
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Fortune Holdings Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

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China Fortune Holdings Limited

中國長遠控股有限公司*

(Incorporated in Bermuda with limited liability, carrying on business in H.K. as CFH Limited)

(Stock Code: 110)

**VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION —
RESTRUCTURING FOR ACQUISITION OF 50.8% INTEREST IN
PRC MINING COMPANY:**

- (1) Termination of Further Acquisition; and
(2) Supplemental Agreement to Acquisition**

Financial adviser to the Company



**WALLBANK BROTHERS
Securities (Hong Kong) Limited**

**Independent Financial Adviser to
the Independent Board Committee and the Independent Shareholders**



**粵海證券有限公司
GUANGDONG SECURITIES LIMITED**

A letter from the Independent Board Committee is set out on page 28 of this circular.

A letter from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 29 to 47 of this circular.

A notice convening a special general meeting of the Company to be held at Room 1505-7, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong at 11:00 a.m. on Wednesday, 18 February 2009, is set out on pages 237 to 238 of this circular. Whether or not you are able to attend such meeting, you are requested to complete the accompany form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be).

Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

* For identification purpose only

29 January 2009

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context indicates otherwise:

“associates”	has the meaning ascribed to it under the Listing Rules
“Acquisition”	the acquisition of the entire equity interest in the BVI Company by the Purchaser pursuant to the Acquisition Agreement and other ancillary agreements/ letters
“Acquisition Agreement”	the sale and purchase agreement dated 24 July 2007 entered into between the Purchaser and the Vendors in relation to the Acquisition and as amended by other ancillary agreements/ letters
“Announcement”	the announcement issued on 7 January 2009 by the Company in relation to the restructuring for the acquisition of 50.8% interest in the PRC Mining Company
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“BVI Company”	Richly Giant International Limited (富鼎國際有限公司), a company incorporated in the BVI with limited liability and wholly owned by the Vendors
“Company”	China Fortune Holdings Limited, a company incorporated in Bermuda with limited liability, whose securities are listed on the Stock Exchange
“Compensation”	the compensation for the shortfall of Profit Guarantee
“Completion”	completion of the Acquisition in accordance with the terms and conditions of the Acquisition Agreement and other ancillary agreements/ letters
“Consideration”	approximately HK\$398 million, being the consideration for the Acquisition
“Consideration Shares”	306,016,300 new Shares to be allotted and issued to the Vendors in partial settlement of the Consideration pursuant to the terms of the Acquisition Agreement and other ancillary agreements/ letters
“Covenanter”	Mr. Zhang Zhulin (張竹林先生)

DEFINITIONS

“Conversion Shares”	the new shares to be allotted and issued to Mr. Lau or his nominee(s) upon the exercise of the conversion rights attaching to the Convertible Bonds
“Convertible Bonds”	the convertible bonds to be issued by the Company to Mr. Lau or his nominee(s) in partial settlement of the Consideration pursuant to the terms of the Supplemental Agreement III — Acquisition and the Supplemental Agreement IV — Acquisition
“Directors”	the directors of the Company
“Enlarged Group”	the Group immediately after completion of the Acquisition
“Foshan Goldsonic”	佛山市高訊通信發展有限公司 (Foshan Goldsonic Telecom Development Company Limited*), a company incorporated in the PRC with limited liability or the “Second Vendor” as defined in the Previous Circular
“Further Acquisition”	the acquisition of further 10% direct interest in the PRC Mining Company by the Purchaser pursuant to the Further Acquisition Agreement and other ancillary agreements/ letters
“Further Acquisition Agreement”	the sale and purchase agreement dated 12 November 2007 entered into between the Purchaser, the Covenanter and Foshan Goldsonic in relation to the Further Acquisition and as amended by other ancillary agreements/ letters
“Guangdong Securities” or “Independent Financial Adviser”	Guangdong Securities Limited, a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities as defined under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“H.K. Company”	China Yellow Stone Investment Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the BVI Company

DEFINITIONS

“Independent Board Committee”	the independent board committee of the Company formed by the Company to advise the Independent Shareholders as to whether the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole
“Independent Shareholders”	Shareholders except the Vendors and their respective associates
“Latest Practicable Date”	22 January 2009, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	the long stop date of the Acquisition
“Mining Permit”	the current mining permit of the PRC Mining Company and related mining rights
“Mining Site”	the celestite, zinc and lead mining site situated in Hubei Province in the PRC, the mining right of which is held by the PRC Mining Company
“Mr. Lau”	Mr. Lau Siu Ying, the Chairman and Chief Executive Officer of the Company, and one of the Vendors
“PRC”	the People’s Republic of China (for the purpose of this circular, excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan)
“PRC Mining Company”	黃石鋁發礦業有限公司 (Huangshi Sifa Mining Company Limited*, formerly known as 黃石市鋁發礦業有限責任公司), a domestic company incorporated in the PRC with limited liability and is the holder of the Mining Permit
“Previous Circular”	the circular of the Company dated 31 December 2007 in relation to the acquisition of 40.8% and 10% interests in the PRC Mining Company from the Vendors and Foshan Goldsonic respectively
“Profit Guarantee”	the profit guarantee to be provided by Mr. Lau to the Purchaser for the PRC Mining Company
“Promissory Notes”	the promissory notes to be issued by the Company to Mr. Lau or his nominee(s) in partial settlement of the Consideration pursuant to the terms of the Supplemental Agreement III — Acquisition and the Supplemental Agreement IV — Acquisition

DEFINITIONS

“Purchaser”	Express Fortune Holdings Limited as the purchaser, a company incorporated in the BVI and a wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the People’s Republic of China
“SFO”	Securities and Futures Commission Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and to consider and, if thought fit, approve, among other things, the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement I — Further Acquisition”	the first supplemental agreement dated 27 August 2008 entered into between the Purchaser, Foshan Goldsonic and the Covenanter regarding the Further Acquisition
“Supplemental Agreement III — Acquisition”	the third supplemental agreement dated 27 August 2008 entered into between the Purchaser and the Vendors regarding the Acquisition
“Supplemental Agreement IV — Acquisition”	the fourth supplemental agreement dated 6 January 2009 entered into between the Purchaser and the Vendors regarding the Acquisition
“Termination Deed”	the deed of termination dated 6 January 2009 entered into between the Purchaser, Foshan Goldsonic and the Covenanter to terminate the Further Acquisition Agreement and other ancillary agreements/ letters
“US\$”	United States dollars, the lawful currency of the United States of America
“Vendors”	Messrs. Lau Siu Ying, Lau Hung Bing and Lau Kin Ying or the “First Vendor” as defined in the Previous Circular
“%”	per cent.

For the purpose of this circular, all amounts denominated in RMB have been translated (for information only) into HK\$ using the exchange rate of RMB1.00:HK\$1.13. Such translation shall not be construed as a representation that amount of RMB was or may have been converted.

LETTER FROM THE BOARD



China Fortune Holdings Limited

中國長遠控股有限公司*

(Incorporated in Bermuda with limited liability, carrying on business in H.K. as CFH Limited)

(Stock Code: 110)

Executive Directors:

Lau Siu Ying (Chairman and C.E.O.)

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

Registered Office:

Clarendon House,

2 Church Street,

Hamilton HM 11,

Bermuda

Principal Office in Hong Kong:

Room 1505-7, Tower A,

Regent Centre,

63 Wo Yi Hop Road,

Kwai Chung,

Hong Kong

29 January 2009

To the Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION —
RESTRUCTURING FOR ACQUISITION OF 50.8% INTEREST IN
PRC MINING COMPANY:**

- (1) Termination of Further Acquisition; and
(2) Supplemental Agreement to Acquisition**

INTRODUCTION

References are made to the announcement of the Company dated 5 September 2008 in relation to the variation of terms of the acquisition of 50.8% effective interest in the PRC Mining Company as disclosed in the Previous Circular, and the Announcement in relation to the restructuring of the aforesaid acquisition involving the termination of the Further Acquisition and the entering into the Supplemental Agreement IV — Acquisition.

LETTER FROM THE BOARD

The purpose of this circular is to give you (i) further information in respect of the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder; (ii) the recommendation of the Independent Board Committee regarding the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder; (iii) a letter from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders in respect of the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder; and (iv) the notice of SGM and the proxy form.

RESTRUCTURING FOR ACQUISITION OF 50.8% INTEREST IN PRC MINING COMPANY

1) Termination of Further Acquisition

On 6 January 2009, the Purchaser entered into the Termination Deed with Foshan Goldsonic and the Covenantor to terminate the Further Acquisition Agreement and other ancillary agreements/ letters. The termination of the aforesaid agreements/ letters took immediate effect upon execution of the Termination Deed so that they cease to have any further effect. Each party has been released and discharged from all duties, claims, obligations or liabilities whatsoever to or against the other party under or in respect of the Further Acquisition Agreement and other ancillary agreements/ letters.

2) Supplemental Agreement to Acquisition

On 6 January 2009, the Purchaser entered into the Supplemental Agreement IV — Acquisition with the Vendors to supplement the Acquisition Agreement and other ancillary agreements/ letters. Pursuant to the Supplemental Agreement IV — Acquisition, the Purchaser agreed to (i) acquire from the Vendors 50.8% effective interest in the PRC Mining Company at a total consideration of approximately HK\$398 million with the Profit Guarantee provided by Mr. Lau; and (ii) extend the Long Stop Date. All other terms and conditions of the Acquisition Agreement and other ancillary agreements/ letters remain in full force. Details of principal terms of the Supplemental Agreement IV — Acquisition and its effects are set out below.

Parties

Vendors : Messrs. Lau Siu Ying, Lau Hung Bing and Lau Kin Ying

Purchaser : Express Fortune Holdings Limited, a wholly-owned subsidiary of the Company

Subject matter

50.8% effective interest in the PRC Mining Company

LETTER FROM THE BOARD

Consideration

The total consideration of approximately HK\$398 million is to be satisfied at Completion in the following manner:

- (i) as to HK\$40 million by cash (of which HK\$25 million has been paid to Mr. Lau as initial deposit and the remaining balance of HK\$15 million, to be financed by internal resources of the Group, will be payable to Mr. Lau upon Completion);
- (ii) as to HK\$168.3 million by allotment and issue of 306,016,300 Consideration Shares at HK\$0.55 each by the Company to the Vendors or their respective nominee(s);
- (iii) as to HK\$100 million by issue of Convertible Bonds convertible into 142,857,142 Shares at a conversion price of HK\$0.70 per Conversion Share by the Company to Mr. Lau or his nominee(s); and
- (iv) as to a total of approximately HK\$89.7 million by issue of Promissory Notes in two tranches by the Company to Mr. Lau or his nominee(s).

Particulars of the Consideration Shares, the Convertible Bonds and the Promissory Notes are set out under the sections headed “**CONSIDERATION SHARES**”, “**CONVERTIBLE BONDS**” and “**PROMISSORY NOTES**” below.

The consideration for the Acquisition was determined after arm’s length negotiations between the Purchaser and the Vendors, and taking into account the consideration basis and payment terms of the Further Acquisition. The Directors consider that the consideration for the Acquisition is fair and reasonable and on normal commercial terms.

Compensation in relation to the profit guarantee

The Vendors shall provide a guarantee of audited profit before tax of RMB72 million generated by the PRC Mining Company for the first twelve months following the Completion. The accounting standard to be adopted for calculating the profit guarantee of RMB72 million shall be based on generally accepted accounting principles in the PRC. The Compensation will be calculated according to the following formula and to be set off by the first tranche of Promissory Notes as detailed under the section headed “**PROMISSORY NOTES**” below.

For a scenario that the PRC Mining Company makes profit before tax of less than RMB72 million

Compensation payable by Mr. Lau = (Shortfall Amount) x (Interest of the Vendors) x (FX rate)

For the avoidance of doubt, the Compensation calculated above is also payable by Mr. Lau when the PRC Mining Company incurs loss after tax.

LETTER FROM THE BOARD

Notes:

(Shortfall Amount)	:	For a scenario that the PRC Mining Company makes profit before tax of less than RMB72 million: = (RMB72 million - Audited profit before tax for the first twelve months following the Completion) x (100% - Tax)
(Tax)	:	Tax rate = 25% (subject to confirmation)
(Interest of the Vendors)	:	= 50.8%
(FX rate)	:	Exchange rate of RMB:HK\$ = 1: 1.13 (for reference only)

For a scenario that the PRC Mining Company incurs loss after tax

Mr. Lau shall bear 50.8% of either the total loss after tax incurred for the first twelve months following the Completion or RMB10 million (whichever is lower) in addition to the Compensation payable by Mr. Lau as calculated above.

In compliance with Rule 14A.59(10)(a) of the Listing Rules, the independent non-executive Directors will provide an opinion in the Company's next published annual report as to whether the Profit Guarantee is fulfilled, and the Company will publish an announcement if the audited profit before tax of the PRC Mining Company for the first twelve months following the Completion is less than the Profit Guarantee.

Outstanding conditions precedent for Completion of the Acquisition

With all other terms and conditions of the Acquisition Agreement and other ancillary agreements/ letters remain in full force, the outstanding conditions precedent for the completion of the Acquisition are as follows:

- (i) the titles to all the properties and assets as set out in the Acquisition Agreement having been obtained and properly registered under the names of the members of the BVI Company;
- (ii) all the certificates and permits (including but not limited to the Mining Permit and the exploration permit) necessary for the business operation of the PRC Mining Company having been obtained and properly registered under the name of the PRC Mining Company and the consideration and expenses for the transfer and registration of such certificates and permits having been paid by installments and/or fully paid and all the certificates and permits remain valid and legal after the Completion;
- (iii) the intellectual property rights as set out in the Acquisition Agreement having been registered under the name of the members of the BVI Company;

LETTER FROM THE BOARD

- (iv) the passing of resolutions at the SGM by the Independent Shareholders and at the Board meeting by the Board approving the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder; and
- (v) the approval by the Stock Exchange in respect of the listing of and dealing in the Consideration Shares and the Conversion Shares having been obtained.

As at the Latest Practicable Date, none of the above conditions precedent has been fulfilled.

The Purchaser and the Vendors agreed to extend the Long Stop Date from 31 December 2008 to 30 April 2009 or such later date as may be agreed by both parties to the Acquisition Agreement in writing.

CONSIDERATION SHARES

Pursuant to the terms of the Supplemental Agreement IV — Acquisition, the Company will issue 306,016,300 Consideration Shares to the Vendors or their respective nominee(s) in partial settlement of the Consideration upon Completion.

The issue price of the Consideration Shares will be HK\$0.55 each which represents (i) a discount of approximately 21.43% to the net asset value per Share as at 30 June 2008 of HK\$0.7; (ii) a premium of approximately 120% over the closing price of HK\$0.25 per Share as quoted on the Stock Exchange on the Latest Practicable Date; (iii) a premium of approximately 243.75% over the closing price of HK\$0.16 per Share as quoted on the Stock Exchange on 5 January 2009, being the last trading day immediately before the date of the Announcement; (iv) a premium of approximately 245.91% over the average closing price per Share of approximately HK\$0.159 as quoted on the Stock Exchange for the last five trading days immediately prior to and including 5 January 2009; and (v) a premium of approximately 223.53% over the average closing price per Share of approximately HK\$0.17 as quoted on the Stock Exchange for the last ten trading days immediately prior to and including 5 January 2009.

The number of the Consideration Shares to be issued represents approximately 82.09% of the existing issued share capital of the Company and approximately 45.08% of the issued share capital of the Company as enlarged by the issue of such Consideration Shares. The Consideration Shares will be issued under a specific mandate proposed to be obtained at the SGM, and there will be no restrictions on sale of the Consideration Shares subsequent to their issue. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares. The issue of the Consideration Shares by the Company will not result in a change of control of the Company.

CONVERTIBLE BONDS

Pursuant to the terms of the Supplemental Agreement IV — Acquisition, the Company will issue the Convertible Bonds in the principal amount of HK\$100 million to Mr. Lau or his nominee(s) in partial settlement of the Consideration upon Completion.

LETTER FROM THE BOARD

The conversion price of the Convertible Bonds will be HK\$0.70 per Conversion Share which represents (i) the net asset value per Share as at 30 June 2008 of HK\$0.7; (ii) a premium of approximately 180% over the closing price of HK\$0.25 per Share as quoted on the Stock Exchange on the Latest Practicable Date; (iii) a premium of approximately 337.50% over the closing price of HK\$0.16 per Share as quoted on the Stock Exchange on 5 January 2009, being the last trading day immediately before the date of the Announcement; (iv) a premium of approximately 340.25% over the average closing price per Share of approximately HK\$0.159 as quoted on the Stock Exchange for the last five trading days immediately prior to and including 5 January 2009; and (v) a premium of approximately 311.76% over the average closing price per Share of approximately HK\$0.17 as quoted on the Stock Exchange for the last ten trading days immediately prior to and including 5 January 2009.

Assuming there is an immediate exercise in full of the conversion rights attaching to the Convertible Bonds at the conversion price of HK\$0.70 per Conversion Share by Mr. Lau, the Company will allot and issue an aggregate of 142,857,142 new Shares, representing approximately 38.32% of the existing issued share capital of the Company and approximately 27.70% of the issued share capital of the Company as enlarged by allotment and issue of the Conversion Shares.

The Conversion Shares will be issued under a specific mandate proposed to be obtained at the SGM. The issue of the Conversion Shares by the Company will not result in a change of control of the Company.

The principal terms of the Convertible Bonds are as follows:

Issuer	: The Company.
Aggregate principal amount	: Approximate HK\$100.00 million.
Form and denomination	: The Convertible Bonds will be issued in registered form and in the denomination of HK\$5 million each and in integral multiples of HK\$5 million thereof.
Maturity date	: Second anniversary date of the Convertible Bonds.
Interest	: The Convertible Bonds shall accrue no interest.
Conversion price	: The Convertible Bonds shall be converted at the conversion price of HK\$0.70 (subject to adjustment as mentioned below) per Conversion Share.

The Directors consider that the Conversion Price is fair and reasonable and is in the interest of the Company and the Shareholder as a whole.

Conversion restriction	: Mr. Lau Siu Ying undertakes not to and will not exercise the conversion rights attaching to the Convertible Bonds and the Company shall not issue the relevant Conversion Shares in the event that such exercise would render less than 25% of the issued share capital of the Company being held in public hands.
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LETTER FROM THE BOARD

Transferability : A Convertible Bond may be transferred to any person in whole multiples of HK\$5 million (or such lesser amount as may represent the entire principal amount thereof).

The Company will promptly notify the Stock Exchange upon becoming aware of any dealings in the Convertible Bonds by any connected persons of the Company.

Redemption at maturity : Unless previously redeemed, purchased and cancelled or converted, the Convertible Bonds will be redeemed at 100% of their principal amount in Hong Kong dollars on the maturity date.

Redemption at the option of the Company : Unless previously redeemed, purchased and cancelled or converted, the Company may, on or at any time after the issue date and prior to the maturity date, redeem all or any of the outstanding Convertible Bonds at 105% of the face value thereof.

Conversion period : Immediately after the issue of the Convertible Bonds and up to the maturity date (both days inclusive).

Adjustment to conversion price : Subject to usual adjustment provisions customary for convertible bonds of similar kind. The adjustment events will arise as a result of certain change in the share capital of the Company including consolidation or sub-division of shares, capitalisation of profits or reserves, capital distributions in cash or specie or subsequent issue of securities in the Company.

