will also consider other M&A possibilities in order to further diversify its business scopes.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. LAU Siu Ying, aged 44, is the founder, Chairman and Chief Executive Officer of the Group. Mr. Lau has extensive working experiences in the telecommunications industry for over 16 years and has established solid business contacts in both Hong Kong and the PRC. Mr. Lau is responsible for directing the Group's overall business policy and strategies as well as overseeing the Group's business development in Hong Kong and PRC. Prior to setting up his business, Mr. Lau worked for Hutchison Whampao Group for approximately five years, in charge of the business development of the telecommunications in PRC. Mr. Lau is also the Board Councilor of China Mobile Communications Association in Beijing and the Chairman of Chinese Chamber of Information and Communication Technologies in Hong Kong. Mr. Lau holds a bachelor degree in Business Administration from the Chinese University of Hong Kong and a Master of Science degree in Information Technology from the National University of Ireland, Dublin.

Mr. LUO Xi Zhi, aged 49, joined the Group in October 1995. Mr. Luo is also the Financial Controller of the Group's PRC operation. Mr. Luo holds a certificate in Accounting from the Finance Academy of Jiangxi Province. Mr. Luo has approximately 20 years of financial and accounting experience in the PRC. Prior to joining the Group in 1995, Mr. Luo was the chief accountant for Zhaoqing Sz Di Telecom Co., Ltd.

Non-executive Directors

Mr. FUNG Oi Ip, Alfonso, aged 50, owns and runs the leading Law Costs Draftsman firm in Hong Kong which was established in 1986. A pioneer in his profession, he taught himself computer programming, developed and published a specialist law costing software in 1986. The software was subsequently licensed to the Hong Kong Government for use in the Legal Aid Department. Mr. Fung also takes a keen interest in developing Internet-related business. Mr. Fung was appointed as a Non-executive Director of the Group in October 1999.

Mr. LO Wing Yat, aged 48, is a Director, Managing Director and Alternate Chief Executive Officer of CITIC International Financial Holdings Limited, a Director of CITIC Ka Wah Bank Limited and a Director and the Chief Executive Officer of CITIC International Assets Management Limited. Mr. Lo graduated from the University of Hong Kong with a bachelor degree in laws. Mr. Lo was admitted as a solicitor of the Supreme Court of England and Wales in 1989. Prior to joining CITIC International Financial Holdings Limited, Mr. Lo served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and then became a partner of Messrs. Kao, Lee & Yip and Messrs. Linklaters. Mr. Lo was appointed as a Non-executive Director of the Group in October 1999.

Independent Non-executive Directors

Mr. CHANG Wing Seng, Victor, aged 69, is currently the Managing Director of APCG Business Pte. Limited in Singapore. Prior to this, Mr. Chang was the Managing Director of Singapore Technologies Telecommunications (Beijing) Pte. Ltd. based in Beijing for two years. Mr. Chang had held various senior management positions over 25 years with the Singapore Technologies Group. Mr. Chang is a graduate in Accounting of the Royal Melbourne Institute of Technology and has completed the Program for Management Development at the Harvard University Graduate School of Business Administration. Mr. Chang was a certified public accountant in both Singapore and Australia. Mr. Chang also a member of the Institute of Chartered Accountants. Mr. Chang was registered as a Tax Agent by the Tax Agents' Board for the State of Victoria in Australia in 1960 and was registered as a Company Auditor in the Register of Company Auditors in Australia in 1965. Mr. Chang was appointed as an Independent Non-executive Director of the Group in October 1999.

Mr. WONG Lit Chor, Alexis, aged 49, graduated from the University of Toronto, Canada with a bachelor degree in Arts majoring in economics and commerce. He also holds a master degree in Business Administration obtained from the Chinese University of Hong Kong. Mr. Wong has over 20 years of banking, investment, corporate finance and securities dealing experience gained from working as a senior executive in a number of listed local and PRC financial services companies. He is currently a director and responsible person of Quam Securities Company Limited for Types 1 and 4 regulated activities under the Securities and Futures Ordinance. He is also an Independent Non-executive Director of Argos Enterprise (Holdings) Limited, Inspur International Limited and Wing Hing International (Holdings) Limited, which are companies listed on GEM Board or Main Board of The Stock Exchange of Hong Kong.

Mr. CHEN Yi Gang, aged 54, graduated from Shaoxing Institute of Administration（紹興行政學院）, majoring in Corporate Management. Mr. Chen has over 30 years of experience in the field of telecommunication, gained from working as a senior executive in a PRC government bureau and a number of PRC telecommunication companies.

Company Secretary

Mr. FOK Wai Ming, Eddie, aged 39, is the Company Secretary and Chief Financial Officer of the Group. Mr. Fok graduated from the University of Hong Kong with a bachelor degree of Science in Engineering and the University of Wolverhampton with a bachelor degree in laws. Mr. Fok is a member of the Hong Kong Institute of Certified Public Accountants and the American Institute of Certified Public Accountants. Mr. Fok had held senior management positions, including as a board member, in a number of listed and unlisted companies in Hong Kong.

Senior Management

Mr. WANG Yu, aged 41, is the Vice President of the Group and is responsible for the administration and management of the Group's operations in the PRC. Mr. Wang is also in charge of the legal affairs, public relationship, human resources and risk management of the Group. Mr. Wang graduated from Xi'an Jiaotong University with a master degree and a bachelor degree in Computer Science. Mr. Wang has more than 10 years working experiences in channel and distribution management on computer products and mobile phones with local and multinational companies in PRC. Prior to joining the Group in April 2006, Mr. Wang was a general manager of a listed company in PRC focusing on IT business.

Mr. LO Kwok Leung, Jeff, aged 38, is the Sales Director of the Group in charge of sales and marketing activities in PRC and Business Unit Deputy General Manager handling Nokia's handsets business in PRC. Mr. Lo obtained his bachelor degree in Fu-Jen Catholic University in Taiwan, major in sociology. Prior to joining the Group in July 2000, Mr. Lo has had almost 10 years experience in Hong Kong and PRC responsible for the sales and marketing of consumer electronic products in PRC.

Mr. FONG Po Kiu, aged 38, joined Synergy Technologies (Asia) Limited in 1994, and is currently the General Manager of the Company. During his 13 years of employment, he had introduced a lot of pioneering products and technologies (like 56K modem, PDA, Smartphone, Wi-Fi and Slingbox, etc), into Hong Kong and set the milestones for the Company in Hong Kong ICT (Information, Communication & Technology) sector. Mr. Fong graduated from Hong Kong Polytechnic (now Hong Kong Polytechnic University) and is now the Fellowship Member (FCIS) of the Institute of Chartered Secretaries and Administrators (ICSA), United Kingdom and Fellowship Member (FCS) of the Hong Kong Institute of Company Secretaries (HKICS). Mr. Fong has been the Councilor and Vice-president of Hong Kong Information Technology Federation since 2002 and 2004 respectively. Mr. Fong is also the Founding Member & Councilor of Internet Society – Hong Kong Chapter (ISOC-HK) and the Vice-chairman of Chinese Chamber of Information and Communication Technologies and Fellowship Member of Hong Kong Computer Society (HKCS). In 2006, Mr. Fong was elected as an Election Committee Member (IT subsector) of Hong Kong Chief Executive Election 2007. He was also elected as the Chairman of Electronics and Communication Industry Safety & Health Committee (2007 – 2010) under Occupational Safety & Health Council (OSHC) in 2007.