If the Company shall offer to the Shareholders new Shares for subscription by way of rights or shall grant to the Shareholders any options or warrants to subscribe for new Shares at a price which is less than 90% of the market price on the date of the announcement of the terms of the offer or grant, the conversion price shall be adjusted by multiplying the conversion price in force immediately before the date of the announcement of such offer or grant by a fraction of which the numerator is the number of Shares in issue immediately before the date of such announcement plus the number of Shares which the aggregate of the amount (if any) payable for the rights, options or warrants and of the amount payable for the total number of new Shares comprised therein would purchase at such market price and the denominator is the number of Shares in issue immediately before the date of such announcement plus the aggregate number of Shares offered for subscription or comprised in the options or warrants.

LETTER FROM THE BOARD

Voting rights and ranking	: Holder(s) of the Convertible Bonds shall not be entitled to attend or vote at any general meeting of the Company. Upon issue and allotment, Conversion Shares shall rank in all aspects pari passu with all Shares in issue as at the date of allotment and issue.
Listing	: The Convertible Bonds will not be listed on the Stock Exchange or any other stock exchange. An application will be made to the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

PROMISSORY NOTES

The Company will issue the Promissory Notes in the principal sum of approximately HK\$89.7 million to Mr. Lau or his nominee(s) in partial settlement of the Consideration upon Completion.

The Promissory Notes bear no interest. The Promissory Notes will be issued to Mr. Lau in two tranches. The first tranche Promissory Notes to be issued to Mr. Lau or his nominee(s) will be held in escrow by the Company to set off the Compensation as calculated above.

Particulars of the Promissory Notes are as follows:

1. First Tranche Promissory Notes

The first tranche Promissory Notes in the principal sum of approximately HK\$40 million will be issued to Mr. Lau or his nominee(s) upon Completion. The first tranche Promissory Notes is non-transferrable.

2. Second Tranche Promissory Notes

The second tranche Promissory Notes in the principal sum of approximately HK\$49.7 million will be issued to Mr. Lau or his nominee(s) upon Completion. The second tranche Promissory Notes is transferrable and will mature at the end of the twenty-fourth month after issue.

LETTER FROM THE BOARD

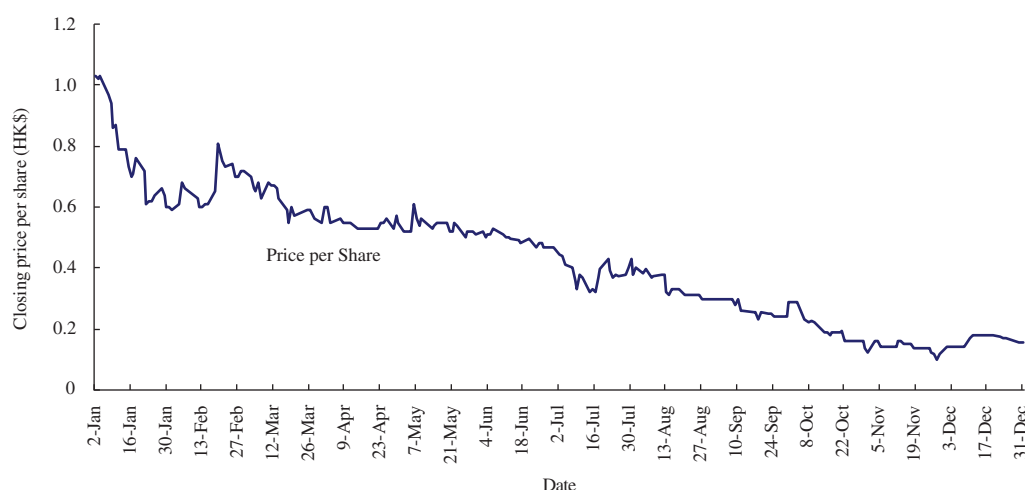
DIRECTORS' ASSESSMENT ON THE BASIS OF CONSIDERATION

As part of the Consideration will be satisfied by the issue of Shares (or Conversion Shares), in order to assess the basis of the Consideration, it is essential to compare and evaluate the value of the Shares with the Shanghai Metal Index and relevant metals (i.e. strontium, zinc and lead) (the “**Metal Price**”) with substantial value contained in the Mining Site during the period commencing from 1 January 2008 to 31 December 2008 (the “**Review Period**”) as follows:

1. Review on share price performance of the Company

Chart 1 below shows the historical closing prices of the Shares as quoted on the Stock Exchange during the Review Period:

Chart 1: Historical share price performance of the Company



Notes:

1. trading in the Shares was suspended from 28 August 2008 to 5 September 2008 and on 31 December 2008, pending the release of relevant announcements of the Company.
2. trading in the Shares was suspended from 6 January 2009 to 7 January 2009 pending the release of the Announcement.
3. on the market days when the Shares are not traded, the closing price equals to that of the preceding trading days.

Source: Stock Exchange website

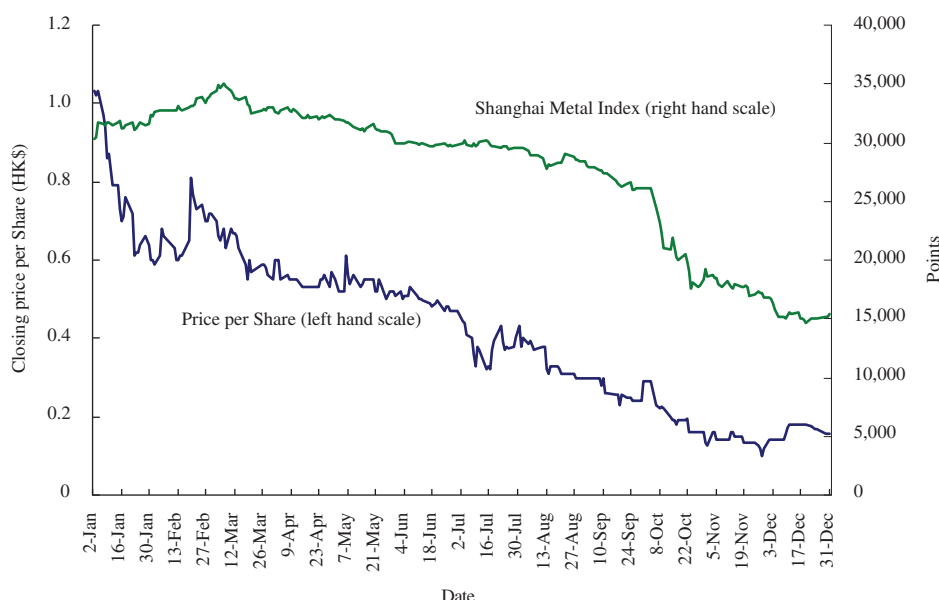
LETTER FROM THE BOARD

As depicted in the above chart, the closing price of the Shares was rapidly declining for the whole Review Period. The price of the Share was fluctuated within a range of HK\$0.1 on 27 November 2008 to HK\$1.03 on 2 January 2008 and 4 January 2008, and the price per Share has been decreased by approximately 84.95% from HK\$1.03 on 2 January 2008 to HK\$0.155 on 30 December 2008. The Directors represented that such substantial decrease in price of the Share was due to the negative market sentiment mainly caused by the collapse of Lehman Brothers occurred at the end of September 2008 and the deleveraging impact of the global financial market crisis.

2a. Comparison with the trend of the Shanghai Metal Index

Chart 2 below shows the historical closing prices of the Shares as quoted on the Stock Exchange and the trends of the Shanghai Metal Index as quoted on the 上海金屬網 (Shmet.com) during the Review Period:

Chart 2: Trends of the closing price of the Share and the Shanghai Metal Index



Source: www.shmet.com and the Stock Exchange website

Note: the Shanghai Metal Index is a volume-weighted index covering the prices of copper, aluminum, lead, zinc, tin and nickel supplied in Shanghai

As depicted in the above chart, the price of the Shares has fallen more or less in tandem with the sliding momentum of the Shanghai Metal Index during the Review Period. The Directors noted the continuous drop in global metal prices during the year 2008 is due to substantial fall in their demands. The Shanghai Metal Index fell by approximately 50% from about 30,000 points in the beginning of year 2008 to about 15,000 points in the end of year 2008, and the price per Shares fell even more significantly by approximately 84.95% from HK\$1.03 to HK\$0.155 per Share during the Review Period. The rate of decrease in price per Share is higher than the Shanghai Metal Index.

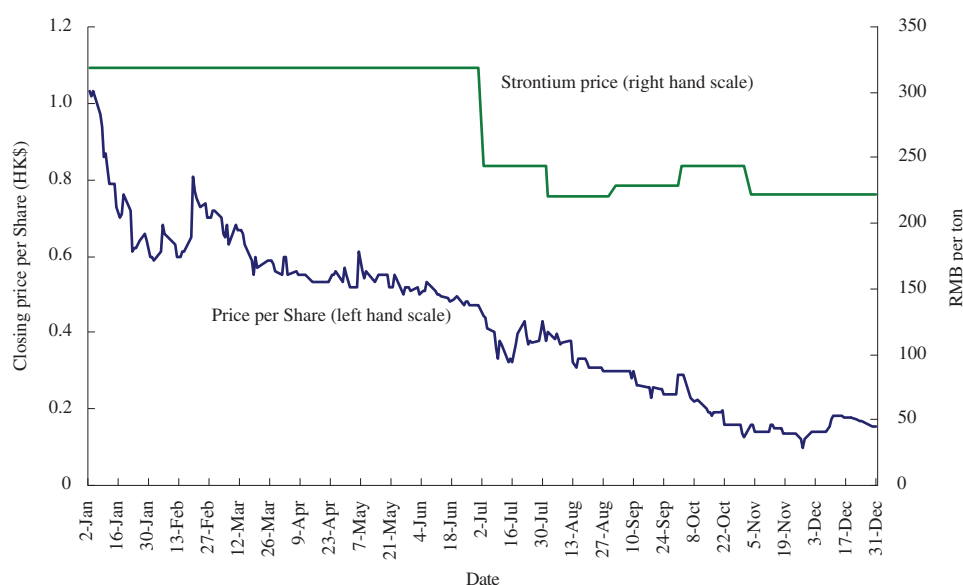
LETTER FROM THE BOARD

2b. Comparison with the trends of the Metal Price

Trend of Strontium Price

Chart 3 below shows the historical closing prices of the Shares as quoted on the Stock Exchange and the trend of the price of strontium per ton as invoiced by the PRC Mining Company during the Review Period:

Chart 3: Trends of the closing price of the Share and the price of strontium



Source: the PRC Mining Company and the Stock Exchange website

Note: the price of Strontium is based on the actual selling price from the PRC Mining Company, and the price will be equal to the amount previously invoiced if there is no actual sales in the current month

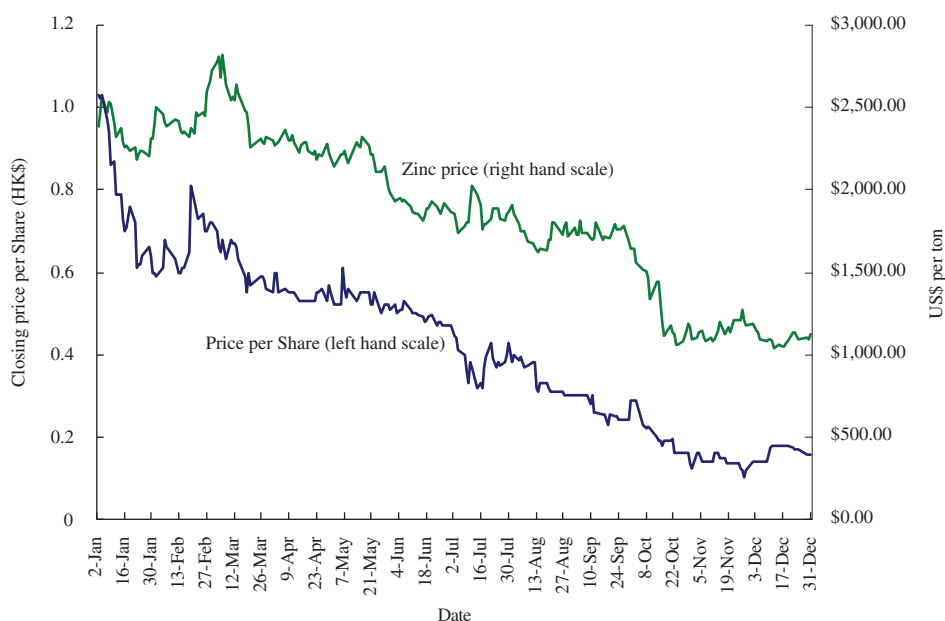
As depicted in the above chart and represented by the Directors, the actual selling price of strontium per ton invoiced by the PRC Mining Company has been dropped by approximately 30.25% from RMB318.58 per ton in the beginning of year 2008 to RMB222.22 per ton in the end of year 2008, and the price per Shares fell even more significantly by approximately 84.95% from HK\$1.03 to HK\$0.155 per Share during the Review Period. The rate of decrease in price per Share is higher than the price of strontium.

LETTER FROM THE BOARD

Trends of Zinc and Lead Prices

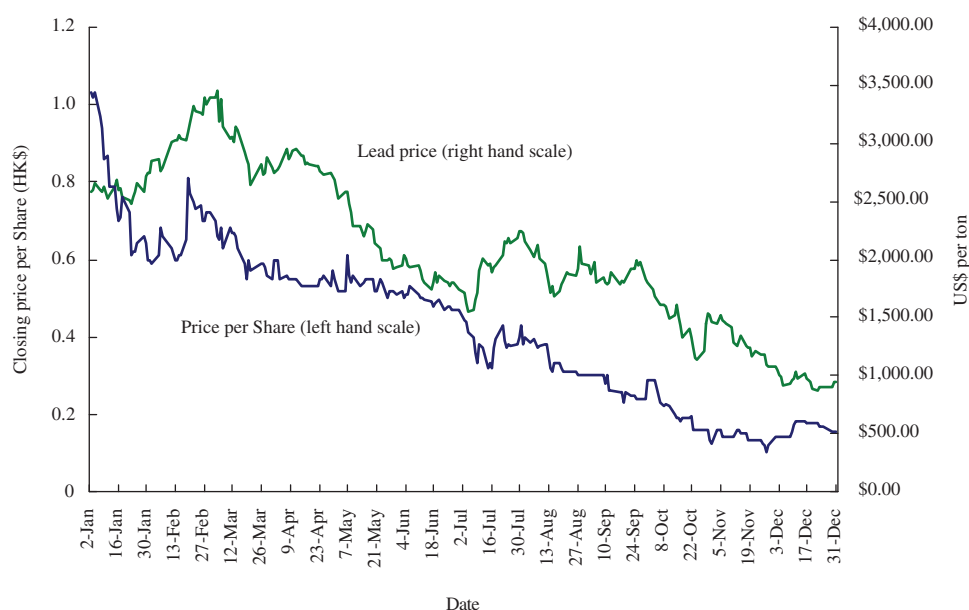
Charts 4 and 5 below show the historical closing prices of the Shares as quoted on the Stock Exchange and the trends of the prices of zinc and lead per ton as quoted on the London Metal Exchange during the Review Period:

Chart 4: Trends of the closing price of the Share and the price of zinc



Source: www.lme.co.uk and the Stock Exchange website

Chart 5: Trends of the closing price of the Share and the price of lead



Source: www.lme.co.uk and the Stock Exchange website

LETTER FROM THE BOARD

As depicted in the above charts and represented by the Directors, the (i) price of zinc has been decreased by approximately 53.01% from US\$2,383.5 per ton in the beginning of year 2008 to US\$1,120 per ton in the end of year 2008; and (ii) the price of lead has been decreased by approximately 63.25% from US\$2,579.5 per ton in the beginning of year 2008 to US\$948.0 per ton in the end of year 2008, and the price per Share fell even more significantly by approximately 84.95% from HK\$1.03 to HK\$0.155 per Share during the Review Period. The rate of decrease in price per Share is higher than the prices of zinc and lead.

3. Analysis on the comparisons of performance between the trends of the closing price of the Shares with the trends of the Shanghai Metal Index and the Metal Price

As depicted in the above charts, the price of the Shares has fallen more or less in tandem with the sliding momentum of the Shanghai Metal Index and the Metal Price. The following table summarizes the performance for the Shanghai Metal Index, the Metal Price and the price of the Shares during the Review Period:

Price/Index	Change in price/ index during the Review Period
Shanghai Metal Index	-48.97%
Metal Price	
— Strontium	-30.25%
— Zinc	-53.01%
— Lead	-63.25%
The Shares	-84.95%

As summarized in the above table, the decrease in price of the Shares was approximately 35% more than the Shanghai Metal Index and approximately 20% more than the Metal Price. In view of the above analysis as the rate of decrease in price per Share is higher than the Shanghai Metal Index and each of the Metal Price, the Directors are of the view that it is fair and reasonable and in the interest of the Company to use Shares (or the Conversion Shares) as part of the Consideration.

LETTER FROM THE BOARD

CHANGES IN SHAREHOLDING

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately after the issue of the Consideration Shares but before conversion of the Convertible Bonds; and (iii) upon Completion and full conversion of the Convertible Bonds:

	As at the Latest Practicable Date [#]		Immediately after the issue of the Consideration Shares but before conversion of the Convertible Bonds		Upon Completion and full conversion of the Convertible Bonds at the conversion price of HK\$0.7	
	No. of Shares	%	No. of Shares	%	No. of Shares	%
The Vendors:						
— Mr. Lau	188,580,013 (Note1)	50.59	433,393,053	63.85	576,250,195 (Note2)	70.13
— Mr. Lau Kin Ying	0	0.00	30,601,630	4.51	30,601,630	3.72
— Mr. Lau Hung Bing	300,000	0.08	30,901,630	4.55	30,901,630	3.76
Sub-total	<u>188,880,013</u>	<u>50.67</u>	<u>494,896,313</u>	<u>72.91</u>	<u>637,753,455</u>	<u>77.61</u>
Public Shareholders	<u>183,909,987</u>	<u>49.33</u>	<u>183,909,987</u>	<u>27.09</u>	<u>183,909,987</u>	<u>22.39</u>
Total	<u>372,790,000</u>	<u>100.00</u>	<u>678,806,300</u>	<u>100.00</u>	<u>821,663,442</u>	<u>100.00</u>

Notes: 1) 280,000 Shares are beneficially owned by Mr. Lau and 188,300,013 Shares are held by Future 2000 Limited, a company incorporated in the BVI which in turn is held by a discretionary trust. The beneficiaries of the discretionary trust include Mr. Lau, his spouse and his children.

2) Pursuant to the terms and conditions of the Convertible Bonds, Mr. Lau will not exercise the conversion rights attaching to the Convertible Bonds and the Company will not issue the relevant Conversion Shares in the event that such exercise would render less than 25% of the issued share capital of the Company being held in public hands. Thus the Shares held by Mr. Lau shown above are for illustration purposes only.

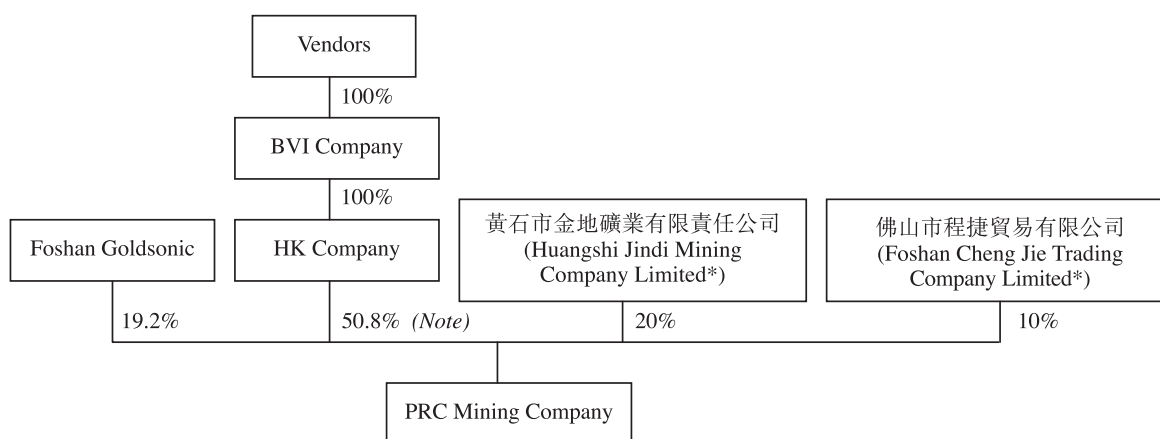
^{#Source:} the records from the Tricor Abacus Ltd. and the Company reflecting the shareholding structure of the Company on 22 January 2009. In the event that the figures in the shareholding structure are different from those as disclosed in the above table, the Company would issue an announcement regarding the difference(s).

LETTER FROM THE BOARD

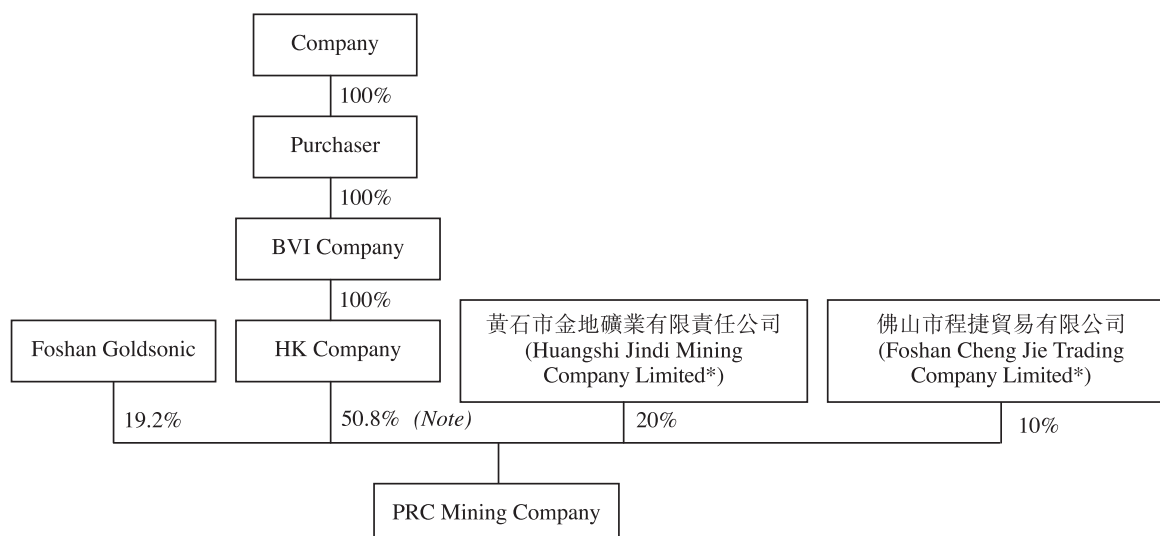
SHAREHOLDING STRUCTURE OF THE PRC MINING COMPANY

As a result of the Acquisition, the shareholding structures of the PRC Mining Company immediately before and after the Completion are shown in the diagrams below:

The shareholding structure of the PRC Mining Company immediately before Completion



The shareholding structure of the PRC Mining Company immediately after Completion



Note:

Subsequent to the completion of transfer of 10% interest in the PRC Mining Company from Foshan Goldsonic.

LETTER FROM THE BOARD

REASONS

1. **The Supplemental Agreement III — Acquisition and the Supplemental Agreement I — Further Acquisition**

In view of the unexpected delay of the completion of the Acquisition and the Further Acquisition and the recent significant decrease of the share prices of the Company comparing to the share prices on and around the date of the relevant acquisition agreements, the Vendors and Foshan Goldsonic have requested for renegotiation, variation and adjustment of the relevant payment terms payable by the Company in order to reflect the value of the Acquisition and the Further Acquisition. The Board has discussed and affirmed the long-term commercial prospects of the PRC Mining Company. Under such circumstances and after having considered carefully factors including (i) the Company's share prices; (ii) net asset value per Share; (iii) cash resources; (iv) the Profit Guarantee; (v) conversion premium of the Convertible Bonds; (vi) share capital and earnings dilution effects; (vii) Promissory Notes escrow arrangement; (viii) further reduction in the acquisition consideration; and (ix) maintenance of minimum public float, the Directors regarded the variation and adjustment pursuant to the Supplemental Agreement III — Acquisition and the Supplemental Agreement I — Further Acquisition are fair and reasonable and at the same time affording maximum financial flexibility to the Company to fulfill its strategic goal of completing the acquisition of a long-term profit earning asset at a time when the international financial markets have turned volatile and difficult.

2. **The Termination Deed and the Supplemental Agreement IV — Acquisition**

According to the restructuring plan indicated in the Previous Circular concerning the Acquisition and the Further Acquisition, the 10% interest in the PRC Mining Company would be transferred to the H.K. Company, a company beneficially owned by the Vendors, by Foshan Goldsonic. The Acquisition and the Further Acquisition had been approved by the Shareholders at the special general meeting of the Company held on 15 January 2008.

Pursuant to the completion of the said transfer of 10% interest in the PRC Mining Company after the said special general meeting, the H.K. Company holds the said 10% interest in the PRC Mining Company in place of Foshan Goldsonic. As a result, the H.K. Company holds a total 50.8% interest in the PRC Mining Company. As the Vendors are beneficially owner of the H.K. Company and connected persons of the Company, any proposed acquisition by the Company of the said 10% interest from the H.K. Company shall constitute a connected transaction.

In order to reflect the actual ownership of shareholding of the said 10% interest in the PRC Mining Company, the Termination Deed shall be entered into between the Purchaser, Foshan Goldsonic and the Covenanter, and the Supplemental Agreement IV — Acquisition shall be entered into between the Purchaser and the Vendors.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE ACQUISITION

Following the completion of the Acquisition, the PRC Mining Company will become a non wholly-owned subsidiary of the Group and its financial statements would be consolidated into the accounts of the Group. Assuming the Acquisition had been completed on 30 June 2008 and according to the pro forma financial information of the Enlarged Group as set out in Appendix V to this circular, the total assets of the Group would increase from approximately HK\$445,489,000 to approximately HK\$1,168,326,000 and the total liabilities of the Group would increase from approximately HK\$180,868,000 to approximately HK\$556,343,000.

Basing on the profit guarantee provided by Mr. Lau on the PRC Mining Company, the Acquisition is expected to have positive effects on the revenue and earnings of the Enlarged Group.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

As mentioned in the interim report of the Company for the six months ended 30 June 2008, the performance of the Group was significantly improved due to the successful restructuring of the national distribution business which incurred a substantial loss in last year. The fulfillment distribution business for Nokia Stores (“NS”) continues to be a core business of the Group in which the Group is appointed as the sole fulfillment distributor for NS in the PRC. Because of the continuing improvement in the core business of the Group, the Group recorded a relatively small loss during the period.

The Group recorded a consolidated revenue of approximately HK\$1,026.4 million for the six months ended 30 June 2008, representing a decrease of approximately 35.32% when compared with a consolidated revenue of approximately HK\$1,587.0 million of the corresponding period in 2007. The decrease in revenue was mainly attributable to the restructuring of the loss making national distribution business which had a significant contribution to the revenue in the previous period. The Group reported a net loss of HK\$1.6 million during the period when compared to the previous period of HK\$84.8 million, which was due to the significant improvement made during the period.

After the complete transformation of the loss making national distribution business to the fulfillment distribution business for NS, the Group has made significant improvement during the period and recorded a small loss of HK\$1.6 million as compared to a loss of HK\$84.8 million in the previous period. The fulfillment distribution business for NS recorded significant growth during the period and its streamlined workforce further reduced the operating cost and hence the business risk of this business. The fulfillment distribution business for NS will continue to be a core business of the Group in view of the leading position of Nokia in the mobile phone market in the PRC. On the other hand, the business of the associates of the Group remained a challenge due to the intense competition in the market.

LETTER FROM THE BOARD

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

Besides, the Company intends to explore to diversify its business portfolio into areas such as resources and PRC property developments with a view to further enhance the Shareholders' value. The Group has been actively looking for opportunities to achieve the aforesaid objective and contracted for the Acquisition.

Despite the demand for mineral resources has been decreased in year 2008, the Directors are of the view that such decrease was mainly due to the short-term fluctuation in the commodity market caused by the collapse of global financial market, and the Directors believe that the demand for mineral resources, in particular to strontium which is used for commercial and military purposes, will be considerable given the continuous growth of the PRC economy and the long-term positive prospect of mineral operations contributable to the Enlarged Group.

INFORMATION ON THE GROUP, BVI COMPANY, H.K. COMPANY AND THE PRC MINING COMPANY

1) The Group

The Company is principally engaged in distribution of mobile phones and related accessories in the PRC.

The Company intends to explore to diversify its business portfolio into other areas such as resources, property development in the PRC and is in the process of carrying out review and feasibility study on the core competence and capability of the Group for achieving the said diversification.

2) The BVI Company

The BVI Company is an investment holding company incorporated on 5 June 2007 and is owned as to 70.24% by Mr. Lau, 14.88% by Mr. Lau Kin Ying and 14.88% by Mr. Lau Hung Bing.

According to the management account of the BVI Company as at 31 December 2008 and confirmed by the Vendors, save and except for the share capital injected by the Vendors amounting to approximately US\$50,000 (equivalent to approximately HK\$390,000), the entire equity interest in the H.K. Company and the current account with the H.K. Company, it has no other significant assets and liabilities.

3) The H.K. Company

The H.K. Company is an investment holding company incorporated on 23 October 2007 and is wholly-owned by the BVI Company.

LETTER FROM THE BOARD

According to the management account of the H.K. Company as at 31 December 2008 and confirmed by the Vendors, save and except for the 50.8% equity interest in the PRC Mining Company, it has no other significant assets and liabilities.

4) The PRC Mining Company

The PRC Mining Company is a domestic company incorporated in the PRC with limited liability and is the holder of the Mining Permit. According to the renewed Mining Permit (No.: 4200000731409) issued by the Bureau of Land and Resources of Hubei Province (湖北省國土資源廳) on 25 September 2007, the PRC Mining Company has the right to conduct mining activities in the celestite, zinc and lead mining site situated in Hubei Province, the PRC. The Mining Permit is valid for 5 years until 25 September 2012. According to the Vendors, their 50.8% equity interest in the PRC Mining Company was purchased at RMB209 million from the original owner of the Mining Site. The Company confirmed that the PRC Mining Company is conducting mining activities over the mining site and the exploration activities (if any) have been completed. Detailed information on the PRC Mining Company is set out in this circular.

According to this circular and the latest information provided by the PRC Mining Company, the net assets/ (liabilities) value, profit/ (loss) before and after tax of the PRC Mining Company for the years ended 31 December 2006 and 2007, and seven months ended 31 July 2007 and 2008 are shown below:

	Year ended 31 December		Seven months ended 31 July	
	2006	2007	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(unaudited)	(audited)
	(Note)	(Note)	(Note)	(Note)
Net assets/ (liabilities) value	(10,262)	12,494	13,324	6,761
Profit/ (loss) before tax for the year/period	(3,709)	(1,207)	—	(265)
Profit/ (loss) after tax for the year/period	(3,709)	(1,207)	—	(265)

Note: according to the accountants' report on the PRC Mining Company prepared in accordance with the Hong Kong Financial Reporting Standards as set out in this circular.

Although there was an adverse change in the general economic situation and fluctuation in metal prices, the PRC Mining Company had entered into a sales contract with its major customer for a secured selling price of strontium for the year 2008. While in 2009, the PRC Mining Company had also contracted with another customer for a higher secured selling price of strontium than in 2008.

LETTER FROM THE BOARD

Despite the exploitation work of the PRC Mining Company has been affected from March to August 2008 due to (1) the internal systemizing operation; (2) improvement works on mineral storage area; and (3) prohibition in usage of explosives in August owing to the launch of 2008 Beijing Olympic Games, the Company was given to understand that there was sufficient inventory in the PRC Mining Company to meet its sales demand during the year 2008.

INFORMATION ON PARTIES TO THE TERMINATION DEED AND THE SUPPLEMENTAL AGREEMENT IV — ACQUISITION

1. The Purchaser

Express Fortune Holdings Limited, a company incorporated in BVI and a wholly-owned subsidiary of the Company.

2. The Vendors

Mr. Lau, Mr. Lau Hung Bing and Mr. Lau Kin Ying are all merchants. Mr. Lau is the Chairman and Chief Executive Officer of the Company. Messrs. Lau Hung Bing and Lau Kin Ying are the brothers of Mr. Lau. Accordingly, the Vendors are connected persons (as defined under the Listing Rules) to the Company.

3. Foshan Goldsonic

Foshan Goldsonic is principally engaged in handset distribution business and investment in a PRC mining site.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, Foshan Goldsonic is a third party independent of the Company and its connected persons (as defined under the Listing Rules).

4. The Covenanter

Mr. Zhang Zhulin is a merchant.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Covenanter is a third party independent of the Company and its connected persons (as defined under the Listing Rules).

LETTER FROM THE BOARD

INFORMATION ON THE MINING SITE

The Mining Site which is located in Huangshi, southeastern Hubei has a general mining area of approximately 0.62 square kilometers.

The mineral resources of the Mining Site are depicted below:

Mine	Remaining amount of mineral resources as at the date of the valuation report on 30 September 2008
	(tonnes)
	(Note)
Celestite (strontium)	7,377,530
Zinc (metal)	267,535
Lead (metal)	52,037

Note: Based on the information updated and provided by the PRC Mining Company

For further details of the Mining Site, please refer to Appendix VI to this circular.

INFORMATION ON CELESTITE (A KIND OF STRONTIUM)

According to the valuation report as set out in Appendix VI to this circular, strontium can be obtained from two main sources of mine, which are celestite (which is found in the Mining Site) and strontianite. Commercially, it can be used as the ingredient of red color fireworks, signal flare, parts of car wheels and car engine, reflective traffic signs, energy saving lamps and ingredient in refining the zinc ore. Besides, as strontium is non-toxic and provides a dense glass that shields viewers from X-rays generated by the high voltage of the tube, it is now almost exclusively for cathode ray tubes in televisions and computers. Strontium is also used in military purpose.

According to the U.S. Geological Survey, Mineral Commodity Summaries, world production of strontium reached an estimated 600 thousand metric tons of strontium content in 2007, a 2.56% increase from 2006. Like previous years, China is still the world's leading producer of strontium carbonate, followed by Germany and Mexico.

IMPLICATIONS OF THE LISTING RULES

As the applicable percentage ratio as defined under the Listing Rules of the Supplemental Agreement IV — Acquisition exceeds 100%, the Supplemental Agreement IV — Acquisition constitutes a very substantial acquisition under Rule 14.08 of the Listing Rules.

LETTER FROM THE BOARD

As Mr. Lau is the Chairman and Chief Executive Officer of the Company while Messrs. Lau Hung Bing and Lau Kin Ying are brothers of Mr. Lau, the Vendors are connected persons (as defined under the Listing Rules).

Pursuant to Rule 14A.13(1)(a) of the Listing Rules, the entering into of the Supplemental Agreement IV — Acquisition constitutes a connected transaction and is subject to, among other things, the Independent Shareholders' approval at the SGM.

A SGM will be convened at which resolutions will be proposed to seek the Independent Shareholders' approval of the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder. As at the Latest Practicable Date, Mr. Lau who controls and is entitled to exercise control over the voting right in respect of 188,580,013 Shares (188,300,013 Shares through Future 2000 Limited in which Mr. Lau, his spouse and his children held indirectly via a discretionary trust), representing approximately 50.59% of the total issued share capital of the Company, and Mr. Lau Hung Bing who controls and is entitled to exercise control over the voting right in respect of 300,000 Shares, representing approximately 0.08% of the total issued share capital of the Company, and their respective associates shall abstain from voting with respect to the resolutions for approving the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder. Voting of the Independent Shareholders at the SGM shall be taken by poll according to Rule 13.39(4) of the Listing Rules.

Any Shareholder that has a material interest in the Supplemental Agreement IV — Acquisition will be required to abstain from voting in respect of the resolutions at the SGM. As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, no Shareholder or its associates has a material interest in the Supplemental Agreement IV — Acquisition except the Vendors and their respective associates.

An independent board committee comprising all the independent non-executive Directors was established to advise the Independent Shareholders in relation to the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder. Guangdong Securities has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

SGM

The SGM will be held at Room 1505-7, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong at 11:00 a.m. on Wednesday, 18 February 2009 to consider and, if thought fit, to approve, among other things, the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder.

A notice convening the SGM is set out on pages 237 to 238 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompany form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof.

LETTER FROM THE BOARD

Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or at any adjourned meeting should you so wish.

RECOMMENDATION

The Directors consider that the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder are fair and reasonable to the Company and in the interest of the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder.

Your attention is also drawn to the letter from the Independent Board Committee set out on page 28 of this circular and the letter from Guangdong Securities to the Independent Board Committee and the Independent Shareholders in connection with the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder and the principal factors and reasons considered by them in arriving at such advice set out on pages 28 to 47 of this circular.

The Independent Board Committee, having taken into account the advice of Guangdong Securities considers that the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder are fair and reasonable so far as the Independent Shareholders are concerned and in the interest of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board
China Fortune Holdings Limited
Lau Siu Ying
Chairman and Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in respect of the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder.



China Fortune Holdings Limited

中國長遠控股有限公司*

(Incorporated in Bermuda with limited liability, carrying on business in H.K. as CFH Limited)
(Stock Code: 110)

29 January 2009

To the Independent Shareholders

Dear Sir or Madam,

**VERY SUBSTANTIAL ACQUISITION AND
CONNECTED TRANSACTION —
RESTRUCTURING FOR ACQUISITION OF 50.8% INTEREST IN
PRC MINING COMPANY:
(1) Termination of Further Acquisition; and
(2) Supplemental Agreement to Acquisition**

We refer to the circular issued by the Company to its shareholders dated 29 January 2009 of which this letter forms part. Capitalised terms defined in the said circular shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the Board to consider the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder. Guangdong Securities has been appointed as an independent financial adviser to advise us and the Independent Shareholders in this respect.

We wish to draw your attention to the letter from the Board and the letter from Guangdong Securities set out in the said circular. Having considered the principal factors and reasons considered by, and the advice of, Guangdong Securities set out in its letter of advice set out in the said circular, we consider that the terms of the Supplemental Agreement IV — Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the above which are set out in the notice of the SGM at the end of the circular.

Yours faithfully,

For and on behalf of the Independent Board Committee

Chang Wing Seng, Victor

Wong Lit Chor, Alexis

Chen Yi Gang

Independent Non-executive Directors

* For identification purpose only

LETTER FROM GUANGDONG SECURITIES

Set out below is the text of a letter received from Guangdong Securities, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders regarding Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder for the purpose of inclusion in this circular.



Units 2505-06, 25/F.
Low Block of Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

29 January 2009

*To: The independent board committee and the independent shareholders
of China Fortune Holdings Limited*

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION — RESTRUCTURING FOR ACQUISITION OF 50.8% INTEREST IN PRC MINING COMPANY

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in relation to Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder, details of which are set out in the letter from the Board (the “Board Letter”) contained in the circular dated 29 January 2009 issued by the Company to the Shareholders (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

On 27 August 2008, the Purchaser, a wholly-owned subsidiary of the Company, entered into Supplemental Agreement III — Acquisition with the Vendors and Supplemental Agreement I — Further Acquisition with Foshan Goldsonic and the Covenantor regarding the variation and adjustments to the terms of the Acquisition Agreement and the Further Acquisition Agreement respectively, details of which are contained in the announcement of the Company dated 5 September 2008 (the “Variation of Terms Announcement”).