Mr. LI Xiaohe, aged 38, newly joined the Group in 2007. Mr. Li currently is the General Manager of National Operator Affairs in PRC, mainly handles the external affairs of several national operators. Prior to joining the Group, Mr. Li was the Sales and Marketing Director of Ericsson (China) Co., Ltd. (now Sony Ericsson) and the Sales Director of Lucent Technologies (China) Co., Ltd. for approximately 10 years. Mr. Li was graduated from Nanjing Aeronautic & Aerospace University, major in Electric Engineering. He also has a Master degree of Business Administration from Norwegian School of Management BI & Fudan University.

Mr. LAU Chin Ying, aged 37, is the Sales Director of PRC Second Division, mainly in charge of sales and marketing activities of Samsung products in PRC. Mr. Lau joined the Group in 2001 and is the second youngest brother of the Group's Chairman Mr. Steve Lau and beneficial owner of Fortune 97 Associates Limited, which is a shareholder of the Company.

Mr. LAM Man Kit, aged 31, is the Group's Finance Manager, mainly responsible for merger and acquisition projects. Mr. Lam graduated with a bachelor degree of Business Administration from the University of Hong Kong. Mr. Lam is a member of the Association of Chartered Certified Accountants. Prior to joining the Group in January 2007, Mr. Lam has years of financial and audit experiences in Hong Kong and PRC.

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining high standards of corporate governance with a view to assuring the integrity, transparency and quality of disclosure to protect the interests of all shareholders. The Company has applied the principles and complied with all the applicable code provisions of the Code on the Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rule") for the year ended 31st December, 2006, except for the deviations as stated in paragraph headed "Chairman and Chief Executive Officer" and "Re-election of Directors".

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

DIRECTORS' SECURITIES TRANSACTIONS

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

Having made specific enquiry with all Directors, each of whom has confirmed that he has complied with the required standard as set out in the Model Code for the year ended 31st December, 2006. The Model Code also applies to other specified senior management of the Group.

BOARD OF DIRECTORS

Composition and role

The Board of Directors of the Company comprises:

Executive Directors:	Lau Siu Ying *(Chairman)* Luo Xi Zhi
Non-executive Directors:	Fung Oi Ip, Alfonso Lo Wing Yat
Independent Non-executive Directors:	Chang Wing Seng, Victor Wong Lit Chor, Alexis (appointed on 7th September, 2006) Chen Yi Gang (appointed on 28th February, 2007) Fok Wai Ming, Eddie (resigned on 7th September, 2006) Liu Kwok Fai, Alvan (resigned on 28th February, 2007)

The Board comprises of a chairman, one executive Director and five non-executive Directors, of which three of them are independent non-executive Directors and represent more than one-third of the board. The Directors are, collectively and individually, aware of their responsibilities to the shareholders, for the manner in which the affairs of the Company are managed and operated. The Directors' biographical information is set out on pages 16 to 18 under the heading "Directors and Senior Management Profile".

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Provision A2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual but Mr. Lau Siu Ying currently assumes both roles of the Chairman and the Chief Executive Officer of the Company.

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

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

RE-ELECTION OF DIRECTORS

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

NON-EXECUTIVE DIRECTORS

The non-executive Directors, including the independent non-executive Directors, are all seasoned individuals from diversified backgrounds and industries and at least one member has an appropriate accounting qualification or related financial management expertise as required by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). With their expertises, they bring independent judgments on issues of strategic directions, developments, performances and risk management through their contributions at Board meetings and committee works.

The independent non-executive Directors also maintain a balance between the interests of the minority shareholders and the Company as a whole. The Board considers that each independent non-executive Director is independent in character and judgment and that they all meet the specific independence criteria as required by the Listing Rules. The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of Chapter 13 of the Listing Rules and the Company still considers such Directors to be independent. The independent non-executive Directors are explicitly identified in all corporate communications.

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

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

BOARD MEETINGS

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

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

Executive Directors	**Attendance**
Lau Siu Ying *(Chairman)*	4/4
Luo Xi Zhi	2/4
Non-executive Directors	
Fung Oi Ip, Alfonso	4/4
Lo Wing Yat	1/4
Independent Non-executive Directors	
Chang Wing Seng, Victor	2/4
Wong Lit Chor, Alexis (appointed on 7th September, 2006)	1/1
Chen Yi Gang (appointed on 28th February, 2007)	0/0
Fok Wai Ming, Eddie (resigned on 7th September, 2006)	3/3
Liu Kwok Fai, Alvan (resigned on 28th February, 2007)	3/4

BOARD COMMITTEES

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

AUDIT COMMITTEE

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

Chang Wing Seng, Victor – Committee Chairman
Wong Lit Chor, Alexis (appointed on 7th September, 2006)
Fung Oi Ip, Alfonso (appointed on 28th February, 2007)
Fok Wai Ming, Eddie (resigned on 7th September, 2006)
Liu Kwok Fai, Alvan (resigned on 28th February, 2007)

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

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

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the accounts for the year ended 31st December, 2006. Each member of the Audit Committee has unrestricted access to the auditors and all senior staff of the Group.

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

	Attendance
Chang Wing Seng, Victor	2/2
Wong Lit Chor, Alexis (appointed on 7th September, 2006)	1/1
Fung Oi Ip, Alfonso (appointed on 28th February, 2007)	0/0
Fok Wai Ming, Eddie (resigned on 7th September, 2006)	1/1
Liu Kwok Fai, Alvan (resigned on 28th February, 2007)	2/2

NOMINATION OF DIRECTORS

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

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

REMUNERATION COMMITTEE

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

Chang Wing Seng, Victor – Committee Chairman
Wong Lit Chor, Alexis (appointed on 7th September, 2006)
Fung Oi Ip, Alfonso (appointed on 28th February, 2007)
Fok Wai Ming, Eddie (resigned on 7th September, 2006)
Liu Kwok Fai, Alvan (resigned on 28th February, 2007)

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

No meeting was held by the Remuneration Committee during the year. It is expected that members of the Remuneration Committee will meet as and when required.

AUDITOR'S REMUNERATION

Deloitte Touche Tohmatsu was re-appointed as the Company's external auditor by shareholders at the Annual General Meeting on 28th June, 2006, until the conclusion of next Annual General Meeting. They are primarily responsible for providing audit services in connection with the financial statements of the Group for the year ended 31st December, 2006. During the year, the fees charged to the accounts of the Group for Deloitte Touche Tohmatsu's statutory audit services amounted to HKD880,000 (2005: HKD830,000).

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interest of shareholders and the Group's assets. The board has delegated to executive management the implementation of the system of internal controls and the review of all relevant financial, operational and compliance controls and risk management function within an established framework.

The Company's internal audit department reviews the internal control system and evaluates its adequacy, effectiveness and compliance. It reports directly to the Audit Committee and presents internal audit reports to the Committee.

INVESTOR RELATIONSHIP AND COMMUNICATION

In order to maintain a high level of transparency in communicating with shareholders and investors, the Company has established the Corporate Communications Department in October 2006. Leading by an experienced PR and IR specialty, the said department provides tailor-made PR and IR strategies for the Company and briefs and meets with the institutional investors and analysts regularly. In order to ensure effective, clear and accurate communications with the investors and analysts, all corporate communications are arranged and handled by the executive Directors and the designated section executives according to established practices and procedures of the Company.

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

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

CODE OF CONDUCT

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

The directors present their annual report and the audited consolidated financial statements for the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its principal subsidiaries are set out in note 38 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 32 of the annual report.

A final dividend for the year ended 31st December, 2005 of HK1 cent per share, amounting to approximately HK$3,021,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of HK1 cent per share, for the year ended 31st December, 2006, to the shareholders on the register of members on 20th June, 2007.

INVESTMENT PROPERTY

At 31st December, 2006, the Group's investment property was revalued by an independent property valuer on an open market basis. The increase in fair value of HK$60,000 has been credited to the consolidated income statement. Details are set out in note 16 to the consolidated financial statements.

PLANT AND EQUIPMENT

Details of movements during the year in the plant and equipment of the Group are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 27 to the consolidated financial statements.

DISTRIBUTABLE RESERVE OF THE COMPANY

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31st December, 2006 consisted of share premium, contributed surplus and accumulated profits totalling HK$218,655,000 (31st December, 2005: HK$226,497,000).

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

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

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

DIRECTORS

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

Executive directors:

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

Non-executive directors:

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

Independent non-executive directors:

Mr. Chang Wing Seng, Victor	
Mr. Wong Lit Chor, Alexis	(appointed on 7th September, 2006)
Mr. Chen Yi Gang	(appointed on 28th February, 2007)
Mr. Fok Wai Ming, Eddie	(resigned on 7th September, 2006)
Mr. Liu Kwok Fai, Alvan	(resigned on 28th February, 2007)

In accordance with clauses 86(2) and 87 of the Company's bye-laws, Messrs. Fung Oi Ip, Alfonso, Wong Lit Chor, Alexis and Chen Yi Gang shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

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

DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2006, the interests of the directors and their associates in the share capital of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Hong Kong Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Name of director	Number of ordinary shares held by Beneficial owner	Discretionary trust	Total	Percentage of the issued share capital of the Company
Mr. Lau Siu Ying ("Mr. Lau")	280,000	211,500,013 *(Note)*	211,780,013	70.10%

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

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

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any securities of the Company or any of its associated corporations as defined in the SFO at 31st December, 2006.

SHARE OPTIONS

Particulars of the Company's share option scheme are set out in note 28 to the consolidated financial statements. No options have been granted since the adoption of the scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its holding company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsist at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, as at 31st December, 2006, the following shareholder had notified the Company of relevant interests in the issued share capital of the Company.

Name of substantial shareholder	Number of ordinary shares held by: Beneficial owner	Controlled entity	Discretionary trust	Total	Percentage of the issued share capital of the Company
Mr. Lau	280,000	–	211,500,013 *(Note 1)*	211,780,013	70.10%
Mr. Lee Wai, Timothy	–	211,500,013 *(Note 2)*	–	211,500,013	70.01%

Notes:

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

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

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

PRE-EMPTIVE RIGHTS

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

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

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

MAJOR CUSTOMERS AND SUPPLIERS

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

The aggregate purchases attributable to the Group's five largest suppliers during the year comprised approximately 97% of the Group's total purchases and the purchases attributable to the Group's largest supplier was approximately 65%.

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

CORPORATE GOVERNANCE

Save as disclosed in the Corporate Governance Report in pages 19 to 24 of this annual report. The Company has complied throughout the year with the Code on Corporate Governance Practice ("CG Code") as set out in Appendix 14 of the Listing Rules which were then in force.

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

CONNECTED TRANSACTIONS

On 15th September, 2005, the Company entered into a loan agreement with a syndicate of banks in respect of a US$16,000,000 loan facility which had a tenor of three years from the date of the loan agreement. Under the loan agreement, the following conditions were imposed to Mr. Lau, a director and substantial shareholder of the Company:

(i) Mr. Lau and his associates continues to remain collectively the legal and beneficial owner of the issued share capital of Future 2000 Limited, a company in which Mr. Lau and his associates have beneficial interests;

(ii) Future 2000 Limited continues to be the single largest shareholder of the Company;

(iii) Mr. Lau is either the Chairman or the Chief Executive Officer of the Company; and

(iv) Mr. Lau continues to engage in full-time management of the Company.

EMOLUMENT POLICY

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

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

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 28 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2006.

POST BALANCE SHEET EVENTS

Details of significant events occurring after the balance sheet date are set out in note 35 to the consolidated financial statements.

AUDITOR

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

On behalf of the Board

LAU SIU YING
CHAIRMAN
Hong Kong, 23rd April, 2007

Deloitte.
德勤

TO THE SHAREHOLDERS OF FORTUNE TELECOM HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Fortune Telecom Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 32 to 67, which comprise the consolidated balance sheet as at 31st December, 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the Group's state of affairs as at 31st December, 2006 and of the Group's profit and cash flows for the year then ended in accordance with HKFRS and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23rd April, 2007

Consolidated Income Statement

For the year ended 31st December, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Revenue		**3,046,805**	2,664,254
Cost of sales		**(2,933,472)**	(2,569,618)
Gross profit		**113,333**	94,636
Other income	*7*	**17,904**	13,485
Distribution costs		**(36,716)**	(31,138)
Administrative expenses		**(29,502)**	(34,739)
Increase in fair value of an investment property		**60**	200
Finance costs	*8*	**(27,535)**	(22,100)
Profit before taxation		**37,544**	20,344
Income tax expense	*9*	**(6,205)**	(4,137)
Profit for the year	*10*	**31,339**	16,207
Attributable to:			
Equity holders of the parent		**31,339**	11,380
Minority interests		**–**	4,827
		31,339	16,207
Dividend	*13*	**3,021**	11,329
Earnings per share – basic	*14*	**10.4 cents**	3.8 cents

At 31st December, 2006

	NOTES	2006 HK$'000	2005 HK$'000
Non-Current Assets			
Plant and equipment	*15*	**886**	938
Investment property	*16*	**9,560**	9,500
Goodwill	17	**4,910**	4,910
Available-for-sale investment	*18*	**918**	918
Club membership	*19*	**600**	660
Deferred tax assets	*31*	**2,697**	1,052
		19,571	17,978
Current Assets			
Inventories	*20*	**600,871**	181,318
Trade and other receivables	*21*	**333,346**	130,100
Bills receivable	*21*	**15,845**	–
Taxation recoverable		**312**	–
Held for trading investments	*22*	**12,064**	–
Pledged bank deposits	*23*	**150,567**	147,211
Bank balances and cash	*24*	**50,448**	205,906
		1,163,453	664,535
Current Liabilities			
Trade and other payables	*25*	**108,453**	26,159
Bills payable – secured	*26*	**–**	28,846
Taxation payables		**1,737**	1,802
Bank borrowings	*29*	**675,608**	271,692
Bank overdrafts – secured	*24*	**1,058**	–
Obligations under finance leases	*30*	**–**	100
		786,856	328,599
Net Current Assets		**376,597**	335,936
		396,168	353,914
Capital and Reserves			
Share capital	*27*	**30,210**	30,210
Reserves		**365,200**	322,946
Equity attributable to equity holders of the parent		**395,410**	353,156
Share option reserve of a subsidiary		**758**	758
		396,168	353,914