According to the restructuring plan mentioned in the Previous Circular, Foshan Goldsonic would transfer its 10% equity interest in the PRC Mining Company to the H.K. Company (a wholly-owned subsidiary of the Vendors). The said transfer has been effective and thus the H.K. Company holds a total of 50.8% equity interest in the PRC Mining Company.

LETTER FROM GUANGDONG SECURITIES

On 6 January 2009, the Purchaser entered into the Termination Deed with Foshan Goldsonic and the Covenanter to terminate the Further Acquisition Agreement and other ancillary agreements/letters to reflect the actual ownership of shareholding of the aforementioned 10% equity interest in the PRC Mining Company.

On even date, the Purchaser also entered into Supplemental Agreement IV — Acquisition with the Vendors, pursuant to which the Purchaser agreed to (i) acquire from the Vendors a 50.8% effective interest in the PRC Mining Company at a total consideration of HK\$398 million with the Profit Guarantee provided by Mr. Lau; and (ii) extend the Long Stop Date (the “Transaction”). Supplemental Agreement IV — Acquisition shall supplement the Acquisition Agreement and other ancillary agreements/letters whilst other terms and conditions of the Acquisition Agreement and other ancillary agreements/letters shall remain in full force.

As the applicable percentage ratios as defined under Chapter 14 of the Listing Rules of Supplemental Agreement IV — Acquisition exceed 100%, the entering into of Supplemental Agreement IV — Acquisition constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. In addition, since Mr. Lau is the Chairman and Chief Executive Officer of the Company while Mr. Lau Hung Bing and Mr. Lau Kin Ying are brothers of Mr. Lau, the Vendors are connected persons of the Company. Accordingly, Supplemental Agreement IV — Acquisition also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

The SGM will be convened at which resolution(s) will be proposed to seek the Independent Shareholders’ approval of Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder. The Vendors and their respective associates will abstain from voting on the said resolution(s). Voting of the Independent Shareholders at the SGM will be taken by way of poll pursuant to Rule 13.39(4) of the Listing Rules.

An Independent Board Committee comprising Mr. Chang Wing Seng, Victor, Mr. Wong Lit Chor, Alexis and Mr. Chen Yi Gang (all being independent non-executive Directors) has been formed to advise the Independent Shareholders on (i) whether the terms of Supplemental Agreement IV — Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the Transaction is in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the relevant resolution(s) to approve Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder at the SGM. We, Guangdong Securities Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors. We have assumed that all information and representations that have been provided by the

LETTER FROM GUANGDONG SECURITIES

Directors, for which they are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the date hereof. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with Rule 13.80 of the Listing Rules.

We have not made an independent evaluation or appraisal of the assets and liabilities of the Group and the PRC Mining Company and we have not been furnished with any such evaluation or appraisal, save and except for the valuation report on the exclusive mining rights owned by the PRC Mining Company (the “Valuation Report”) prepared by LCH (Asia-Pacific) Surveyors Limited, an independent qualified international valuer (the “Valuer”), as contained in Appendix VI to the Circular. We are not expert in the valuation of companies or mining rights and therefore have relied solely upon the Valuation Report for the the market value of the exclusive mining rights owned by the PRC Mining Company as part of a going concern business of the PRC Mining Company as at 30 September 2008. Nevertheless, in order for us to form a better understanding on the Valuation Report, we have taken various steps for our due diligence purpose, including but not limited to (i) conducting telephone interviews with the Valuer on 7 November 2008 and 10 November 2008 respectively regarding the methodology, basis and assumptions with regards to the valuation of the exclusive mining rights owned by the PRC Mining Company; and (ii) requesting for and obtaining the supporting documents in relation to the valuation of the exclusive mining rights owned by the PRC Mining Company as available to the Valuer and the Company. We consider that we have taken sufficient and necessary steps to form a reasonable basis and an informed view for our recommendation and are in compliance with Rule 13.80 of the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent in-depth investigation into the business and affairs of the Company, the Vendors, Foshan Goldsonic and the PRC Mining Company, or their respective subsidiaries or associates, nor have we considered the taxation implication on the Group or the Shareholders as a result of the Transaction. In addition, we have no obligation to update this opinion to take into account events occurring after the issue of this letter. Nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, the sole responsibility of Guangdong Securities is to ensure that such information has been correctly extracted from the relevant sources.

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PRINCIPAL FACTORS AND REASONS CONSIDERED

Background and reasons for the Transaction

In arriving at our opinion in respect of the Transaction, we have taken into consideration the following principal factors and reasons:

Information on the Group

As confirmed by the Directors, the Group had been principally engaged in distribution of mobile phones and related accessories in the PRC. In recent years, the Group has also started a strategic plan to diversify its business.

Set out below are the financial results of the Group for the six months ended 30 June 2008 and the two years ended 31 December 2007 as extracted from the Company's interim report for the six months ended 30 June 2008 (the "2008 Interim Report") and its annual report for the year ended 31 December 2007 (the "2007 Annual Report") respectively:

	For the six months ended 30 June 2008 (<i>unaudited</i>)	For the year ended 31 December 2007 (<i>audited</i>)	For the year ended 31 December 2006 (<i>audited</i>)	Change from 2006 to 2007 %
<i>HK\$'000</i>				
Revenue	1,026,388	2,744,597	3,046,805	(9.92)
Profits/(Loss) before taxation	(952)	(263,510)	37,544	N/A
Profits/(Loss) after taxation	(1,628)	(266,847)	31,339	N/A

From the above table, we note that the Group's revenue size had been shrinking persistently in recent years. The Group recorded profits for the year ended 31 December 2006 but started to make substantial losses since the year ended 31 December 2007. As referred to in the 2007 Annual Report, the Group encountered the following difficulties from its mobile phone business during the 2007 financial year (i) tough price competition among the mobile phone models which were running towards the ends of their product life cycles; (ii) failure in delivering new model of mobile phones during the 2nd quarter to 3rd quarter of 2007 due to repeated delay in the launch of two new Samsung models; and (iii) the unexpected quality problem in one of the Group's key mobile phone models. According to the 2008 Interim Report and as confirmed by the Directors, the Group continued to suffer from acute competition within the mobile phone sector in the PRC in 2008. In addition, due to the emergence of new local suppliers and distributors of mobile phones, the Directors anticipate that the Group's business within the mobile phone sector in the PRC will still be facing a hard time in the near future.

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In view of the stagnant business performance and poor development prospect of the Group within the mobile phone sector in the PRC, the Directors consider that the Group is in need of new opportunities to diversify its business. The Group has initiated a strategic plan, under which it had (i) contracted to dispose of 49% of its equity interest in Fortune Telecom (China) Distribution Limited, a company which was concentrated on the handset distribution business in the PRC, in October 2007; and (ii) entered into a memorandum of understanding with an independent third party regarding the disposal of Shanghai TeleFortune Trading Company Limited, a subsidiary of the Company which is engaged in the handset distribution business in the PRC, on 30 December 2008. The Directors expected that the Group would divert its resources to other potentially profitable areas, such as resources and property development, in the PRC.

Information on the PRC Mining Company

As extracted from the Board Letter, the PRC Mining Company is a domestic company incorporated in the PRC with limited liability and is the holder of the Mining Permit. Under the Mining Permit, the PRC Mining Company possesses the right to carry out mining activities at the Mining Site. Nevertheless, the PRC Mining Company has not yet obtained the land use right and building ownership right certificate at the Mining Site.

From the Valuation Report, we note that the Mining Site contains celestite (strontium), zinc, lead and gold. Upon our enquiry, the Directors advised us that the PRC Mining Company has started the sales of strontium to a recurrent customer in Hubei Province, the PRC since 2008. As also confirmed by the Directors, the PRC Mining Company had (i) systemised its operation; (ii) improved the mineral storage condition and facilitated the accessibility of the Mining Site; and (iii) completed a mine processing plant to replace the old temporary mine processing plant, during 2008.

Based on the Valuation Report, the market value of the exclusive mining rights owned by the PRC Mining Company (based on income approach) was in a range of approximately RMB547 million (equivalent to approximately HK\$618 million) (the “Lower Limit Valuation”) to RMB707 million (equivalent to approximately HK\$799 million) (the “Upper Limit Valuation”) (altogether, the “Valuation”) as at 30 September 2008. The Valuation was prepared by the Valuer. As also referred to in Appendix IV to the Circular, the Company’s reporting accountants are of the view that the cashflow projections used in the Valuation is properly prepared on the basis of the assumptions, is arithmetically accurate and is presented in accordance with the assumptions made by the Directors; while the Company’s financial adviser considers the forecast upon which the Valuation has been based was made after due and careful enquiry by the Directors.

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Set out below are the financial results of the PRC Mining Company for the seven months ended 31 July 2008 and the two years ended 31 December 2007 as extracted from Appendix II to the circular:

	Seven months ended 31 July 2008 HK\$'000 (audited)	Year ended 31 December 2007 HK\$'000 (audited)	2006 HK\$'000 (audited)
Turnover	5,440	5,058	2,084
Loss for the year/period	(265)	(1,207)	(3,709)
Net asset value ("NAV")/(liabilities)	6,761	12,494	(10,262)

As referred to in the Board Letter, the PRC Mining Company is conducting mining activities over the Mining Site and the exploration activities (if any) have been completed. With regard to the financial results of the PRC Mining Company, the Directors advised us that the PRC Mining Company derived its revenue mainly from the sales of strontium to its recurrent customer in Hubei. For the seven months ended 31 July 2008, losses were incurred by the PRC Mining Company due to recurrent administration expenses. As further advised by the Directors, the exploitation work of the PRC Mining Company was affected from March 2008 to August 2008 due to (i) internal systemising operation; (ii) improvement works on mineral storage condition; and (iii) prohibition in usage of explosives in August 2008 owing to the launch of the 2008 Beijing Olympic Games by the PRC government. Despite of the above, the Directors expected that the PRC Mining Company is likely to have positive business prospect given the mineral resources contained at the Mining Site and the prospect of the resources sector in the PRC.

Reasons for the Transaction

With reference to in the Previous Circular, the Company, through one of its wholly-owned subsidiaries, proposed to acquire 40.8% equity interest in the PRC Mining Company from the Vendors. To secure its controlling stake over the PRC Mining Company, the Group entered into the Further Acquisition Agreement with Foshan Goldsonic on 12 November 2007 to acquire for a further 10% equity interest in the PRC Mining Company. Resolutions approving the Acquisition and the Further Acquisition were passed by the then independent shareholders of the Company at a special general meeting of the Company held on 15 January 2008.

As stated in the Variation of Terms Announcement, in view of the unexpected delay of the completion of the Acquisition and the Further Acquisition and the significant decline in the share price of the Company in the second half of 2008, the Vendors and Foshan Goldsonic have requested for re-negotiation, variation and adjustments to the terms of the Acquisition Agreement and the Further Acquisition Agreement (the "Variation of Terms") in order to reflect the value of the Acquisition and the Further Acquisition. The Directors further confirmed that the Vendors and Foshan Goldsonic may or may not proceed with the Acquisition and the Further Acquisition in the event that the Company disagrees with the proposed Variation of Terms. In case the Vendors and/or Foshan Goldsonic

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choose(s) to terminate the Acquisition and/or the Further Acquisition, save and except for the refund of initial deposit of HK\$25 million paid by the Vendors to the Company, neither the Vendors nor Foshan Goldsonic shall have any other liabilities or obligations to the Company pursuant to the Acquisition Agreement and the Further Acquisition Agreement respectively.

According to the Directors and as extracted from the Variation of Terms Announcement, the Board had discussed and affirmed the long-term commercial prospect of the PRC Mining Company. Under the aforesaid circumstances and after considering factors such as (i) the price of the Shares; (ii) the net asset value per Share; (iii) the cash resources of the Group; (iv) the Profit Guarantee; (v) the conversion premium of the Convertible Bonds; (vi) the share capital and earnings dilution effects; (vii) the escrow arrangement of the Promissory Notes; (viii) the reduction in the considerations for the Acquisition and the Further Acquisition; and (ix) the maintenance of minimum public float, the Directors regarded the Variation of Terms initiated by the Vendors and Foshan Goldsonic to be acceptable. The Directors were also of the view that the Variation of Terms offers maximum financial flexibility to the Company to fulfil its strategic goal of completing the acquisition of the PRC Mining Company, which would be a long-term profit earning asset to the Group, at a time when the international financial markets have turned relatively volatile and difficult.

Given that the transfer of Foshan Goldsonic's 10% equity interest in the PRC Mining Company to the H.K. Company (a wholly-owned subsidiary of the Vendors) has been effective, to reflect the actual ownership of shareholding of the 10% equity interest in the PRC Mining Company, the Purchaser entered into the Termination Deed with Foshan Goldsonic and the Covenanter on 6 January 2009 to terminate the Further Acquisition Agreement and other ancillary agreements/letters. On even date, the Purchaser also entered into Supplemental Agreement IV — Acquisition with the Vendors, pursuant to which the Purchaser agreed to acquire a 50.8% effective interest in the PRC Mining Company at the Consideration from the Vendors. Terms of Supplemental Agreement IV — Acquisition follow the Variation of Terms in principal.

We have enquired into the Directors regarding the aforesaid reasons for the Transaction, including the Variation of Terms. In this regard, we were advised by the Directors that the acquisition of the PRC Mining Company is a key component of the Group's diversification strategy. The Directors are also confident that the acquisition of the PRC Mining Company would enhance the Group's business performance in the near future. Having taken into account (i) the Group's stagnant business performance and its unsatisfactory development prospect within the mobile phone sector in the PRC as represented by the Directors; (ii) the acquisition of the PRC Mining Company as a key component of the Group's diversification strategy and was duly passed by the independent shareholders of the Company; and (iii) the potential business prospect of the PRC Mining Company as anticipated by the Directors, we concur with the Directors that the acquisition of the PRC Mining Company may benefit the Company. With all of the above being the case, including the reasons for the Transaction and the Variation of Terms as detailed above, we are of the view that the Transaction is justifiable.

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Principal terms of Supplemental Agreement IV — Acquisition

Basis of the Consideration

Pursuant to Supplemental Agreement IV - Acquisition, the consideration payable to the Vendors is HK\$398 million in total. The Consideration will be satisfied at Completion in the following manner:

- (i) as to HK\$40 million by cash (of which HK\$25 million had been paid to Mr. Lau as initial deposit) to Mr. Lau;
- (ii) as to approximately HK\$168.3 million by allotment and issue of 306,016,300 Consideration Shares at HK\$0.55 each by the Company to the Vendors or their respective nominee(s);
- (iii) as to HK\$100 million by the issue of the Convertible Bonds, being convertible into 142,857,142 Shares at a conversion price of HK\$0.70 per Conversion Share, by the Company to Mr. Lau or his nominee(s); and
- (iv) as to approximately HK\$89.7 million by the issue of the Promissory Notes in two tranches (in the sum of HK\$40 million and HK\$49.7 million respectively) by the Company to Mr. Lau or his nominee(s).

The Directors confirmed that the Company will finance the remaining cash Consideration of HK\$15 million by internal resources of the Group.

As extracted from the Variation of Terms Announcement and as further confirmed by the Directors, the Consideration was determined after arm's length negotiations among the Purchaser and the Vendors, with reference to (i) the declining trend of the price of the Shares in the first half of 2008; and (ii) the short-term commodity price fluctuation of celestite. The Board Letter also stated that the Consideration was set after taking into account the consideration basis and payment terms of the Further Acquisition under the Variation of Terms.

We note that the Consideration represents (i) a discount of approximately 2.8% to “50.8% of the sum of the unaudited NAV of the PRC Mining Company as at 31 July 2008 and the Upper Limit Valuation” (the “Consideration Discount”); and (ii) a premium of approximately 25.4% over “50.8% of the sum of the unaudited NAV of the PRC Mining Company as at 31 July 2008 and the Lower Limit Valuation” (the “Consideration Premium”).

As aforementioned, the Directors confirmed that the Consideration was determined based on the declining trend of the price of the Shares in the first half of 2008 and the short-term commodity price fluctuation of celestite. In this respect, we note from the internet web-site at www.shmet.com that the Shanghai Metal Index (a volume-weighted index covering the prices of copper, aluminum, lead, zinc, tin and nickel supplied in Shanghai which may broadly represent the general trend of metal price in the PRC) as quoted on 上海金屬網 (www.shmet.com) had dropped by approximately 50% from about 30,000 points to 15,000 points during 2008. In view of (i) the importance of the acquisition of the PRC Mining Company as part of the Group's diversification strategy and a possible remedy for the Group's

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stagnant business performance as affirmed by the Directors; (ii) the change in circumstances which are outlined under the section headed “Reasons for the Transaction” of this letter; (iii) the Consideration Discount; and (iv) the possible occurrence of the Consideration Premium but as balanced by points (i) to (iii) above, we concur with the Directors that the Consideration is acceptable to the Company.

The Consideration Shares

The issue price per Consideration Share of HK\$0.55 (the “Issue Price”) represents a premium over the closing price of the Shares in the following manner:

	Share price HK\$	Premium of the Issue Price over the closing price of the Shares %
As at the Latest Practicable Date	0.250	120.00
As at 5 January 2009, being the last trading day of the Shares immediately preceding the date of issue of the Announcement (the “Last Trading Day”)	0.160	243.75
The average of the last five trading days of the Shares immediately prior to and including the Last Trading Day	0.159	245.91
The average of the last ten trading days of the Shares immediately prior to and including the Last Trading Day	0.170	223.53
As at 24 August 2008, being the last trading day of the Shares immediately preceding the date of agreements regarding the Variation of Terms (the “Variation of Terms Last Trading Day”)	0.300	83.33

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The following table sets out the highest and lowest closing prices and the average daily closing price of the Shares as quoted on the Stock Exchange in each month during the period commencing from 2 January 2008 up to and including the Last Trading Day (the “Review Period”):

Month	Highest closing price HK\$	Lowest closing price HK\$	Average daily closing price HK\$
2008			
January	1.030	0.600	0.769
February	0.810	0.590	0.678
March	0.700	0.550	0.622
April	0.600	0.530	0.549
May	0.610	0.500	0.537
June	0.530	0.470	0.493
July	0.445	0.320	0.382
August (<i>Note 1</i>)	0.400	0.300	0.343
September (<i>Note 1</i>)	0.300	0.230	0.259
October	0.290	0.125	0.192
November	0.160	0.100	0.139
December (<i>Note 2</i>)	0.180	0.140	0.162
2009			
January	0.160	0.155	0.158

Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

- Trading in the Shares was suspended from 28 August 2008 to 5 September 2008 (both days inclusive).
- Trading in the Shares was suspended on 31 December 2008.

During the Review Period, the average daily closing price of the Shares of each month ranged from HK\$0.139 to HK\$0.769 per Share and the Share price had demonstrated a continuous declining trend from January 2008 to November 2008. The highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$1.03 per Share recorded on 2 January 2008 and HK\$0.10 per Share recorded on 27 November 2008 respectively. We note that the highest closing price of the Shares of HK\$1.03 represented a substantial premium of approximately 930% over the lowest closing price of the Shares of HK\$0.10. Moreover, the Issue Price was above the average daily closing price of the Shares of each month from April 2008 onwards.