The consolidated financial statements on pages 32 to 67 were approved and authorised for issue by the Board of Directors on 23rd April, 2007 and are signed on its behalf by:

Lau Siu Ying
CHAIRMAN

Luo Xi Zhi
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31st December, 2006

	Attributable to equity holders of the parent									
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Translation reserve HK$'000	Statutory funds HK$'000	Accumulated profits HK$'000	Total HK$'000	Share option reserve of a subsidiary HK$'000	Minority interests HK$'000	Total HK$'000
At 1st January, 2005	30,210	103,275	2,481	402	26,130	186,456	348,954	–	8,560	357,514
Exchange differences arising on translation of foreign operations	–	–	–	4,151	–	–	4,151	–	–	4,151
Net income recognised directly in equity	–	–	–	4,151	–	–	4,151	–	–	4,151
Profit for the year	–	–	–	–	–	11,380	11,380	–	4,827	16,207
Total recognised income for the year	–	–	–	4,151	–	11,380	15,531	–	4,827	20,358
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	758	–	758
Dividend paid to minority interests	–	–	–	–	–	–	–	–	(8,525)	(8,525)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	(4,862)	(4,862)
Dividend	–	–	–	–	–	(11,329)	(11,329)	–	–	(11,329)
At 31st December, 2005	30,210	103,275	2,481	4,553	26,130	186,507	353,156	758	–	353,914
Exchange differences arising on translation of foreign operations	–	–	–	13,936	–	–	13,936	–	–	13,936
Net income recognised directly in equity	–	–	–	13,936	–	–	13,936	–	–	13,936
Profit for the year	–	–	–	–	–	31,339	31,339	–	–	31,339
Total recognised income for the year	–	–	–	13,936	–	31,339	45,275	–	–	45,275
Dividend	–	–	–	–	–	(3,021)	(3,021)	–	–	(3,021)
At 31st December, 2006	30,210	103,275	2,481	18,489	26,130	214,825	395,410	758	–	396,168

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

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

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	NOTE	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES			
Profit before taxation		**37,544**	20,344
Adjustments for:			
Allowance for trade receivables		**5,380**	6,608
Bad debts written off		**816**	1,355
Allowance for other receivables		**–**	421
Write down of inventories		**5,393**	4,431
Impairment loss recognised in respect of club membership		**60**	–
Gain on fair value changes of held for trading investments		**(6,185)**	–
Interest income		**(8,515)**	(7,114)
Interest expenses		**27,535**	22,100
Loss on disposal of plant and equipment		**–**	3
Depreciation on plant and equipment		**401**	768
Increase in fair value of an investment property		**(60)**	(200)
Share-based payment expense		**–**	758
Operating cash flows before movements in working capital		**62,369**	49,474
(Increase) decrease in inventories		**(418,294)**	97,142
(Increase) decrease in trade and other receivables		**(205,412)**	141,592
Increase in bills receivable		**(15,845)**	–
Increase in held for trading investments		**(5,879)**	–
Increase (decrease) in trade and other payables		**81,701**	(13,531)
(Decrease) increase in bills payables		**(30,000)**	28,302
Cash (used in) generated from operations		**(531,360)**	302,979
PRC Enterprise Income Tax paid		**(7,297)**	(8,227)
Hong Kong Profits Tax (paid) refunded		**(930)**	220
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(539,587)**	294,972
INVESTING ACTIVITIES			
(Increase) decrease in pledged bank deposits		**(3,125)**	35,660
Purchase of plant and equipment		**(332)**	(536)
Interest received		**8,515**	7,114
Purchase of club membership		**–**	(660)
Increase in fixed deposit held at bank		**–**	(5,769)
Net cash outflow from disposal of subsidiaries	*32*	**–**	(13,467)
NET CASH FROM INVESTING ACTIVITIES		**5,058**	22,342

Consolidated Cash Flow Statement

For the year ended 31st December, 2006

	2006 HK$'000	2005 HK$'000
FINANCING ACTIVITIES		
Bank and other borrowings raised	**1,075,724**	810,183
Bank and other borrowings repaid	**(675,616)**	(996,415)
Interest paid	**(27,522)**	(22,073)
Dividend paid	**(3,021)**	(11,329)
Dividend paid to minority interests	**–**	(8,525)
Repayment of obligations under finance leases	**(100)**	(200)
Interest on obligations under finance leases	**(13)**	(27)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**369,452**	(228,386)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(165,077)**	88,928
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**205,906**	115,348
Effect of foreign exchange rate changes	**8,561**	1,630
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**49,390**	205,906
Represented by:		
Bank balances and cash	**50,448**	205,906
Bank overdrafts	**(1,058)**	–
	49,390	205,906

1. GENERAL

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

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

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

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

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

3. POTENTIAL IMPACT ARISING ON THE NEW ACCOUNTING STANDARDS/ INTERPRETATIONS NOT YET EFFECTIVE

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments and interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

[1] Effective for annual periods beginning on or after 1st January, 2007
[2] Effective for annual periods beginning on or after 1st January, 2009
[3] Effective for annual periods beginning on or after 1st March, 2006
[4] Effective for annual periods beginning on or after 1st May, 2006
[5] Effective for annual periods beginning on or after 1st June, 2006
[6] Effective for annual periods beginning on or after 1st November, 2006
[7] Effective for annual periods beginning on or after 1st March, 2007
[8] Effective for annual periods beginning on or after 1st January, 2008

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

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

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

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

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

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

Goodwill

Goodwill arising on acquisitions prior to 1st January, 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

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

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

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

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

Sales of goods are recognised when goods are delivered and title has passed.

Rental income from investment property under operating leases is recognised on a straight line basis over the term of the relevant lease.

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

Plant and equipment

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment property

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

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

Impairment losses (other than goodwill)

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

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

Inventories

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

Leasing

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

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

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

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

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

Taxation

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Club membership

Club membership with indefinite life is carried at cost less any subsequent accumulated impairment losses.

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

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

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

Borrowing costs

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

Retirement benefit costs

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

Financial instruments

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

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprises financial assets held for trading.

At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, bills receivable, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

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

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, secured bills payable, bank borrowings, secured bank overdrafts and obligations under finance leases are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

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

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

Equity-settled share-based payment transactions

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

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss with a corresponding adjustment to share option reserve.