In order to further assess the fairness and reasonableness of the Issue Price, we have identified, to the best of our knowledge and as far as we are aware of, eight connected transactions in relation to (i) acquisitions by listed companies in Hong Kong involving the issue of shares as all or part of the

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consideration; and (ii) subscription of new shares of listed companies in Hong Kong from 1 October 2008 to the date of Supplemental Agreement IV — Acquisition (the “Issue Price Comparables”) (the “Relevant Period”). Shareholders should note that the business, operation and prospect of the Company are not the same as the Issue Price Comparables and we have not conducted any in-depth investigation into the businesses and operations of the Issue Price Comparables. The Issue Price Comparables are hence only used to provide a general reference for the common market practice of listed companies in Hong Kong in acquisitions involving the issue of shares and subscription of new shares. The table below summarises our relevant findings:

Company name	Stock Code	Date of announcement	Issue price of the shares HK\$	Premium/(Discount) of the issue price over/to price of shares as at the last trading day prior to release of announcement
				%
Mainland Headwear Holdings Limited	1100	21 October 2008	0.844	(7.25)
China Chengtong Development Group Limited	217	30 October 2008	0.350	(2.78)
Brightoil Petroleum (Holdings) Limited	933	28 November 2008	0.610	0
Brilliance China Automotive Holdings Limited	1114	2 December 2008	0.430	13.20
Golife Concepts Holdings Limited	8172	8 December 2008	0.050	(18.03)
China Southern Airlines Company Limited	1055	10 December 2008	1.130 (Note 1)	21.71
Wing Shan International Limited	570	16 December 2008	0.390	(4.88)
China Eastern Airlines Corporation Limited	670	29 December 2008	4.387 (Note 2)	(12.10)
Average				(1.27)
Minimum				(18.03)
Maximum				21.71
The Company				
— on the Last Trading Day		7 January 2009	0.55	243.75
— on the Variation of Terms Last Trading Day		27 August 2008	0.55	83.33

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Source: the Stock Exchange web-site (www.hkex.com.hk)

Notes:

1. Equivalent value in HK\$ based on the exchange rate of RMB1: HK\$1.13 as applied in the relevant announcement.
2. Equivalent value in HK\$ based on the exchange rate of RMB1: HK\$1.1337 as applied in the relevant announcement.

As shown by the above table, the issue prices of the consideration/subscription shares of the Issue Price Comparables ranged from a discount of approximately 18.03% to a premium of approximately 21.71% to/over the respective closing prices of their shares as at the last trading days prior to the release of the relevant announcements. Out of the eight Issue Price Comparables, five Issue Price Comparables had issue prices at discount to the closing prices of their shares as at the last trading days. The Issue Price which represents premiums of approximately 243.75% and 83.33 over the closing prices of the Shares as at the Last Trading Day and the Variation of Terms Last Trading Day respectively, is hence significantly above the said market range.

Given the results of the historical Share price analysis and market comparables analysis as detailed above, we consider that the Issue Price is fair and reasonable so far as the Independent Shareholders are concerned.

The Convertible Bonds

On top of the Considerations Shares, the Company will issue a 2-year, zero coupon Convertible Bonds in the principal amount of HK\$100 million to Mr. Lau or his nominee(s) upon Completion as partial payment for the Consideration.

The Conversion Price represents a premium over the closing price of the Shares in the following manner:

	Share price HK\$	Premium of the Conversion Price over the closing price of the Shares %
As at the Latest Practicable Date	0.250	150.00
As at the Last Trading Day	0.160	337.50
The average of the last five trading days of the Shares immediately prior to and including the Last Trading Day	0.159	340.25
The average of the last ten trading days of the Shares immediately prior to and including the Last Trading Day	0.170	311.76
As at the Variation of Terms Last Trading Day	0.300	133.33

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In order to further assess the fairness and reasonableness of the terms of the Convertible Bonds, we have identified, to the best of our knowledge and as far as we are aware of, five connected transactions by listed companies in Hong Kong involving the issue of convertible bonds/notes during the Relevant Period (the “CB Comparables”). Shareholders should note that the business, operation and prospect of the Company are not the same as the CB Comparables and we have not conducted any in-depth investigation into businesses and operations of the CB Comparables. The CB Comparables are hence only used to provide a general reference for the common market practice of listed companies in Hong Kong in transactions involving the issue of convertible bonds/notes. The table below summarises our relevant findings:

Company	Stock Code	Date of announcement	Term Year	Interest rate %	Premium of the conversion price over price of shares as at the last trading day prior to release of announcement %
Celestial Asia Securities Holdings Limited	1049	11 November 2008	3	2.00	14.90
CITIC Pacific Limited	267	12 November 2008	2	2.00	32.00
			(months)		
Dragon Hill Wuling Automobile Holdings Limited	305	28 November 2008	5	6.00	12.12
Brightoil Petroleum (Holdings) Limited	933	28 November 2008	3	0	0
CASH Financial Services Group Limited	510	19 December 2008	3	2.00	30.70
Average				2.40	17.94
Minimum				0	0
Maximum				6.00	32.00
The Company					
— on the Last Trading Day		7 January 2009	2	0	337.50
— on the Variation of Terms Last Trading Day		27 August 2008	2	0	133.33

Source: the Stock Exchange web-site (www.hkex.com.hk)

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(a) *The Conversion Price*

The conversion prices of the CB Comparables ranged from premiums of approximately 17.94% to 32.00% over the respective closing prices of their shares as at the last trading days prior to the release of the relevant issue of convertible bond/note announcements. The Conversion Price, which represents premiums of approximately 337.50% and 133.33% over the closing prices of the Shares as at the Last Trading Day and the Variation of Terms Last Trading Day respectively, is hence significantly above the said market range.

(b) *Annual interest rate*

As presented by the above table, the CB Comparables carried an annual interest rate of 0% to 6%. The Convertible Bonds, which do not bear any interest, hence fall within and are at the minimum of the said market range.

We note from the above market comparable analysis that (i) the level of premiums of the Conversion Price is significantly above the market range of the CB Comparables; and (ii) the annual interest rate of the Convertible Bonds is at the minimum of the market range of the CB Comparables. Accordingly, we consider that the terms of the Convertible Bonds are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

The Promissory Notes

The Promissory Notes bear no interest and are divided into two tranches. The first tranche Promissory Notes in the principal amount of HK\$40 million are non-transferable and will be issued to Mr. Lau or his nominee(s) at Completion but held in escrow by the Company to set off the Compensation in the event that the audited profit of the PRC Mining Company before tax falls below the amount of the Profit Guarantee.

The second tranche Promissory Notes in the principal amount of HK\$49.7 million in total are transferable and will be issued to Mr. Lau or his nominee(s) at Completion. The second tranche Promissory Notes will mature at the end of the twenty-fourth month after issue.

Given that the issue of the non-interest bearing Promissory Notes would not give rise to any interest payment burden onto the Company, we are of the view that the Promissory Notes being non-interest bearing is in the interests of the Company and the Shareholders as a whole.

Conclusion

In conclusion, under the Acquisition Agreement and the Further Acquisition Agreement, the considerations for the Acquisition and the Further Acquisition were settled by cash and consideration shares. As amended by Supplemental Agreement IV — Acquisition, the payment methods of the Consideration are composed of cash, the Considerations Shares, the Convertible Bonds and the Promissory Notes. As a result, the Group's gearing position would be worsened due to the Transaction. Upon our enquiry, the Directors confirmed that the payment arrangements under Supplemental Agreement IV — Acquisition were arrived at after on arm's length negotiation and bargaining among

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the Company and the Vendors. The Directors further advised us that they have considered and balanced the following factors before accepting the revised payment methods: (i) the cash and debt position of the Group; (ii) the potential dilution effect to the shareholding interests of the public Shareholders due to the issue of the Consideration Shares; (iii) the flexibility as offered by the issue of the Convertible Bonds as compared to other payment methods; and (iv) the Promissory Notes being interest-free. In light of the above, we concur with the Directors that the payment arrangements under Supplemental Agreement IV — Acquisition are acceptable.

The Profit Guarantee

With reference to the Previous Circular, the Vendors, Foshan Goldsonic and the Covenantor have agreed to provide profit guarantee of not less than totalling RMB80 million profit before tax for the year ended 31 December 2008.

Pursuant to Supplemental Agreement IV — Acquisition, the profit guarantee has been reduced to RMB72 million in total as audited profit before tax for the first twelve months following the Completion.

Regarding the Profit Guarantee, we have enquired into the Directors and were advised that the Acquisition Agreement and the Further Acquisition Agreement do not contain any provision of collateral and terms of specified repayment when there is shortfall between the Profit Guarantee and the actual profit of the PRC Mining Company for the year ended 31 December 2008. Whereas under Supplemental Agreement IV — Acquisition, the Compensation would be secured by the first tranche Promissory Notes in escrow to be issued to Mr. Lau. Accordingly, Mr. Lau initiated a reduction in the amount of the Profit Guarantee. With this being the case and after considering that the international financial markets have turned relatively volatile and difficult since the second half of 2008, the Directors consider that it is beneficial for the Company to at least maintain the Profit Guarantee arrangement even though there is a reduction in the amount to be guaranteed.

In view of the foregoing, we concur with the Directors that the Profit Guarantee and the underlying escrow arrangement of the Promissory Notes are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

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Potential dilution to the shareholdings of the public Shareholders

The table below shows the shareholding structure of the Company (i) as at Latest Practicable Date; (ii) immediately after the issue of the Consideration Shares but before conversion of the Convertible Bonds; and (iii) upon Completion and full conversion of the Convertible Bonds at the Conversion Price:

	As at the Latest Practicable Date		Immediately after the issue of the Consideration Shares but before conversion of the Convertible Bonds		Upon Completion and full conversion of the Convertible Bonds at the Conversion Price	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
<i>The Vendors:</i>						
Mr. Lau	188,580,013	50.59	433,393,053	63.85	576,250,195	70.13
	(Note 1)				(Note 2)	
Mr. Lau Kin Ying	—	—	30,601,630	4.51	30,601,630	3.72
Mr. Lau Hung Bing	300,000	0.08	30,901,630	4.55	30,901,630	3.76
Subtotal	188,880,013	50.67	494,896,313	72.91	637,753,455	77.61
Public Shareholders	183,909,987	49.33	183,909,987	27.09	183,909,987	22.39
Total	372,790,000	100.00	678,806,300	100.00	821,663,442	100.00

Notes:

- (1) 280,000 Shares are beneficially owned by Mr. Lau and 188,300,013 Shares are held by Future 2000 Limited, a company incorporated in BVI which in turn is held by a discretionary trust. The beneficiaries of the discretionary trust include Mr. Lau, his spouse and his children.
- (2) Pursuant to the terms and conditions of the Convertible Bonds, Mr. Lau will not exercise the conversion rights attaching to the Convertible Bonds and the Company will not issue the relevant Conversion Shares in the event that such exercise would render less than 25% of the issued share capital of the Company being held in public hands. Thus, the Shares held by Mr. Lau shown above are for illustration purposes only.

From the above table, we note that the shareholding interests of the public Shareholders would be diluted from approximately 49.33% to 25% at maximum. After taking into account that (i) the Directors confirmed that the acquisition of the PRC Mining Company is essential to enhance the business prospect of the Group and in turn the value of the Shareholders in the future; and (ii) the shareholding interests of all the Shareholders would be diluted in proportion to their respective existing shareholdings in the Company, we are of the view that the possible dilution to the shareholding interests of the public Shareholders is acceptable.

LETTER FROM GUANGDONG SECURITIES

Financial effects of the Transaction

Effect on net asset value

According to the 2008 Interim Report, the unaudited consolidated NAV of the Group (including minority interest) was approximately HK\$264.62 million as at 30 June 2008. With reference to the unaudited pro-forma financial information of the Enlarged Group as contained in Appendix V to the Circular, the consolidated NAV of the Enlarged Group would be increased to approximately HK\$611.98 upon Completion.

Effect on earnings

The Directors expected that the acquisition of the PRC Mining Company would not have any immediate effect on the earning position of the Group. Nonetheless, given that (i) the PRC Mining Company is likely to have positive business prospect; and (ii) Mr. Lau agreed to provide the Profit Guarantee, the Directors expected that the acquisition of the PRC Mining Company would likely to enhance the earning position of the Group.

Effect on gearing

As at 31 December 2007, the Group's gearing level (being calculated as total long-term liabilities divided by the Shareholders' equity) was nil. Since the acquisition of the PRC Mining Company would involve the issue of the Convertible Bonds and the second tranche Promissory Notes with maturity of two years, the acquisition of the PRC Mining Company would create long-term liabilities to the Group, and thus the Group's gearing level would rise upon Completion.

Effect on working capital

The acquisition of the PRC Mining Company would not alter the amount of cash Consideration. As confirmed by the Directors, save as and except for the payment of HK\$15 million cash Consideration which was still outstanding as at the Latest Practicable Date, the acquisition of the PRC Mining Company would not lead to any material change in the working capital of the Group.

It should be noted that the aforementioned analyses are for illustrative purpose only and does not purport to represent how the financial position of the Company will be upon Completion.

Risk Factors

The acquisition of the PRC Mining Company will increase the level of risk exposure of the Group. Independent Shareholders should be aware of the following risk factors, which may not be exhaustive, when considering the Transaction:

(i) Uncertainties about the estimated metal resources

It should be noted that the amounts of celestite (strontium), zinc, lead and gold at the Mining Site represent estimates only, which may differ materially from the actual amounts. There are plenty of factors, assumptions and variables involved in estimating the metal resources at the Mining Site which are beyond the Company's control and may prove to be incorrect over time.

LETTER FROM GUANGDONG SECURITIES

(ii) *Volatility of metal prices*

The market prices of strontium, zinc, lead and gold may fluctuate in response to changes in various factors which are beyond the control of the Group, such as the global demand for strontium, zinc, lead and gold, and the general economic and political conditions around the world.

(iii) *Economy of the PRC*

Although the economy of the PRC is at a growing stage, any changes in the political or economic condition in the PRC may affect its economy adversely, thereby affecting the business and operation of the PRC Mining Company. Moreover, demand for metal products in the PRC may vary from the existing forecast and expectation of the Company. Independent Shareholders should be reminded to bear those uncertainties in mind.

(iv) *Regulatory issues and political factors*

The operation of the Mining Site is subject to regulation of the government of the PRC. In particular, the PRC Mining Company may also be subject to various environmental protection laws and regulations in the PRC, including those on discharge of waste substances. As such, the Company may face significant constraints in the course of implementing its business strategies at the Mining Site.

We are of the view that Independent Shareholders should bear in mind all the risk factors when considering the Transaction since they may have different risk preference and are of varied risk tolerance level.

LETTER FROM GUANGDONG SECURITIES

RECOMMENDATION

Having considered the above factors and reasons, we are of the opinion that (i) the terms of Supplemental Agreement IV — Acquisition are on normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned; and (ii) the Transaction is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the relevant resolution(s) to be proposed at the SGM to approve Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder and we recommend the Independent Shareholders to vote in favour of the resolution(s) in this regard.

Yours faithfully,
For and on behalf of
Guangdong Securities Limited
Graham Lam
Managing Director

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and the assets and liabilities of the Group for the three financial years ended 31 December 2007 and the six months ended 30 June 2008 as extracted from the financial statements, is set out below.

(i) Results

	Year ended 31 December			Six months ended
	2005	2006	2007	30 June
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(unaudited)
Revenue	2,664,254	3,046,805	2,744,597	1,026,388
Cost of sales	(2,569,618)	(2,933,472)	(2,838,162)	(999,826)
Gross profit (loss)	94,636	113,333	(93,565)	26,562
Other income	13,485	17,904	17,791	7,900
Selling and distribution costs	(31,138)	(36,716)	(50,623)	(14,905)
Administrative expenses				
— Share-based payment expenses	—	—	(14,816)	—
— Other administrative expenses	(27,710)	(24,122)	(31,490)	(12,316)
Allowance for trade and other receivables	(7,029)	(5,380)	(46,379)	(279)
Loss on disposal of held for sales	—	—	—	(107)
Profit on disposal of an associate	—	—	—	104
Impairment loss recognised in respect of interests in associates	—	—	(18,193)	—
Fair value gain on an investment property	200	60	2,240	—
Share of results of associates	—	—	(2,125)	(1,687)
Finance costs	(22,100)	(27,535)	(26,350)	(6,224)
Profit (loss) before taxation	20,344	37,544	(263,510)	(952)
Income tax expense	(4,137)	(6,205)	(3,337)	(676)
Profit (loss) for the year / period	<u>16,207</u>	<u>31,339</u>	<u>(266,847)</u>	<u>(1,628)</u>
Attributable to:				
Equity holders of the parent	11,380	31,339	(266,679)	(1,152)
Minority interests	<u>4,827</u>	<u>—</u>	<u>(168)</u>	<u>(476)</u>
	<u>16,207</u>	<u>31,339</u>	<u>(266,847)</u>	<u>(1,628)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****(ii) Assets and Liabilities**

	As at 31 December			As at
	2005	2006	2007	30 June
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(audited)</i>	<i>(audited)</i>	<i>(audited)</i>	<i>(unaudited)</i>
Total assets	682,513	1,183,024	520,982	445,489
Total liabilities	<u>(328,599)</u>	<u>(786,856)</u>	<u>(260,843)</u>	<u>(180,868)</u>
	<u>353,914</u>	<u>396,168</u>	<u>260,139</u>	<u>264,621</u>
Equity attributable to equity holders of the parent	353,156	395,410	255,063	259,878
Share option reserve of a subsidiary	758	758	—	—
Minority interests	<u>—</u>	<u>—</u>	<u>5,076</u>	<u>4,743</u>
	<u>353,914</u>	<u>396,168</u>	<u>260,139</u>	<u>264,621</u>

2. UNAUDITED INTERIM REPORT OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2008

Set out below are the unaudited consolidated results of the Group and notes to the accounts reproduced from the unaudited accounts published in the Company's interim report for the six months ended 30 June 2008.