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

5. KEY SOURCE OF ESTIMATION

The key source of estimation at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2006, the carrying amount of goodwill is approximately HK$4,910,000. Details of the recoverable amount calculation are set out in note 17.

6. FINANCIAL INSTRUMENTS

6a. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, bills receivable, held for trading investments, pledged bank deposits, bank balances, trade and other payables, secured bills payable, bank borrowings, secured bank overdrafts and obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31st December, 2006 is the carrying amount of trade and other receivables as stated in the consolidated balance sheet. As at 31st December, 2006, the five largest trade receivables accounted for approximately 61% of total trade receivables (net of allowance). In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Interest rate risk

The Group's cash flow interest rate risk relates to variable-rate bank borrowings (note 29) and bank overdrafts (note 24). The Group's fair value interest rate risk relates primarily to fixed-rate short-term bank deposits (note 24) and bank borrowings (note 29). The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Foreign exchange risk

The Group mainly operates in the People's Republic of China ("PRC") with most of the transactions denominated and settled in Renminbi ("RMB"). RMB is not freely convertible into other currencies and conversion of RMB into other currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government. Because the Group does not have material foreign currency transactions, the directors consider it has no material foreign exchange risk. The directors will continue to monitor the condition and consider any hedging activities should the need arise.

Price risk

The Group's held for trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Fair values

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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

7. OTHER INCOME

During the year ended 31st December, 2005, other income included a PRC tax refund on capital reinvestment in a subsidiary. Pursuant to an approval by local tax authority, a subsidiary of the Company received a benefit of approximately HK$5,401,000 (equivalent to approximately RMB5,725,000) in respect of its reinvestment made in a subsidiary. The benefit was calculated with reference to certain percentage of the tax paid by the subsidiary.

8. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interests on:		
Bank borrowings wholly repayable within five years	**27,522**	22,073
Obligations under finance leases	**13**	27
	27,535	22,100

9. INCOME TAX EXPENSE

	2006	2005
	HK$'000	HK$'000
The charge comprises:		
Current tax:		
Hong Kong Profits Tax calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the year	**–**	590
PRC Enterprise Income Tax	**7,850**	4,599
	7,850	5,189
Deferred tax (Note 31)	**(1,645)**	(1,052)
	6,205	4,137

PRC Enterprise Income Tax represents taxation charge on the assessable profits of the Company's subsidiaries, Fortune (Shanghai) International Trading Co., Ltd. ("Fortune Shanghai") and 上海遠嘉國際貿易有限公司 ("Shanghai Yuanjia"), established in Shanghai Waigaoqiao Free Trade Zone, the PRC. Fortune Shanghai and Shanghai Yuanjia are entitled to a preferential PRC Enterprise Income Tax rate of 15% which is granted to companies established in Shanghai Waigaoqiao Free Trade Zone.

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

	2006	2005
	HK$'000	HK$'000
Profit before taxation	**37,544**	20,344
Tax at the domestic income tax rate of 15% (2005: 15%) *(Note)*	**5,632**	3,052
Tax effect of expenses not deductible for tax purpose	**1,615**	1,175
Tax effect of income not taxable for tax purpose	**(2,397)**	(1,681)
Reversal of tax effect of deductible temporary differences not recognised	**(9)**	(30)
Tax effect of tax losses not recognised	**1,364**	1,537
Effect of different tax rates of companies operating in Hong Kong	**–**	84
Tax expense for the year	**6,205**	4,137

At the balance sheet date, the Group had unused tax losses of approximately HK$64,619,000 (2005: HK$55,528,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The entire sum of unrecognised tax losses may be carried forward indefinitely.

9. INCOME TAX EXPENSE *(Continued)*

At the balance sheet date, the Group also had deductible temporary differences of approximately HK$2,839,000 (2005: HK$2,899,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Note: The domestic income tax rate represents the preferential PRC Enterprise Income Tax rate where the Group's operations are substantially based.

10. PROFIT FOR THE YEAR

	2006 **HK$'000**	2005 HK$'000
Profit for the year has been arrived at after charging:		
Allowance for trade receivables	**5,380**	6,608
Allowance for other receivables	**–**	421
Auditor's remuneration	**989**	997
Bad debts written off	**816**	1,355
Depreciation on		
– owned assets	**401**	690
– assets held under finance leases	**–**	78
Exchange loss	**–**	411
Write down of inventories	**5,393**	4,431
Cost of inventories recognised as expense	**2,928,079**	2,565,187
Impairment loss recognised in respect of club membership	**60**	–
Loss on disposal of plant and equipment	**–**	3
Staff costs		
– directors' emoluments (Note 11)	**3,216**	2,024
– other staff costs	**41,191**	34,273
– share-based payment expenses	**–**	758
– retirement benefit scheme contribution (excluding directors')	**600**	686
	45,007	37,741
and after crediting:		
Bank interest income	**8,515**	7,114
Exchange gain	**2,000**	–
Gain on fair value changes of held for trading investments	**6,185**	–
Rental income on an investment property, net of outgoings of approximately HK$39,000 (2005: HK$12,000)	**273**	260

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2005: eight) directors were as follows:

	Lau Siu Ying	Luo Xi Zhi	Fung Oi Ip, Alfonso	Lo Wing Yat	Chang Wing Seng, Victor	Wong Lit Chor, Alexis	Fok Wai Ming, Eddie	Liu Kwok Fai, Alvan	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006									
Fees	–	–	50	50	66	26	41	66	299
Other emoluments									
Salaries and allowances	1,813	93	–	–	–	–	–	–	1,906
Performance related incentive bonuses *(Note)*	1,000	–	–	–	–	–	–	–	1,000
Retirement benefit scheme contribution	2	9	–	–	–	–	–	–	11
Total emoluments	2,815	102	50	50	66	26	41	66	3,216

	Lau Siu Ying	Luo Xi Zhi	Tin Ding Hong, William	Fung Oi Ip, Alfonso	Lo Wing Yat	Chang Wing Seng, Victor	Liu Kwok Fai, Alvan	Fok Wai Ming, Eddie	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2005									
Fees	–	–	–	50	50	60	60	60	280
Other emoluments									
Salaries and allowances	1,489	67	171	–	–	–	–	–	1,727
Retirement benefit scheme contribution	2	12	3	–	–	–	–	–	17
Total emoluments	1,491	79	174	50	50	60	60	60	2,024

Note: The performance related incentive bonuses for the year ended 31st December, 2006 were determined on performance of the Group.

No directors waived any emoluments in both years.

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2005: one) was a director of the Company whose emolument is included in the disclosures in note 11 above. The emoluments of the remaining four (2005: four) individuals were as follows:

	2006 HK$'000	2005 HK$'000
Salaries and allowances	**3,034**	2,897
Share-based payment expenses *(Note)*	**–**	758
Other long-term benefits	**–**	213
Retirement benefit scheme contribution	**38**	36
	3,072	3,904

Their emoluments were within the following bands:

	2006 Number of employees	2005 Number of employees
Up to HK$1,000,000	**4**	3
HK$1,500,001 to HK$2,000,000	**–**	1

Note: During the year ended 31st December, 2005, the share-based payment expense was determined as the fair value of share option at the grant date.

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

During the year ended 31st December, 2006 and 2005, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

13. DIVIDEND

	2006 HK$'000	2005 HK$'000
Final dividend recognised as distribution:		
HK1 cent per share for the year ended 31st December, 2005	**3,021**	–
HK3.75 cents per share for the nine-month period ended 31st December, 2004	**–**	11,329
	3,021	11,329

A final dividend of HK1 cent (2005: HK1 cent) per share for the year ended 31st December, 2006 has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to equity holders of the parent of HK$31,339,000 (2005: HK$11,380,000) and on 302,100,000 (2005: 302,100,000) ordinary shares in issue during the year.

15. PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST				
At 1st January, 2005	1,224	3,137	2,110	6,471
Exchange adjustments	–	13	9	22
Additions	138	267	131	536
Disposal of subsidiaries	(343)	(1,041)	–	(1,384)
Disposals	–	(189)	–	(189)
At 31st December, 2005	1,019	2,187	2,250	5,456
Exchange adjustments	–	27	20	47
Additions	22	310	–	332
At 31st December, 2006	1,041	2,524	2,270	5,835
DEPRECIATION				
At 1st January, 2005	1,131	2,402	1,603	5,136
Exchange adjustments	–	7	4	11
Provided for the year	224	216	328	768
Eliminated on disposal of subsidiaries	(436)	(775)	–	(1,211)
Eliminated on disposals	–	(186)	–	(186)
At 31st December, 2005	919	1,664	1,935	4,518
Exchange adjustments	–	18	12	30
Provided for the year	43	237	121	401
At 31st December, 2006	962	1,919	2,068	4,949
CARRYING VALUE				
At 31st December, 2006	79	605	202	886
At 31st December, 2005	100	523	315	938

15. PLANT AND EQUIPMENT *(Continued)*

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

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

16. INVESTMENT PROPERTY

	HK$'000
FAIR VALUE	
At 1st January, 2005	9,300
Increase in fair value recognised in the consolidated income statement	200
At 31st December, 2005 and 1st January, 2006	9,500
Increase in fair value recognised in the consolidated income statement	60
At 31st December, 2006	9,560

The fair value of the Group's investment property at 31st December, 2006 has been arrived at on the basis of a valuation carried out on that date by Midland Surveyors Limited, an independent qualified professional valuer not connected with the Group. Midland Surveyors Limited is a member of the Hong Kong Institute of Surveyors ("HKIS") and has appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to HKIS valuation standards on properties, was arrived at by reference to market evidence of transaction prices for similar properties.

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

The Group's investment property is held under a long lease in Hong Kong.

The investment property is pledged to a bank to secure general banking facilities granted to a subsidiary.

17. GOODWILL

	HK$'000
COST	
At 1st January, 2005	777
Arising on acquisition of additional interests in subsidiaries	4,910
Eliminated on disposal of subsidiaries	(777)
At 31st December, 2005, 1st January, 2006 and 31st December, 2006	4,910
CARRYING VALUE	
At 31st December, 2006	4,910
At 31st December, 2005	4,910

Goodwill as at 31st December, 2006 represents management expertise in the computer products distribution business of a subsidiary acquired in prior year.

The recoverable amount of the goodwill has been determined based on a value in use calculation of the relevant cash generating unit. That calculation uses cash flow projections based on financial forecasts approved by management covering a 5-year period, and a discount rate of 10%. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the cash generating unit's past performance and management's expectations for the market development. The directors have determined that no impairment of the goodwill has occurred.

18. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment as at 31st December, 2006 comprises:

	2006 & 2005
	HK$'000
Unlisted securities:	
Equity securities	918

Available-for-sale investments represents unlisted equity securities issued by a private entity incorporated in Hong Kong. Available-for-sale investment is measured at cost less impairment at each balance sheet date because the range of reasonable fair values estimates is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

19. CLUB MEMBERSHIP

	2006 HK$'000	2005 HK$'000
Club membership		
Outside Hong Kong	**600**	660

20. INVENTORIES

Inventories represent finished goods held for resale.

21. TRADE, BILLS AND OTHER RECEIVABLES

	2006 HK$'000	2005 HK$'000
Trade receivables	**187,320**	90,426
Less: accumulated allowance	**(16,329)**	(10,949)
	170,991	79,477
Value-added-tax receivables	**66,920**	1,815
Rebates receivables	**62,359**	28,930
Deposits and prepayments	**33,076**	19,878
	333,346	130,100
Bills receivable	**15,845**	–
	349,191	130,100

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

	2006 HK$'000	2005 HK$'000
Trade and bills receivables:		
0 to 30 days	**119,415**	46,498
31 to 90 days	**57,360**	30,466
Over 90 days	**10,061**	2,513
	186,836	79,477

22. HELD FOR TRADING INVESTMENTS

At 31st December, 2006, the amount represents unlisted marketable investment funds.

Though the held for trading investments are pledged to a bank to secure general banking facilities granted to a subsidiary, the Group can freely dispose of its investments. Subsequent to the balance sheet date, the Group disposed of the investments, the net proceeds of approximately HK$14,000,000 remained in the investment account as pledged deposits.

23. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure banking facilities granted to the Group. Included in the amount is a fixed deposit held at bank with maturity more than three months of approximately HK$9,600,000 (2005: HK$5,769,000). The deposits have been pledged to secure short-term bank borrowings and are therefore classified as current assets.

The deposits carry fixed interest rates ranging from 2.625% to 5.230% (2005: 1.750% to 4.170%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

Pledged bank deposits are mainly denominated in United States dollars (“US$”), Renminbi and Hong Kong dollars. Included in pledged bank deposits as at 31st December, 2006 was an amount of US$17,734,000 (2005: US$18,251,000).

24. BANK BALANCES AND CASH/BANK OVERDRAFTS – SECURED

Bank balances and cash

Bank balances and cash comprises cash held by the Group and short-term bank deposits that are interest-bearing at market interest rates ranging from 1.75% to 5.35% (2005: 0.25% to 4.17%) per annum and have maturity of three months or less.

The bank balances and cash of the Group are mainly denominated in Renminbi and Hong Kong dollars. Included in bank balances and cash as at 31st December, 2006 was amount in Renminbi of approximately RMB43,770,000 (2005: RMB180,619,000). Renminbi is not freely convertible into other currencies.

Bank overdrafts – secured

At 31st December, 2006, secured bank overdrafts carried interest at market rates at Prime rate (“P”) minus 1% per annum.

25. TRADE AND OTHER PAYABLES

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

	2006	2005
	HK$'000	HK$'000
Trade payables:		
0 to 30 days	**40,865**	5,567
31 to 90 days	**12,369**	1,102
Over 90 days	**2,004**	417
	55,238	7,086
Other payables	**53,215**	19,073
	108,453	26,159

26. BILLS PAYABLE – SECURED

At 31st December, 2005, the bills payable bearing interest at 4.2% per annum had a maturity of three months.

27. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares 2006 & 2005	**Share capital 2006 & 2005**
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised	1,000,000,000	100,000
Issued and fully paid	302,100,000	30,210

28. SHARE OPTIONS

(a) Share options of the Company

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

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

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

No options has been granted since the adoption of the Scheme.

(b) Share option of a subsidiary

On 29th December, 2005, the board of directors of the Company approved Synergy Technologies (Asia) Limited ("Synergy Technologies"), a subsidiary of the Company, to grant a share option to a director of Synergy Technologies. The share option is exercisable for a period of two years from 29th December, 2005. The option holder can acquire 11% interest in Synergy Technologies at a consideration of HK$1. The estimated fair value of the option granted on that date was approximately HK$758,000.

The fair value was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

Exercise price	HK$1
Expected volatility	0.1%
Expected life	2 years
Risk free rate	3.983%
Expected dividend yield	nil

A low volatility was adopted as the shares of Synergy Technologies are not publicly traded. Yield to maturity of 2-Year Hong Kong Exchange Fund Notes was adopted as risk free rate.

During the year ended 31st December, 2005, the Group recognised expenses of approximately HK$758,000 in relation to the share option granted.

During the year ended 31st December, 2006, there was no movement in the share option granted to the director of Synergy Technologies.

29. BANK BORROWINGS

	2006	2005
	HK$'000	HK$'000
Bank borrowings comprise:		
Bank loans	**505,608**	271,692
Trust receipt loans	**170,000**	–
	675,608	271,692

The bank borrowings of the Group are repayable on demand or within one year for both years.

As at 31st December, 2006, bank borrowings of HK$327,000,000 (2005: HK$84,231,000) were secured by the following assets:

– bank deposits amounting to approximately HK$150,567,000 (2005: HK$147,211,000);

– inventories with carrying amounts of approximately HK$170,000,000 (2005: nil);

– investment property with a fair value amounting to HK$9,560,000 (2005: HK$9,500,000); and

– held for trading investments with fair values amounting to HK$12,064,000 (2005: nil).

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

	2006	2005
	HK$'000	HK$'000
Fixed-rate borrowings:		
Within one year	**458,524**	95,192
Effective interest rate:		
Fixed-rate borrowings	**4% to 7.250%**	5.022% to 5.481%

In addition, the Group has variable-rate borrowings amounting to HK$111,500,000 (2005: HK$52,500,000) which carry interest at Hong Kong Interbank Offer Rate ("HIBOR") plus 1% to 1.3% (2005: 1.250% to 1.3%) per annum, except for a borrowing amounting to HK$6,000,000 (2005: nil) which carries interest at P and a syndicated loan with an aggregate amount of HK$99,584,000 (2005: HK$124,000,000) which carries interest at London Interbank Offer Rate plus 1% per annum.

29. BANK BORROWINGS *(Continued)*

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

	US$'000
As at 31st December, 2006	12,800
As at 31st December, 2005	16,000

At 31st December, 2006, the Group was in breach of certain banking covenants in relation to interest coverage ratio, debt leverage ratio, current ratio and borrowing base ratio. The relevant bank loans at 31st December, 2006 amounted to approximately HK$185.1 million (2005: HK$206.7 million). On discovery of the breach, the directors of the Company informed the lenders and commenced a renegotiation of the terms of the loans with the relevant bankers. In addition, the Group applied for the waiver to strictly comply with the relevant covenants. As at 31st December, 2006, those negotiations were not yet concluded. Accordingly, all loans were classified as current liabilities in the consolidated balance sheet at 31st December, 2006. Up to the date of issue of these consolidated financial statements, the Group obtained the waiver in respect of the syndicated loan with an aggregate amount of HK$99,584,000 on 13th April, 2007. The negotiations of the terms of loans with other lenders are still in progress. The directors of the Company are confident that their negotiations will ultimately reach a successful conclusion. In any event, should the lenders call for immediate repayment of the loan, the directors of the Company believe that adequate sources of finance are available to ensure that the continuing operations of the Group will not be affected.

30. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease certain of its motor vehicles under finance leases. The average lease term is 4.5 years. Interest rate was fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The obligations under finance leases are repayable as follows:

	Minimum lease payment		Present value of minimum lease payment	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**–**	113	**–**	100
Less: Future finance charges	**–**	(13)	**–**	–
Present value of lease obligations	**–**	100	**–**	100
Less: Amount due for settlement within 12 months shown under current liabilities			**–**	(100)
Amount due for settlement after 12 months			**–**	–

At 31st December, 2005, the Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

31. DEFERRED TAX ASSETS

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

	Write down of inventories	Allowance for trade and other receivables	Total
	HK$'000	HK$'000	HK$'000
At 1st January, 2005	–	–	–
Credit to consolidated income statement for the year	–	1,052	1,052
At 31st December, 2005 and 1st January, 2006	–	1,052	1,052
Credit to consolidated income statement for the year	841	804	1,645
At 31st December, 2006	841	1,856	2,697

32. DISPOSAL OF SUBSIDIARIES

On 29th December, 2005, the Group disposed of its 46% equity interest in Synergy Pacific (Holding) Limited ("Synergy Pacific") in exchange for 49% additional interest in Synergy Technologies. The remaining 5% equity interest was therefore classified as available-for-sale investments.

The net assets of these disposed subsidiaries at the date of disposal were as follows:

	2005 HK$'000
NET ASSETS DISPOSED OF	
Plant and equipment	173
Inventories	179
Trade and other receivables	1,523
Available-for-sale investments	2
Bank balances and cash	13,472
Trade and other payables	(5,239)
Taxation payables	(192)
	9,918
Minority interests	(4,862)
Attributable goodwill	777
	5,833
Represented by:	
Cash consideration	5
Acquisition of additional interests in subsidiaries	4,910
Available-for-sale investments	918
	5,833
Net cash outflow arising on disposal:	
Cash consideration	5
Bank balances and cash disposed of	(13,472)
	(13,467)

The subsidiaries disposed of during the year ended 31st December, 2005 contributed approximately HK$13,356,000 to the Group's revenue and had profit for that year of approximately HK$8,944,000.

33. OPERATING LEASES

The Group as lessee

During the year, the Group made minimum lease payments under operating leases amounting to approximately HK$1,697,000 (2005: HK$1,957,000).

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

	2006 **HK$'000**	2005 HK$'000
Within one year	**735**	382
In the second year	**5**	49
	740	431

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated and rentals are fixed, for an average term of one to two years.

The Group as lessor

Property rental income earned during the year was approximately HK$312,000 (2005: HK$272,000). The property held has committed tenants for the coming year.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2006 **HK$'000**	2005 HK$'000
Within one year	**208**	312
In the second to fifth year inclusive	**–**	208
	208	520

34. RETIREMENT BENEFIT SCHEMES

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

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

The total cost charged to the consolidated income statement of approximately HK$611,000 (2005: HK$703,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

35. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the following significant events took place:

(1) On 15th February, 2007, the Company entered into an agreement with Zhuhai Lei Ming Da Telecom Technology Development Company Limited (珠海市雷鳴達通訊技術發展有限公司) ("LMT"), a company incorporated in Zhuhai, the PRC and Kuang Bing Jiu ("KBJ"), a PRC resident, thereby the Company agreed to purchase 23% and 8% equity interest of Zhuhai Lei Ming Da Telecom Equipment Company Limited (珠海市雷鳴達通訊設備有限公司) (the "acquiree") from LMT and KBJ respectively. The transaction will be settled in consideration of the Company's issuance and allotment of 5,930,000 and 2,070,000 shares in the Company to LMT and KBJ respectively. Simultaneously, the Company also agreed to subscribe for 20% equity interest of the acquiree at a subscription price of RMB 2,000,000.