(i) Condensed Consolidated Income Statement

For the six months ended 30 June 2008

		Six months ended 30 June	
		2008	2007
		HK\$'000	HK\$'000
	Notes	(unaudited)	(unaudited)
Revenue	3	1,026,388	1,587,023
Cost of sales		<u>(999,826)</u>	<u>(1,590,089)</u>
Gross profit (loss)		26,562	(3,066)
Other income		7,900	5,884
Selling and distribution costs		(14,905)	(41,820)
Administrative expenses			
— Share-based payment expenses		—	(17,262)
— Other administrative expenses		(12,316)	(11,593)
Allowance for trade and other receivables		(279)	(2,849)
Loss on disposal of held for sales		(107)	—
Profit on disposal of an associate		104	—
Share of results of associates		(1,687)	(473)
Finance costs	4	<u>(6,224)</u>	<u>(13,953)</u>
Loss before taxation	5	(952)	(85,132)
Income tax (expense) credit	6	<u>(676)</u>	<u>340</u>
Loss for the period		<u><u>(1,628)</u></u>	<u><u>(84,792)</u></u>
Attributable to:			
Equity holders of the parent		(1,152)	(84,792)
Minority interests		<u>(476)</u>	<u>—</u>
		<u><u>(1,628)</u></u>	<u><u>(84,792)</u></u>
Dividend	7	<u><u>—</u></u>	<u><u>3,151</u></u>
Loss per share - basic	8	<u><u>(0.3 cent)</u></u>	<u><u>(27.1 cents)</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****(ii) Condensed Consolidated Balance Sheet***As at 30 June 2008*

		As at	
		30 June	31 December
		2008	2007
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>	<i>(unaudited)</i>	<i>(audited)</i>
Non-Current Assets			
Plant and equipment		3,160	3,790
Goodwill		12,925	12,925
Investments in associates	9	12,886	14,561
Available-for-sale investment		918	918
Deposit paid for acquisition of a subsidiary		25,000	25,000
Other non-current assets		22,000	21,400
Club membership		<u>1,116</u>	<u>600</u>
		<u>78,005</u>	<u>79,194</u>
Current Assets			
Inventories		130,897	128,801
Trade and other receivables	10	144,369	137,505
Bills receivables	10	176	431
Amount due from a minority shareholder of a subsidiary		4,923	5,350
Pledged bank deposits		30,215	75,010
Bank balances and cash		<u>56,904</u>	<u>82,891</u>
		367,484	429,988
Asset classified as held for sale		<u>—</u>	<u>11,800</u>
		<u>367,484</u>	<u>441,788</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

		As at	
		30 June	31 December
		2008	2007
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>	<i>(unaudited)</i>	<i>(audited)</i>
Current Liabilities			
Trade and other payables	11	65,956	82,783
Amount due to a director		—	1,742
Amount due to an associate		500	500
Taxation payables		1,507	1,270
Bank borrowings	12	52,995	120,223
Bank overdrafts - secured	12	1,977	—
Other financial liabilities		<u>57,933</u>	<u>53,145</u>
		180,868	259,663
Liabilities associated with asset classified as held for sale		<u>—</u>	<u>1,180</u>
		<u>180,868</u>	<u>260,843</u>
Net Current Assets		<u>186,616</u>	<u>180,945</u>
Total Assets Less Current Liabilities		<u>264,621</u>	<u>260,139</u>
Capital and Reserves			
Share capital		37,279	37,279
Reserves		<u>222,599</u>	<u>217,784</u>
Equity attributable to equity holders of the parent		259,878	255,063
Minority interests		<u>4,743</u>	<u>5,076</u>
		<u>264,621</u>	<u>260,139</u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

(iii) Condensed Consolidated Statement of Changes in Equity (unaudited)

For the six months ended 30 June 2008

	Attributable to equity holders of the parent										
	Share capital	Share premium	Share option reserve	Special reserve	Translation reserve	Statutory funds	Accumulated profits (losses)		Share option reserve of a subsidiary	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2007	30,210	103,275	—	2,481	18,489	26,130	214,825	395,410	758	—	396,168
Issue of shares upon share subscription	4,000	66,800	—	—	—	—	—	70,800	—	—	70,800
Issue of shares upon acquisition of associates	900	15,030	—	—	—	—	—	15,930	—	—	15,930
Issue of shares upon exercise of share options	400	4,760	—	—	—	—	—	5,160	—	—	5,160
Costs attributable to issue of shares	—	(20,920)	—	—	—	—	—	(20,920)	—	—	(20,920)
Recognition of equity-settled share-based payment expenses	—	—	17,262	—	—	—	—	17,262	—	—	17,262
Transfer of reserve upon exercise of share options	—	2,443	(2,443)	—	—	—	—	—	—	—	—
Loss for the period	—	—	—	—	—	—	(84,792)	(84,792)	—	—	(84,792)
Dividend payable	—	—	—	—	—	—	(3,151)	(3,151)	—	—	(3,151)
At 30 June 2007	35,510	171,388	14,819	2,481	18,489	26,130	126,882	395,699	758	—	396,457
Issue of shares upon acquisition of associates	600	6,000	—	—	—	—	—	6,600	—	—	6,600
Issue of shares upon exercise of share options	369	4,391	—	—	—	—	—	4,760	—	—	4,760
Costs attributable to issue of shares	—	1,496	—	—	—	—	—	1,496	—	—	1,496
Arising on acquisition of a subsidiary	800	10,320	—	—	—	—	—	11,120	—	5,055	16,175
Recognition of equity-settled share-based payment expenses	—	—	(2,446)	—	—	—	—	(2,446)	—	—	(2,446)
Transfer of reserve upon exercise of share options	—	1,588	(1,588)	—	—	—	—	—	—	—	—
Transfer of reserve upon expiration/forfeiture of share options	—	—	(5,617)	—	—	—	6,375	758	(758)	—	—
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	—	18,809	—	—	18,809	—	189	18,998
Share of reserves of associates	—	—	—	—	154	—	—	154	—	—	154
Loss for the period	—	—	—	—	—	—	(181,887)	(181,887)	—	(168)	(182,055)
At 31 December 2007 and 1 January 2008	37,279	195,183	5,168	2,481	37,452	26,130	(48,630)	255,063	—	5,076	260,139
Transfer to PRC statutory funds	—	—	—	—	—	4,002	(4,002)	—	—	—	—
Transfer of reserve upon expiration /forfeiture of share options	—	—	(40)	—	—	—	40	—	—	—	—
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	—	6,059	—	—	6,059	—	143	6,202
Share of reserves of associates	—	—	—	—	(92)	—	—	(92)	—	—	(92)
Loss for the period	—	—	—	—	—	—	(1,152)	(1,152)	—	(476)	(1,628)
At 30 June 2008	37,279	195,183	5,128	2,481	43,419	30,132	(53,744)	259,878	—	4,743	264,621

(iv) **Condensed Consolidated Cash Flow Statement***For the six months ended 30 June 2008*

	Six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net cash (used in) from operating activities	(14,210)	252,669
Net cash from (used in) investing activities	56,199	(10,358)
Net cash used in financing activities	<u>(70,973)</u>	<u>(132,419)</u>
Net (decrease) increase in cash and cash equivalents	(28,984)	109,892
Cash and cash equivalents at beginning of the period	82,891	49,390
Effect of foreign exchange rate changes	<u>1,020</u>	<u>—</u>
Cash and cash equivalents at end of the period	<u><u>54,927</u></u>	<u><u>159,282</u></u>
Represented by:		
Bank balances and cash	56,904	159,282
Bank overdrafts	<u>(1,977)</u>	<u>—</u>
	<u><u>54,927</u></u>	<u><u>159,282</u></u>

(v) **Notes to the Condensed Consolidated Financial Statements***For the six months ended 30 June 2008***1. Basis of preparation**

The unaudited condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

2. Principal accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

In the current period, the Group has applied, for the first time, the following new interpretations (“new Interpretations”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 January 2008.

HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

3. Segment information

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

No segment analysis is provided as substantially all the Group’s revenue and contribution to loss for the period 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 the loss for the period were derived from the PRC and substantially all the assets are located in the PRC.

4. Finance costs

	Six months ended 30 June	
	2008	2007
	<i>HK\$’000</i>	<i>HK\$’000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Interests on:		
Bank borrowings wholly repayable within five years	1,436	13,953
Other financial liabilities	4,788	—
	<u>6,224</u>	<u>13,953</u>

5. Loss before taxation

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss before taxation has been arrived at after charging:		
Auditor's remuneration	1,144	590
Depreciation on owned assets	765	247
Staff costs (excluding share-based payment expenses)	11,503	27,820
Allowance for trade and other receivables		
Additional impairment losses	4,500	2,849
Reversals due to amounts recovered	(4,221)	—
	<u>279</u>	<u>2,849</u>

6. Income tax expense (credit)

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises		
Hong Kong Profits Tax calculated at 16.5% (2007: 17.5%)	242	—
PRC Enterprise Income Tax	<u>434</u>	<u>161</u>
	676	161
Deferred tax	<u>—</u>	<u>(501)</u>
	<u>676</u>	<u>(340)</u>

Hong Kong Profits Tax has been provided for the six months ended 30 June 2008 (2007: nil) as the Group had estimated assessable profits in Hong Kong.

PRC Enterprise Income Tax represents tax 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") and 珠海市雷鳴達通訊設備有限公司 ("Zhuhai Reminda").

Fortune Shanghai and Shanghai Yuanjia are established in Shanghai Waigaoqiao Free Trade Zone, the PRC and are entitled to a preferential PRC Enterprise Income Tax rate of 15% which is granted to companies established in Shanghai Waigaoqiao Free Trade Zone. Zhuhai Reminda is established in Zhuhai Special Economic Zone and is entitled to a preferential PRC Enterprise Income Tax rate of 15%.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 15% to 25% for Fortune Shanghai and Shanghai Yuanjia from 1 January 2008 onwards. For Zhuhai Reminda, the tax rate will ratchet up to 18%, 22%, 24%, 25% in 2008 to 2011 respectively.

7. Dividend

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Final dividend recognised as distribution:		
No dividend for the year ended 31 December 2007		
(2007: HK1 cent per share for the year ended 31 December 2006)	—	3,151

No final dividend has been proposed for the year ended 31 December 2007. The final dividend of HK1 cent per share for the year ended 31 December 2006 was paid to shareholders in 2007.

8. Loss per share

The calculation of the basic loss per share is based on the loss attributable to equity holders of the parent for the six months ended 30 June 2008 of HK\$1,152,000 (2007: loss of HK\$84,792,000) and on 372,790,000 shares (2007: 312,433,333 weighted average number of ordinary shares) in issue during the period.

No diluted loss per share is presented for the period ended 30 June 2008 as the exercise of the Company's outstanding share options for the period ended 30 June 2008 would result in a decrease in loss per share.

9. Investments in associates

	30 June 2008	31 December 2007
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Cost of investment in unlisted associates less impairment loss	14,561	16,532
Share of post-acquisition reserves	(1,675)	(1,971)
	<u>12,886</u>	<u>14,561</u>

The Company directly holds the interest in DW Mobile Technology Limited, which was disposed of during the period ended 30 June 2008.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****10. Trade, bills and other receivables**

	30 June 2008	31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Trade receivables	95,077	91,502
Less: accumulated allowance	<u>(58,187)</u>	<u>(55,395)</u>
	36,890	36,107
Value-added-tax receivables	8,240	13,748
Rebates receivables	22,834	33,936
Other receivables and deposits	<u>76,405</u>	<u>53,714</u>
	144,369	137,505
Bills receivables	<u>176</u>	<u>431</u>
	<u>144,545</u>	<u>137,936</u>

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 balance sheet date:

	30 June 2008	31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Trade and bills receivables:		
0 to 30 days	26,185	21,019
31 to 90 days	2,573	9,964
Over 90 days	<u>8,308</u>	<u>5,555</u>
	<u>37,066</u>	<u>36,538</u>

11. Trade and other payables

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

	30 June 2008	31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Trade payables:		
0 to 30 days	31,530	34,385
31 to 90 days	3,980	2,311
Over 90 days	<u>4,715</u>	<u>7,345</u>
	40,225	44,041
Other payables and accruals	<u>25,731</u>	<u>38,742</u>
	<u><u>65,956</u></u>	<u><u>82,783</u></u>

12. Bank borrowings

	30 June 2008	31 December 2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Bank borrowings comprise:		
Bank loans	52,995	120,223
Bank overdrafts	<u>1,977</u>	<u>—</u>
	<u><u>54,972</u></u>	<u><u>120,223</u></u>
Secured	47,472	112,223
Unsecured	<u>7,500</u>	<u>8,000</u>
	<u><u>54,972</u></u>	<u><u>120,223</u></u>

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

13. Contingent liabilities

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

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement of the Group and notes to the accounts reproduced from the audited accounts published in the Company's annual report for the year ended 31 December 2007.

(i) Consolidated Income Statement

For the year ended 31 December 2007

	NOTES	2007 HK\$'000	2006 HK\$'000
Revenue		2,744,597	3,046,805
Cost of sales		<u>(2,838,162)</u>	<u>(2,933,472)</u>
Gross (loss) profit		(93,565)	113,333
Other income	7	17,791	17,904
Selling and distribution costs		(50,623)	(36,716)
Administrative expenses			
— Share-based payment expenses		(14,816)	—
— Other administrative expenses		(31,490)	(24,122)
Allowance for trade and other receivables		(46,379)	(5,380)
Impairment loss recognised in respect of interests in associates		(18,193)	—
Fair value gain on an investment property		2,240	60
Share of results of associates		(2,125)	—
Finance costs	8	<u>(26,350)</u>	<u>(27,535)</u>
(Loss) profit before taxation		(263,510)	37,544
Income tax expense	9	<u>(3,337)</u>	<u>(6,205)</u>
(Loss) profit for the year	10	<u><u>(266,847)</u></u>	<u><u>31,339</u></u>
Attributable to:			
Equity holders of the parent		(266,679)	31,339
Minority interests		<u>(168)</u>	<u>—</u>
		<u><u>(266,847)</u></u>	<u><u>31,339</u></u>
Dividend	13	<u><u>3,151</u></u>	<u><u>3,021</u></u>
(Loss) earnings per share - basic	14	<u><u>(79.5 cents)</u></u>	<u><u>10.4 cents</u></u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****(ii) Consolidated Balance Sheet***As at 31 December 2007*

	<i>NOTES</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Non-Current Assets			
Plant and equipment	15	3,790	886
Investment property	16	—	9,560
Goodwill	17	12,925	4,910
Investments in associates	18	14,561	—
Available-for-sale investment	19	918	918
Deposit paid for acquisition of a subsidiary	42(1)	25,000	—
Other non-current assets	20	21,400	—
Club membership	21	600	600
Deferred tax assets	34	—	2,697
		<u>79,194</u>	<u>19,571</u>
Current Assets			
Inventories	22	128,801	600,871
Trade and other receivables	23	137,505	333,346
Bills receivable	23	431	15,845
Amount due from a minority shareholder of a subsidiary	24	5,350	—
Taxation recoverable		—	312
Held for trading investments	25	—	12,064
Pledged bank deposits	26	75,010	150,567
Bank balances and cash	27	<u>82,891</u>	<u>50,448</u>
		429,988	1,163,453
Asset classified as held for sale	28	<u>11,800</u>	<u>—</u>
		<u>441,788</u>	<u>1,163,453</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	<i>NOTES</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Current Liabilities			
Trade and other payables	29	82,783	108,453
Amount due to a director	24	1,742	—
Amount due to an associate	24	500	—
Taxation payables		1,270	1,737
Bank borrowings	33	120,223	675,608
Bank overdrafts - secured	27	—	1,058
Other financial liabilities	32	<u>53,145</u>	<u>—</u>
		259,663	786,856
Liabilities associated with asset classified as held for sale	28	<u>1,180</u>	<u>—</u>
		<u>260,843</u>	<u>786,856</u>
Net Current Assets		<u>180,945</u>	<u>376,597</u>
Total Assets Less Current Liabilities		<u><u>260,139</u></u>	<u><u>396,168</u></u>
Capital and Reserves			
Share capital	30	37,279	30,210
Reserves		<u>217,784</u>	<u>365,200</u>
Equity attributable to equity holders of the parent		255,063	395,410
Share option reserve of a subsidiary		—	758
Minority interests		<u>5,076</u>	<u>—</u>
		<u><u>260,139</u></u>	<u><u>396,168</u></u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

(iii) Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the parent						Share option				Total
	Share capital	Share premium	Special reserve	Translation reserve	Statutory funds	Share option reserve	Accumulated profits (loss)	Total	reserve of a subsidiary	Minority interests	
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000	HK\$'000 (Note b)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	30,210	103,275	2,481	4,553	26,130	—	186,507	353,156	758	—	353,914
Exchange differences arising on translation of functional currency to presentation currency	—	—	—	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 paid	—	—	—	—	—	—	(3,021)	(3,021)	—	—	(3,021)
At 31 December 2006	30,210	103,275	2,481	18,489	26,130	—	214,825	395,410	758	—	396,168

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FINANCIAL INFORMATION OF THE GROUP

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

Notes:

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

(iv) **Consolidated Cash Flow Statement***For the year ended 31 December 2007*

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
OPERATING ACTIVITIES		
(Loss) profit before taxation	(263,510)	37,544
Adjustments for:		
Allowance for trade and other receivables	46,379	5,380
Depreciation on plant and equipment	657	401
Fair value gain on an investment property	(2,240)	(60)
Gain on fair value changes of held for trading investments	(1,375)	(6,185)
Impairment loss recognised in respect of club membership	—	60
Impairment loss recognised in respect of interests in associates	18,193	—
Interest expenses	26,350	27,535
Interest income	(7,406)	(8,515)
Loss on disposal of plant and equipment	93	—
Share-based payment expenses	14,816	—
Share of results of associates	2,125	—
Write down of inventories	<u>4,305</u>	<u>5,393</u>
Operating cash flows before movements in working capital	(161,613)	61,553
Decrease (increase) in inventories	507,862	(418,294)
Decrease (increase) in trade and other receivables	173,952	(204,596)
Decrease (increase) in bills receivable	15,414	(15,845)
Decrease (increase) in held for trading investments	13,439	(5,879)
(Decrease) increase in trade and other payables	(36,864)	81,701
Decrease in bills payables	<u>—</u>	<u>(30,000)</u>
Cash generated from (used in) operations	512,190	(531,360)
PRC Enterprise Income Tax paid	(1,104)	(7,297)
Hong Kong Profits Tax refunded (paid)	<u>312</u>	<u>(930)</u>
NET CASH FROM (USED IN) OPERATING ACTIVITIES	<u>511,398</u>	<u>(539,587)</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

	<i>NOTE</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
INVESTING ACTIVITIES			
Decrease (increase) in pledged bank deposits		75,767	(3,125)
Interest received		7,406	8,515
Proceeds from disposal of plant and equipment		71	—
Deposit paid for acquisition of a subsidiary		(25,000)	—
Payments for other non-current assets		(21,400)	—
Acquisitions of investments in associates		(12,195)	—
Advance to a minority shareholder of a subsidiary		(5,350)	—
Purchase of plant and equipment		(1,509)	(332)
Acquisition of a subsidiary	35	<u>(1,233)</u>	<u>—</u>
NET CASH FROM INVESTING ACTIVITIES		<u>16,557</u>	<u>5,058</u>
FINANCING ACTIVITIES			
Bank and other borrowings repaid		(1,386,141)	(675,616)
Interest paid		(23,205)	(27,522)
Dividend paid		(3,151)	(3,021)
Expenses paid in connection with issue of shares		(2,624)	—
Bank and other borrowings raised		798,703	1,075,724
Proceeds from issue of shares		54,000	—
Other financial liabilities raised		50,000	—
Proceeds from exercise of share options		9,920	—
Advance from a director		1,742	—
Advance from an associate		500	—
Repayment of obligations under finance leases		—	(100)
Interest on obligations under finance leases		<u>—</u>	<u>(13)</u>
NET CASH (USED IN) FROM FINANCING ACTIVITIES		<u>(500,256)</u>	<u>369,452</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		27,699	(165,077)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		49,390	205,906
Effect of foreign exchange rate changes		<u>5,802</u>	<u>8,561</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u><u>82,891</u></u>	<u><u>49,390</u></u>
Represented by:			
Bank balances and cash		82,891	50,448
Bank overdrafts		<u>—</u>	<u>(1,058)</u>
		<u><u>82,891</u></u>	<u><u>49,390</u></u>

(v) Notes to the Consolidated Financial Statements*For the year ended 31 December 2007***1. GENERAL**

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

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

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

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

In the current year, the Group and the Company have applied, for the first time, the following new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) - INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) - INT 8	Scope of HKFRS 2
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs has 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.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

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

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹

HK(IFRIC) - INT 11	HKFRS 2 - Group and Treasury Share Transactions ³
HK(IFRIC) - INT 12	Service Concession Arrangements ⁴
HK(IFRIC) - INT 13	Customer Loyalty Programmes ⁵
HK(IFRIC) - INT 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ⁴

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 July 2009.

³ Effective for annual periods beginning on or after 1 March 2007.

⁴ Effective for annual periods beginning on or after 1 January 2008.

⁵ Effective for annual periods beginning on or after 1 July 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards, amendment and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for 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.

Business combinations

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

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

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

Goodwill***Goodwill arising on acquisitions on or after 1 January 2005***

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

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

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

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified

impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

Revenue recognition

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

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

Service income is recognised when services are provided.