The transaction is expected to be completed by 30th April, 2007, following which the Company will own 51% equity interest in the acquiree.

(2) On 2nd April, 2007, the Company entered into an agreement with Carefree Times International Limited ("Carefree Times"), a company incorporated in the British Virgin Islands, thereby the Company agreed to purchase 50% equity interest of DW Mobile Technology Limited ("DW Mobile Technology"). The transaction will be settled in consideration of the Company's issuance and allotment of 9,000,000 shares in the Company.

The transaction is expected to be completed by 1st June, 2007 ("Completion Date"), following which the Company will own 50% equity interest in DW Mobile Technology. The Company shall, on Completion Date, be granted an option to subscribe 2,183 new shares at par value of USD1.0 each in DW Mobile Technology at the subscription consideration of HK$300,000, at any time after the completion of the transaction. Upon completion of exercise of such option, the Company will hold 51% of the enlarged issued share capital in DW Mobile Technology.

36. RELATED PARTY TRANSACTIONS

(a) On 15th September, 2005 the Company entered into a loan agreement with a syndicate of banks in respect of a US$16,000,000 loan facility which had a tenor of three years from the date of loan agreement. Under the loan agreement, the following conditions were imposed to Mr. Lau Siu Ying ("Mr. Lau"), a director and substantial shareholder of the Company:

(i) Mr. Lau and his associates continues to remain collectively the legal and beneficial owner of the issued share capital of Future 2000 Limited, a company in which Mr. Lau and his associates have beneficial interests;

(ii) Future 2000 Limited continues to be the single largest shareholder of the Company;

(iii) Mr. Lau is either the Chairman or the Chief Executive Officer of the Company; and

(iv) Mr. Lau continues to engage in full-time management of the Company.

(b) On 29th December, 2005, the Company, Well Force International Inc. ("Well Force"), Synergy Pacific and Synergy Technologies completed a restructuring as follows:

– the Company purchased 49% equity interest in Synergy Technologies from Well Force for a consideration of HK$2,032,000; and

– the Company disposed of 46% equity interest in Synergy Pacific to Well Force for a consideration of HK$2,032,349.

Well Force was a 49% shareholder in Synergy Pacific prior to the restructuring.

The restructuring was accounted for as an exchange transaction (see note 32).

(c) Compensation of key management

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

	2006	2005
	HK$'000	HK$'000
Short-term benefits	**4,869**	4,993
Performance related incentive bonuses	**1,400**	–
Other long-term benefits	**64**	286
Share-based payments	**–**	758
	6,333	6,037

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

37. SUMMARISED BALANCE SHEET OF THE COMPANY

	2006 HK$'000	2005 HK$'000
Investments in subsidiaries	**41,148**	43,185
Amounts due from subsidiaries	**375,039**	357,325
Pledged bank deposits	**9,600**	–
Other current assets	**471**	2,780
Amount due to a subsidiary	**(2,020)**	(2,030)
Other current liabilities	**(3,789)**	(3,553)
Bank borrowings	**(171,584)**	(141,000)
	248,865	256,707
Share capital	**30,210**	30,210
Reserves	**218,655**	226,497
	248,865	256,707

38. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2006 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company	Principal activity
Express Fortune Holdings Limited	British Virgin Islands	Ordinary US$100	100%	Investment holding
Express Fortune Limited	Hong Kong	Ordinary HK$10 Non-voting deferred HK$5,000,000 *(Note)*	100%	Maintaining the corporate office
Fortune Shanghai	Wholly foreign owned enterprise established in the PRC	US$25,000,000	100%	Trading of mobile phones
Shanghai Yuanjia	Wholly foreign owned enterprise established in the PRC	US$6,000,000	100%	Trading of mobile phones
Synergy Technologies	Hong Kong	Ordinary HK$5,000,000	100%	Trading of computer products
Top Emperor Investments Limited	Hong Kong	Ordinary HK$10,000	100%	Property holding

38. PARTICULARS OF SUBSIDIARIES *(Continued)*

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

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

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

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

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

39. SEGMENT INFORMATION

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

No segment analysis is provided as substantially all the Group's revenue and contribution to profit for the year were derived from the distribution and trading of mobile phones. In addition, no geographical market analysis is provided as substantially all the Group's revenue and contribution to profit for the year were derived from the PRC (including Hong Kong) and substantially all the assets are located in the PRC (including Hong Kong).

Financial Summary

RESULTS

	Year ended 31st March,		Nine months period ended 31st December,	Year ended 31st December,	
	2003	2004	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	2,944,947	1,947,201	2,086,140	2,664,254	**3,046,805**
Cost of sales	(2,795,912)	(1,865,176)	(1,993,615)	(2,569,618)	**(2,933,472)**
Gross profit	149,035	82,025	92,525	94,636	**113,333**
Other income	6,656	9,068	5,643	13,485	**17,904**
Distribution costs	(21,890)	(15,219)	(15,210)	(31,138)	**(36,716)**
Administrative expenses	(36,148)	(24,432)	(20,161)	(34,739)	**(29,502)**
Increase in fair value of an investment property	–	–	–	200	**60**
(Deficit) surplus arising on revaluation of an investment property	(1,500)	2,000	1,800	–	**–**
Unrealised gain on investment securities	1,988	1,354	–	–	**–**
Impairment loss on other investments	(390)	–	–	–	**–**
Share of results of associates	(38)	–	–	–	**–**
Finance costs	(20,698)	(16,549)	(12,788)	(22,100)	**(27,535)**
Profit before taxation	77,015	38,247	51,809	20,344	**37,544**
Income tax expense	(16,018)	(6,620)	(9,089)	(4,137)	**(6,205)**
Profit for the year/period	60,997	31,627	42,720	16,207	**31,339**
Attributable to:					
Equity holders of the parent	60,917	31,627	42,916	11,380	**31,339**
Minority interests	80	–	(196)	4,827	**–**
	60,997	31,627	42,720	16,207	**31,339**

ASSETS AND LIABILITIES

	At 31st March,		At 31st December,		
	2003	2004	2004	2005	**2006**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	830,421	746,235	873,500	682,513	**1,183,024**
Total liabilities	(517,098)	(416,336)	(515,986)	(328,599)	**(786,856)**
	313,323	329,899	357,514	353,914	**396,168**
Equity attributable to equity holders of the parent	304,567	321,143	348,954	353,156	**395,410**
Share option reserve of a subsidiary	–	–	–	758	**758**
Minority interests	8,756	8,756	8,560	–	**–**
	313,323	329,899	357,514	353,914	**396,168**