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

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

Plant and equipment

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

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

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

Investment property

Investment property is property held to earn rentals and/or for capital appreciation.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured at their fair values 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 and 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.

Non-current asset held for sale

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

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

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

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

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

Inventories

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

Leasing

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

The Group as lessor

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

The Group as lessee

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

Foreign currencies

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

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

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

Taxation

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

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

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

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

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.

Intangible asset — 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.

Government grants

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

Retirement benefit costs

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

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (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 ("FVTPL"), 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.

Effective interest method

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

Financial assets at fair value through profit or loss

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Loans and receivables

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

Available-for-sale financial assets

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

Financial liabilities and equity

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

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

Effective interest method

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

Financial liabilities (other than embedded derivatives)

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

Equity instruments

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

Embedded derivatives

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

At an initial recognition, a non-option derivative embedded in a host debt instrument is considered to have fair value of zero.

Derecognition

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

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

Equity-settled share-based payment transactions***Share options granted to employees***

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

Share options granted to consultants

Share options issued in exchange for goods or services are measured at the fair values of the services received unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustment has been made to equity (share options reserve).

4. KEY SOURCE OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of goodwill was approximately HK\$12,925,000 (2006: HK\$4,910,000). Details of the recoverable amount calculation are set out in note 17.

Estimated impairment of trade and other receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, the carrying amount of trade and other receivable is HK\$137,505,000 (2006: HK\$333,346,000) (net of allowance for doubtful debts of HK\$64,906,000 (2006: HK\$17,419,000)).

5. CAPITAL RISK MANAGEMENT

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

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

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2007 HK\$'000	2006 HK\$'000
Financial assets		
Fair value through profit or loss held for trading investments	—	12,064
Loans and receivables (including cash and cash equivalents)	263,432	485,319
Available-for-sale investment	918	918
	<u>264,350</u>	<u>498,201</u>
Financial liabilities		
Amortised cost	249,426	746,614
	<u>249,426</u>	<u>746,614</u>

6b. Financial risk management objectives and policies

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

Market risk(i) *Currency risk*

Several subsidiaries of the Group are exposed to foreign currency risk primarily arising from foreign currency bank deposits and bank borrowings.

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

	Liabilities		Assets	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
United States dollars ("US\$")	14,874	116,191	75,926	138,949
HK\$	<u>146,650</u>	<u>74,734</u>	<u>277</u>	<u>9,774</u>

Sensitivity analysis

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

	2007	2006
	HK\$'000	HK\$'000
(Increase) decrease in loss (2006: increase (decrease) in profit)		
— US\$	(3,053)	(1,138)
— HK\$	<u>7,319</u>	<u>3,248</u>

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

(ii) *Interest rate risk*

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

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

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly attributable to fluctuation of Hong Kong Interbank Offer Rate ("HIBOR") and Prime rate ("P") arising from the Group's HK\$ borrowings in 2007 and 2006 and London Interbank Offer Rate ("LIBOR") arising from the Group's US\$ borrowings in 2006.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for the Group's variable rate bank borrowings and bank deposits at the balance sheet date. The analysis is prepared assuming these financial instruments outstanding at the balance sheet date were outstanding for the whole year. A 50 basis point fluctuation is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2007 would increase/decrease by approximately HK\$491,000 (2006: profit for the year would decrease/increase by HK\$1,088,000).

(iii) *Other price risk*

The Group was exposed to equity price risk through its investments in unlisted marketable equity securities at 31 December 2006. Management regularly reviewed the value of the investment and would consider hedging the risk exposure should the need arise. As to the sensitivity analysis, if the prices of the equity instruments had been 5% higher/lower, profit for the year ended 31 December 2006 would have increased/decreased by HK\$603,000. The held for trading investments were disposed during the year ended 31 December 2007.

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

The Group has a concentration of credit risk as 55% (2006: 61%) of its total trade receivables were due from its five largest customers.

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

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

The Group has concentration of credit risk as 90% (2006: 92%) of bank balances are placed with three (2006: six) banks.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****Liquidity risk**

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2007, the Group had available unutilised short-term bank loan facilities of approximately HK\$48,000,000 (2006: HK\$52,000,000).

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

Liquidity tables

	Weighted average effective interest rate %	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31.12.2007 HK\$'000
2007						
Non-derivative financial liabilities						
Trade and other payables	—	36,402	32,774	4,640	73,816	73,816
Amount due to a director	—	1,742	—	—	1,742	1,742
Amount due to an associate	—	500	—	—	500	500
Bank borrowings						
— fixed rate	4.40	21,113	—	—	21,113	20,223
— variable rate	5.01	105,010	—	—	105,010	100,000
Other financial liabilities	—	1,324	648	51,173	53,145	53,145
		<u>166,091</u>	<u>33,422</u>	<u>55,813</u>	<u>255,326</u>	<u>249,426</u>
2006						
Non-derivative financial liabilities						
Trade and other payables	—	51,634	16,867	1,447	69,948	69,948
Bank and other borrowings						
— fixed rate	5.29	115,819	257,961	109,012	482,792	458,524
— variable rate	5.79	25,253	110,154	94,244	229,651	217,084
Bank overdrafts - secured	7.00	1,132	—	—	1,132	1,058
		<u>193,838</u>	<u>384,982</u>	<u>204,703</u>	<u>783,523</u>	<u>746,614</u>

6c. 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 (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

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

7. OTHER INCOME

During the year ended 31 December 2007, other income included tax refunds of HK\$2,245,000 (2006: Nil) on capital reinvestment in PRC subsidiaries. The refunds were calculated with reference to certain percentage of the tax paid by the subsidiaries.

8. FINANCE COSTS

	2007 HK\$'000	2006 HK\$'000
Interests on:		
Bank borrowings wholly repayable within five years	23,205	27,522
Other financial liabilities (<i>note 32</i>)	3,145	—
Obligations under finance leases	—	13
	<u>26,350</u>	<u>27,535</u>

9. INCOME TAX EXPENSE

	2007 HK\$'000	2006 HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% (2006: 17.5%) on the estimated assessable profit for the year	—	—
PRC Enterprise Income Tax		
Current year	1,468	7,850
Overprovision in prior years	(877)	—
	591	7,850
Deferred tax (<i>note 34</i>)	<u>2,746</u>	<u>(1,645)</u>
	<u>3,337</u>	<u>6,205</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

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

Fortune Shanghai and Shanghai Yuanjia are established in Shanghai Waigaoqiao Free Trade Zone, the PRC and are entitled to a preferential PRC Enterprise Income Tax rate of 15% which is granted to companies established in Shanghai Waigaoqiao Free Trade Zone. Zhuhai Reminda is established in Zhuhai Special Economic Zone and is entitled to a preferential PRC Enterprise Income Tax rate of 15%.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 15% to 25% for Fortune Shanghai and Shanghai Yuanjia from 1 January 2008 onwards. For Zhuhai Reminda, the tax rate will ratchet up to 18%, 22%, 24%, 25% in 2008 to 2011 respectively.

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) profit before taxation	<u>(263,510)</u>	<u>37,544</u>
Tax at the domestic income tax rate of 15% (2006: 15%) (Note)	(39,527)	5,632
Tax effect of share of results of associates	319	—
Tax effect of expenses not deductible for tax purpose	8,570	1,615
Tax effect of income not taxable for tax purpose	(1,052)	(2,397)
Overprovision in respect of prior years	(877)	—
Reversal of tax effect of deductible temporary differences previously recognised	2,746	—
Tax effect of (reversal of tax effect of) deductible temporary differences not recognised	5,151	(9)
Tax effect of tax losses not recognised	28,572	1,364
Utilisation of tax loss previously not recognised	<u>(565)</u>	<u>—</u>
Tax expense for the year	<u>3,337</u>	<u>6,205</u>

At the balance sheet date, the Group had unused tax losses of approximately HK\$251,332,000 (2006: HK\$64,619,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of approximately HK\$173,172,000 (2006: Nil) that will expire in 2012. Other losses may be carried forward indefinitely.

At the balance sheet date, the Group also had deductible temporary differences of approximately HK\$37,181,000 (2006: HK\$2,839,000). 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. (LOSS) PROFIT FOR THE YEAR

	2007 HK\$'000	2006 HK\$'000
(Loss) profit for the year has been arrived at after charging:		
Allowance for trade receivables, net	38,259	5,380
Allowance for other receivables	8,120	—
Auditor's remuneration	1,443	989
Cost of inventories recognised as expense	2,833,857	2,928,079
Depreciation of plant and equipment	657	401
Impairment loss recognised in respect of club membership	—	60
Loss on disposal of plant and equipment	93	—
Write down of inventories	4,305	5,393
Staff costs		
— directors' emoluments (<i>note 11</i>)	4,569	3,216
— other staff costs	41,722	41,191
— share-based payment expenses (excluding directors')	7,636	—
— retirement benefit scheme contribution (excluding directors')	564	600
	<u>54,491</u>	<u>45,007</u>
and after crediting to other income:		
Bank interest income	7,406	8,515
Exchange gain	2,395	2,000
Gain on fair value changes of held for trading investments	1,375	6,185
Government grants	3,098	—
Rental income on an investment property, net of outgoings of approximately HK\$34,000 (2006: HK\$39,000)	<u>275</u>	<u>273</u>

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eight (2006: eight) directors were as follows:

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

	Lau Siu Ying HK\$'000	Luo Xi Zhi HK\$'000	Fung Oi Ip, Alfonso HK\$'000	Lo Wing Yat HK\$'000	Chang Wing Seng, Victor HK\$'000	Wong Lit Chor, Alexis HK\$'000	Fok Wai Ming, Eddie HK\$'000	Liu Kwok Fai, Alvan HK\$'000	Total 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	<u>2,815</u>	<u>102</u>	<u>50</u>	<u>50</u>	<u>66</u>	<u>26</u>	<u>41</u>	<u>66</u>	<u>3,216</u>

Note: The performance related incentive bonuses for both years were determined with reference to 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 (2006: one) was a director of the Company whose emolument is included in the disclosures in note 11 above. The emoluments of the remaining four (2006: four) individuals were as follows:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Salaries and allowances	3,094	3,034
Share-based payment expenses (<i>Note</i>)	1,284	—
Retirement benefit scheme contributions	<u>35</u>	<u>38</u>
	<u><u>4,413</u></u>	<u><u>3,072</u></u>

Their emoluments were within the following bands:

	2007 <i>Number of employees</i>	2006 <i>Number of employees</i>
Up to HK\$1,000,000	2	4
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>—</u>

Note: During the year ended 31 December 2007, 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 31 December 2007 and 2006, 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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Final dividend recognised as distribution:		
HK1 cent per share for the year ended 31 December 2006 (2006: HK1 cent per share for the year ended 31 December 2005)	<u>3,151</u>	<u>3,021</u>

No dividend has been proposed for the year ended 31 December 2007 (2006: HK1 cent per share).

14. (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share is based on the loss for the year attributable to the ordinary equity holders of the parent of HK\$266,679,000 (2006: profit for the year of HK\$31,339,000) and on 335,559,000 (2006: 302,100,000) weighted average number of ordinary shares in issue during the year.

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

15. PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
COST				
At 1 January 2006	1,019	2,187	2,250	5,456
Exchange adjustments	—	27	20	47
Additions	<u>22</u>	<u>310</u>	<u>—</u>	<u>332</u>
At 31 December 2006	1,041	2,524	2,270	5,835
Exchange adjustments	168	54	30	252
Additions	867	207	435	1,509
Acquired on acquisition of a subsidiary (<i>note 35</i>)	1,485	520	—	2,005
Disposals	<u>—</u>	<u>(614)</u>	<u>(82)</u>	<u>(696)</u>
At 31 December 2007	<u>3,561</u>	<u>2,691</u>	<u>2,653</u>	<u>8,905</u>
DEPRECIATION				
At 1 January 2006	919	1,664	1,935	4,518
Exchange adjustments	—	18	12	30
Provided for the year	<u>43</u>	<u>237</u>	<u>121</u>	<u>401</u>
At 31 December 2006	962	1,919	2,068	4,949
Exchange adjustments	10	9	22	41
Provided for the year	159	299	199	657
Eliminated on disposals	<u>—</u>	<u>(493)</u>	<u>(39)</u>	<u>(532)</u>
At 31 December 2007	<u>1,131</u>	<u>1,734</u>	<u>2,250</u>	<u>5,115</u>
CARRYING VALUE				
At 31 December 2007	<u>2,430</u>	<u>957</u>	<u>403</u>	<u>3,790</u>
At 31 December 2006	<u>79</u>	<u>605</u>	<u>202</u>	<u>886</u>

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

	<i>HK\$'000</i>
FAIR VALUE	
At 1 January 2006	9,500
Increase in fair value recognised in the consolidated income statement	<u>60</u>
At 31 December 2006 and 1 January 2007	9,560
Increase in fair value recognised in the consolidated income statement	2,240
Transfer to asset classified as held for sale (<i>note 28</i>)	<u>(11,800)</u>
At 31 December 2007	<u><u>—</u></u>

The fair value of the Group's investment property as at 31 December 2007 has been determined by the directors of the Company. No valuation was performed by independent qualified professional valuers. The valuation performed by the directors of the Company was based on the sales proceeds the Group received on the disposal of the investment property on 10 January 2008.

The fair value of the Group's investment property at 31 December 2006 was 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 were measured using the fair value model and were classified and accounted for as investment property.

The Group's investment property was situated on land under a long lease in Hong Kong.

17. GOODWILL

HK\$'000

COST

At 1 January 2006 and 31 December 2006

4,910

Arising on acquisition of a subsidiary (*note 35*)

8,015

At 31 December 2007

12,925

CARRYING AMOUNT

At 31 December 2007

12,925

At 31 December 2006

4,910

Goodwill as at 31 December 2007 represents management expertise in the mobile phones retailing and computer products distribution business acquired by the Group and is allocated to the following cash generating units ("CGU"):

	2007	2006
	HK\$'000	HK\$'000
Mobile phone retailing	8,015	—
Computer products distribution	4,910	4,910
	12,925	4,910

The recoverable amount of the goodwill has been determined based on a value in use calculation of the relevant CGU. That calculation uses cash flow projections 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 CGU past performance and management's expectations for the market development. The directors have determined that no impairment of the goodwill has occurred.

18. INVESTMENTS IN ASSOCIATES

	2007	2006
	HK\$'000	HK\$'000
Cost of investment in unlisted associates less impairment loss	16,532	—
Share of post-acquisition reserves	(1,971)	—
	14,561	—

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

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

During the year, the directors of the Company reviewed the carrying amount of the Group's associates in view of the poor performance of certain associates. The recoverable amounts of these associates are determined with reference to the estimated future cash flows using a discount rate of 10%. As a result of this review, an impairment loss of HK\$18,193,000 (2006: Nil) was identified and charged to the consolidated income statement.

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Total assets	30,288	—
Total liabilities	<u>(11,443)</u>	<u>—</u>
Net assets	<u>18,845</u>	<u>—</u>
Group's share of net assets of associates	<u>5,327</u>	<u>—</u>
Revenue	<u>40,579</u>	<u>—</u>
Loss for the year	<u>(4,191)</u>	<u>—</u>
Group's share of results of associates for the year	<u>(2,125)</u>	<u>—</u>

19. AVAILABLE-FOR-SALE INVESTMENT

Available-for-sale investment as at 31 December 2007 comprises:

	2007 & 2006 <i>HK\$'000</i>
Unlisted securities:	
Equity securities	<u>918</u>

This represents 5% (2006: 5%) unlisted equity securities issued by a private entity incorporated in Hong Kong which is engaged in provision of computer technology services 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.

20. OTHER NON-CURRENT ASSETS

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deposit for potential investment (<i>note i</i>)	10,700	—
Mineral supplier prepayment (<i>note ii</i>)	<u>10,700</u>	<u>—</u>
	<u>21,400</u>	<u>—</u>

Notes:

- (i) On 1 October 2007, the Group entered into an agreement with a third party, pursuant to which the Group has engaged the third party to identify potential investment opportunities in mining operations in the PRC for the period from the date of the agreement to 31 March 2009. A sum of RMB10 million was paid by the Group to the third party as an initial deposit for such potential investment. If an investment is not eventually consummated by 31 March 2009 or by an earlier date determined by the Group, the deposit will be fully refunded to the Group.
- (ii) On 2 November 2007, the Group entered into an agreement with a mining company pursuant to which the mining company has agreed to supply the Group with its minerals at a pre-determined discount for re-sale inside and outside the PRC for a period of three years from the date of the agreement. In connection with this agreement, the Group has paid the mining company an amount of RMB10 million as prepayment for future mineral supplies. The mining company is expected to commence its operation in the 2nd half year of 2008. At 31 December 2007, the Group had not made any mineral purchases from the mining company.

21. CLUB MEMBERSHIP

	2007 & 2006
	<i>HK\$'000</i>
Club membership	
Outside Hong Kong	<u>600</u>

22. INVENTORIES

Inventories represent finished goods held for resale.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****23. TRADE, BILLS AND OTHER RECEIVABLES**

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	91,502	187,320
Less: accumulated allowance	<u>(55,395)</u>	<u>(16,329)</u>
	36,107	170,991
Value-added-tax receivables	13,748	66,920
Rebates receivables	33,936	62,359
Other receivables and deposits	<u>53,714</u>	<u>33,076</u>
	137,505	333,346
Bills receivable	<u>431</u>	<u>15,845</u>
	<u><u>137,936</u></u>	<u><u>349,191</u></u>

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:

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade and bills receivables:		
0 to 30 days	21,019	119,415
31 to 90 days	9,964	57,360
Over 90 days	<u>5,555</u>	<u>10,061</u>
	<u><u>36,538</u></u>	<u><u>186,836</u></u>

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$6,850,000 (2006: HK\$5,331,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

Ageing of trade receivables which are past due but not impaired

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Between 31 to 90 days	2,259	2,693
Over 90 days	<u>4,591</u>	<u>2,638</u>
Total	<u><u>6,850</u></u>	<u><u>5,331</u></u>

The Group has provided fully for all receivables over 180 days because historical experience is such that receivables that are past due beyond 180 days are generally not recoverable. For amounts which have past due at the balance sheet date, the Group has not provided for those receivables as there has not been significant change in the customers' credit quality and the amounts are still considered recoverable.

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at beginning of the year	17,419	11,995
Exchange adjustments	1,108	44
Impairment losses recognised on receivables	54,525	5,380
Amounts recovered during the year	<u>(8,146)</u>	<u>—</u>
Balance at end of the year	<u><u>64,906</u></u>	<u><u>17,419</u></u>

Included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of HK\$54,525,000 (2006: Nil) with which the Group have ceased the business relationship during the year and considered not to be recoverable. The Group does not hold any collateral over these balances.

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

The amounts are unsecured, non-interest bearing and are repayable on demand.

25. HELD FOR TRADING INVESTMENTS

At 31 December 2006, the amount represented unlisted marketable investment funds. During the year, the Group disposed of the investments for approximately HK\$13,439,000.

26. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure banking facilities granted to the Group. At 31 December 2006, included in the amount was a fixed deposit of approximately HK\$9,600,000 held at a bank with maturity for more than three months. The deposits were pledged to secure short-term bank borrowings and were therefore classified as current assets. All the pledged bank deposits had original maturity of three months or less as at 31 December 2007.

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

The deposits carry fixed interest rates ranging from 2.70% to 4.35% (2006: 2.625% to 5.230%) per annum. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

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

	Denominated in	
	US\$ HK\$'000	HK\$ HK\$'000
At 31 December 2007	75,010	—
At 31 December 2006	<u>137,968</u>	<u>9,600</u>

27. 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 2.22% to 3.34% (2006: 1.75% to 5.35%) per annum and have original maturity of three months or less.

The bank balances and cash of the Group are mainly denominated in RMB and HK\$. Included in bank balances and cash at 31 December 2007 was an amount in RMB, the functional currencies of the relevant group entities, of approximately RMB65,411,000 (2006: RMB43,770,000). RMB is not freely convertible into other currencies.

Bank overdrafts — secured

At 31 December 2006, secured bank overdrafts carried interest at market rates at P minus 1% per annum.

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

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

Pursuant to an agreement dated 10 November 2007 entered into between the Group and the purchaser, the Group would dispose of the investment property to the purchaser. The purchaser has paid an initial deposit of HK1,180,000 at 31 December 2007. Disposal of the investment property was completed on 10 January 2008 as disclosed in note 42(3).

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****29. TRADE AND OTHER PAYABLES**

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Trade payables:		
0 to 30 days	34,385	40,865
31 to 90 days	2,311	12,369
Over 90 days	<u>7,345</u>	<u>2,004</u>
	44,041	55,238
Other payables and accruals	<u>38,742</u>	<u>53,215</u>
	<u><u>82,783</u></u>	<u><u>108,453</u></u>

30. SHARE CAPITAL OF THE COMPANY

	Number of ordinary shares		Share capital	
	2007	2006	2007	2006
	<i>'000</i>	<i>'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.10 each				
Authorised	<u>1,000,000</u>	<u>1,000,000</u>	<u>100,000</u>	<u>100,000</u>
Issued and fully paid				
At beginning of year	302,100	302,100	30,210	30,210
Issue of shares in consideration for the acquisition of a subsidiary (<i>note i</i>)	8,000	—	800	—
Issue of shares in consideration for the acquisitions of associates (<i>note ii</i>)	15,000	—	1,500	—
Issue of shares upon share subscription (<i>note iii</i>)	40,000	—	4,000	—
Exercise of share options (<i>note iv</i>)	<u>7,690</u>	<u>—</u>	<u>769</u>	<u>—</u>
At end of year	<u><u>372,790</u></u>	<u><u>302,100</u></u>	<u><u>37,279</u></u>	<u><u>30,210</u></u>

Notes:

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

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

On 20 September 2007, the Group acquired 25% equity interest of Intelligence Tech Limited (“Intelligence Tech”) for a cash consideration of HK\$100,000 and the issue by the Company of 6,000,000 ordinary shares of HK\$0.10 each at an offer price of HK\$2 per share. The fair value of the shares on the date of exchange, represented by their closing market price on that date was HK\$1.10 per share.

- (iii) Pursuant to a subscription agreement dated 25 May 2007, Galaxy China Opportunities Fund subscribed for 40,000,000 new ordinary shares of HK\$0.10 each in the Company at a price of HK\$1.35 per share (“subscription price”), representing a discount of approximately 23.73% to the closing market price of the Company’s shares on 23 May 2007 of HK\$1.77 per share (“market price”). The discount on issued shares of HK\$16,800,000, representing the difference between the subscription price and market price is considered as incremental costs directly attributable to the equity transaction and hence is deducted from the share premium. The proceeds were used as general working capital for the Company. These new shares were issued under the special mandate granted to the directors at the special general meeting of the Company held on 18 June 2007.
- (iv) During the year ended 31 December 2007, 7,690,000 share options were exercised at HK\$1.29 per share, resulting in the issue of a total of 7,690,000 ordinary shares of HK\$0.10 each in the Company.

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

31. SHARE-BASED PAYMENT TRANSACTIONS

(a) Share options of the Company

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

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

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

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

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FINANCIAL INFORMATION OF THE GROUP

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

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

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

In respect of the share options exercised during the year, the weighted average share price at the date of exercise is HK\$2.25.

During the year ended 31 December 2007, options were granted on 7 May 2007. The estimated fair values of the options granted on that date is HK\$14,816,000. No option was granted during the year ended 31 December 2006.

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

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

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

The Group recognised the total expense of HK\$14,816,000 for the year ended 31 December 2007 (2006: Nil) in relation to share options granted by the Company.

(b) Share option of a subsidiary

On 29 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 29 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.

Except for the share option granted to the director of Synergy Technologies expired without exercise, there was no movement in the share options granted during the year ended 31 December 2007.

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

32. OTHER FINANCIAL LIABILITIES

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

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

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

33. BANK BORROWINGS

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Bank borrowings comprise:		
Bank loans	120,223	505,608
Trust receipt loans	<u>—</u>	<u>170,000</u>
	<u>120,223</u>	<u>675,608</u>
Secured	112,223	327,000
Unsecured	<u>8,000</u>	<u>348,608</u>
	<u>120,223</u>	<u>675,608</u>

At the balance sheet date, the bank borrowings of the Group are repayable on demand or within one year for both years.

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

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Fixed-rate borrowings:		
Within one year	<u>20,223</u>	<u>458,524</u>
Effective interest rate:		
Fixed-rate borrowings	<u>4.4%</u>	<u>4% to 7.25%</u>

In addition, the Group has variable-rate borrowings amounting to HK\$94,000,000 (2006: HK\$111,500,000) which carry interest at HIBOR plus 1.3% (2006: 1% to 1.3%) per annum, except for a borrowing amounting to HK\$6,000,000 (2006: HK\$6,000,000) which carries interest at P and a syndicated loan with an aggregate amount of nil (2006: HK\$99,584,000) which carries interest at LIBOR plus 1% per annum.

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

	Denominated in	
	<i>US\$</i>	<i>HK\$</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2007	—	94,000
At 31 December 2006	<u>99,584</u>	<u>72,000</u>

At 31 December 2007, the Group was in breach of certain banking covenants in relation to consolidated tangible net worth, interest coverage ratio and debt leverage ratio. The relevant bank loans at 31 December 2007 amounted to approximately HK\$120.2 million (2006: HK\$185.1 million). On discovery of the breach, the directors of the Company informed the lenders and commenced a renegotiation of the terms of the loan with the relevant bankers. As at 31 December 2007, those negotiations had not been concluded. Accordingly, the loans were classified as current liabilities in the consolidated financial statements for the year ended 31 December 2007. The negotiations of the terms of loans with the bankers are still in progress. The directors of the Company are confident that their negotiations will ultimately reach a successful conclusion. In any event, should the lenders call for immediate repayment of the loans, the directors of the Company believe that adequate alternative sources of finance are available to ensure that the Group can operate as a going concern.

34. DEFERRED TAX ASSETS

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

	Allowance for inventories <i>HK\$'000</i>	Allowance for trade and other receivables <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2006	—	1,052	1,052
Credit to consolidated income statement for the year	841	804	1,645
At 31 December 2006 and 1 January 2007	841	1,856	2,697
Exchange adjustments	25	24	49
Charge to consolidated income statement for the year (<i>note</i>)	(866)	(1,880)	(2,746)
At 31 December 2007	—	—	—

Note: The deferred tax assets were charged to consolidated financial statements during the year. In the opinion of directors, it is no longer probable that sufficient taxable profit will be available to allow all of the deferred tax assets to be recovered.

35. ACQUISITION OF A SUBSIDIARY

On 18 October 2007, the Group acquired 51% of the issued share capital of Zhuhai Reminda for a total consideration of HK\$13,276,000. This transaction has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK\$8,015,000.

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

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

Notes:

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

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

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

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

36. MAJOR NON-CASH TRANSACTIONS

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

37. OPERATING LEASES

The Group as lessee

During the year, the Group made minimum lease payments under operating leases amounting to approximately HK\$2,896,000 (2006: HK\$1,697,000).

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:

	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Within one year	4,927	735
In the second to fifth years inclusive	4,817	5
Over five years	2,309	—
	<u>12,053</u>	<u>740</u>

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

The Group as lessor

Property rental income earned during the year was approximately HK\$309,000 (2006: HK\$312,000).

At 31 December 2007 the Company had not contracted with tenants for future minimum lease payments.

At 31 December 2006, the Group had contracted with tenants for future minimum lease payments of HK\$208,000 within one year.

38. PLEDGE OF ASSETS

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

	THE GROUP	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
CARRYING VALUE		
Bank deposits	75,010	150,567
Inventories	—	170,000
Investment property	—	9,560
Held for trading investments	—	12,064
Asset classified as held for sales	11,800	—
	<u>86,810</u>	<u>342,191</u>

39. CONTINGENT LIABILITIES

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

40. RETIREMENT BENEFIT SCHEMES

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

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

The total cost charged to the consolidated income statement of approximately HK\$579,000 (2006: HK\$611,000) represents contributions payable to these schemes by the Group in respect of the current period.

41. RELATED PARTY DISCLOSURES

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

- (b) Details of the Group's outstanding balances with related parties at the balance sheet date are set out in the consolidated balance sheet and note 24.
- (c) Details of certain agreements entered into with Mr. Lau Siu Ying during the year which were not completed at 31 December 2007 are set out in note 42.
- (d) Compensation of key management personnel

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

	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short-term benefits	4,974	4,869
Performance related incentive bonuses	1,111	1,400
Post-employment benefits	60	64
Share-based payment expenses	<u>2,252</u>	<u>—</u>
	<u><u>8,397</u></u>	<u><u>6,333</u></u>

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

42. POST BALANCE SHEET EVENTS

The Group had the following significant post balance sheet events:

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

On 12 November 2007, the Group entered into a further agreement with another shareholder in the PRC Mining Company, pursuant to which the Group has agreed to acquire from that other shareholder a further 10% equity interest in the PRC Mining Company for a consideration of HK\$90,000,000 to be satisfied by the issue of 66,016,300 ordinary shares of HK\$0.10 each in the Company at an offer price of HK\$1.3633 per share.

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

At 31 December 2007, a cash deposit of HK\$25 million was paid by the Group to Richly Giant.

The above transactions were approved by the Company's shareholders in a special general meeting held on 15 January 2008. Completion of the transactions is subject to fulfillment of other condition precedents.

(2) On 17 October 2007, the Group and Mr. Lau Siu Ying entered into an agreement pursuant to which Mr. Lau Siu Ying will acquire a 49% interest in the Group's mobile phone distribution business at a cash consideration of HK\$57,800,000. The transaction was approved by the Company's shareholders in a special general meeting held on 18 December 2007 and its completion is subject to fulfillment of other condition precedents.

(3) On 10 January 2008, the Group disposed of its investment property at a consideration of HK\$12 million.

43. SUMMARISED BALANCE SHEET OF THE COMPANY

	2007	2006
	HK\$'000	HK\$'000
Investments in subsidiaries	41,148	41,148
Investment in associates	618	—
Amounts due from subsidiaries	300,734	375,039
Pledged bank deposits	—	9,600
Other current assets	545	471
Amount due to a subsidiary	(2,020)	(2,020)
Other current liabilities	(1,841)	(3,789)
Bank borrowings	<u>(94,000)</u>	<u>(171,584)</u>
	<u>245,184</u>	<u>248,865</u>
Share capital	37,279	30,210
Reserves	<u>207,905</u>	<u>218,655</u>
	<u>245,184</u>	<u>248,865</u>

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31 December 2007 and 31 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 ("BVI")	Ordinary US\$100	100%	Investment holding
Express Fortune Limited	Hong Kong	Ordinary HK\$10 Non-voting deferred HK\$5,000,000 (note i)	100%	Maintaining the corporate office
Fortune Shanghai	Wholly foreign owned enterprise established in the PRC	US\$28,100,000	100%	Trading of mobile phones
Fortune Telecom International Company Limited (note ii)	Hong Kong	Ordinary HK\$10,000	100%	Investment holding
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
Telefortune (China) Investments Limited (note ii)	Hong Kong	Ordinary HK\$40,000,000	100%	Investment holding and provision of consultancy services in trading of mobile phones
Top Emperor Investments Limited	Hong Kong	Ordinary HK\$10,000	100%	Property holding
Zhuhai Reminda (note iii)	Sino-foreign equity joint ventures established in the PRC	RMB10,000,000	51%	Trading of mobile phones

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

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

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

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

Notes:

- (i) 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.
- (ii) The subsidiaries were incorporated during the year ended 31 December 2007.
- (iii) The subsidiary was acquired during the year ended 31 December 2007.

45. PARTICULARS OF ASSOCIATES

Details of the Company's associates acquired during the year ended 31 December 2007 and at the year then ended are as follows:

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

The Company directly holds the interest in DW Mobile, all other interests shown above are indirectly held by the Company.

The principal activities are carried out in the place of incorporation except for DW Mobile which mainly carries out businesses in Hong Kong.

46. 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 loss 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 the loss for the year were derived from the PRC and substantially all the assets are located in the PRC.

4. MATERIAL CHANGES

As at the Latest Practicable Date, save and except for the announcement of the Company dated 2 September 2008 in relation to the estimated improvement of interim results of the Group for the six months ended 30 June 2008 and the announcement of the Company dated 20 January 2009 concerning the profit warning for the year 2008, the Directors confirm that there have been no material adverse changes in the financial or trading position of the Group since 31 December 2007, the date to which the latest published audited consolidated accounts of the Group has been made up.

5. WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

Pursuant to Rule 4.06(1)(a) of the Listing Rules, it is required that the accountants' report on the PRC Mining Company for the three years ended 31 December 2008 should be included in this circular. As this circular is required to be despatched by the end of January 2009, it is impossible for the Company to prepare an accountants' report within a short period from the financial year end of the PRC Mining Company as at 31 December 2008. The Company has applied to, and the Stock Exchange has granted, a waiver from strict compliance with Rule 4.06(1) of the Listing Rules subject to the conditions that (i) this circular is to be despatched on or before 31 January 2009 and the SGM for approving the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder will be held on or around 18 February 2009; and (ii) the Directors confirmed that they have performed sufficient due diligence on the PRC Mining Company to ensure that, up to the date of the Circular, there have been no material changes in the financial position and operations of the PRC Mining Company since 31 July 2008 which would materially affect the information shown in the accountants' report as set out in Appendix II to this circular. Accordingly, the Directors have confirmed that they have had discussion with the management of the PRC Mining Company and reviewed the sales contract in 2008 related to the sales during the period from August to December 2008 and hereby confirm that the above condition (ii) has been fulfilled. As a result, all conditions have been fulfilled by the Company.

6. STATEMENT OF INDEBTEDNESS

At the close of business on 30 November 2008, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Enlarged Group had the following indebtedness:

	<i>HK\$'000</i>	<i>HK\$'000</i>
The Group		
Unsecured bank loans	7,500	
Secured bank loans	49,486	
Unsecured other financial liabilities (<i>note i</i>)	<u>61,884</u>	118,870
Sifa Mining		
Secured loan	13,886	
Unsecured amounts due to related parties (<i>note ii</i>)	<u>6,124</u>	<u>20,010</u>
		<u>138,880</u>

Notes:

- (i) The amounts are unguaranteed and stated at amortised cost using the original effective interest rate of 20% per annum.
- (ii) The amounts are unguaranteed, interest-free and repayable on demand.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Enlarged Group did not have outstanding at the close of business on 30 November 2008 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated at the approximate exchange rates prevailing at the close of business on 30 November 2008.

7. WORKING CAPITAL

The Directors are of the opinion that, taking into account the internal resources and available credit facilities of the Enlarged Group, the Enlarged Group will have sufficient working capital for its requirements for the next twelve months from the date of this circular.

The BVI Company and the H.K. Company are investment holding companies with no significant assets and liabilities other than their direct/indirect 50.8% interest in the PRC Mining Company. An accountants' report on the PRC Mining Company is set out below. In the opinion of the directors, the preparation of accountants' report on the BVI Company and the H.K Company provides no additional meaningful information on the Acquisition.

The following is the text of an accountants' report on the PRC Mining Company, prepared for the purpose for inclusion in this circular, by the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

29 January 2009

The Directors
China Fortune Holdings Limited

Dear Sirs,

China Fortune Holdings Limited (the "Company") has proposed to acquire all the issued share capital of Richly Giant International Limited ("Richly Giant") which indirectly owns 50.8% equity interest in 黄石鋁發礦業有限公司 Huangshi Sifa Mining Company Limited ("Sifa Mining") (the "Acquisition"). Richly Giant is a company incorporated in the British Virgin Islands with limited liability and it is controlled by Mr. Steve Lau and his affiliates. Mr. Steve Lau is also a controlling shareholder of the Company.

Sifa Mining was established as a domestic enterprise in the People's Republic of China (the "PRC") on 5 August 1999 and was converted into a sino-foreign equity joint venture company on 12 August 2008. On 25 September 2008, Richly Giant, through its wholly-owned subsidiary, acquired 50.8% equity interest in Sifa Mining. As at the date of this report, the registered and paid-up capital of Sifa Mining is Renminbi 1,000,000. The principal activities of Sifa Mining are refining, exploration, mining and processing of celestite, zinc and lead minerals in the PRC.

For the purpose of the circular dated 29 January 2009 issued by the Company in connection with the Acquisition (the "Circular"), we set out below the financial information of Sifa Mining for each of the three years ended 31 December 2007 and the seven months ended 31 July 2008 (the "Relevant Periods") (the "Financial Information").

The financial statements of Sifa Mining are prepared in accordance with accounting principles and regulations applicable in the PRC and were not audited by auditors in the PRC. For the purpose of this report, Sifa Mining has prepared management accounts for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “HKFRS Financial Statements”). We have, for the purpose of this report, carried out appropriate audit procedures in respect of the HKFRS Financial Statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA. However, the scope of our procedures was limited as Sifa Mining did not carry out physical counts of its inventories as at 31 December 2005 and 2006 and there were no practicable alternative audit procedures that we could apply to confirm the existence of inventories at those dates. Accordingly, we have not been able to satisfy ourselves as to the existence of inventories held by Sifa Mining amounting to HK\$3,038,000 and HK\$9,188,000 as at 31 December 2005 and 2006 respectively. Any adjustments found to be necessary may have an effect on the net liabilities of Sifa Mining as at 31 December 2005 and 2006 and on its results and cash flows for each of the three years ended 31 December 2007.

We have examined the HKFRS Financial Statements and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of Sifa Mining for the Relevant Periods set out in this report has been prepared from the HKFRS Financial Statements for the purpose of preparing our report for inclusion in the Circular. No adjustment was considered necessary to the HKFRS Financial Statements in preparing our report for inclusion in the Circular.

The HKFRS Financial Statements are the responsibility of the directors of Sifa Mining who approved their issue. The directors of the Company are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the HKFRS Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

Because of the significance of the possible effects of the limitation in the scope of our audit work referred to above, we are unable to form an opinion as to whether the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Sifa Mining as at 31 December 2005 and 2006 and of its results and cash flows for each of the three years ended 31 December 2007.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Sifa Mining as at 31 December 2007 and 31 July 2008 and of its results and cash flows for the seven months ended 31 July 2008.

The comparative income statement, cash flow statement and statement of changes in equity of Sifa Mining for the seven months ended 31 July 2007 together with the notes thereon (the “31 July 2007 Financial Information”) have been extracted from Sifa Mining’s unaudited management accounts for the same period which was prepared by the directors of Sifa Mining solely for the purpose of this report. We have reviewed the 31 July 2007 Financial Information in accordance with the Hong Kong Standard on Review Engagement 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. Our review consisted principally of making enquiries of management and applying analytical procedures to the 31 July 2007 Financial Information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 31 July 2007 Financial Information. The scope of our review was limited because Sifa Mining did not carry out a physical counts of its inventories as at 31 December 2006 and 31 July 2007 and accordingly we were unable to confirm the existence of inventories as at those dates. We were therefore not able to carry out all the review procedures or obtain all the information and explanations that we considered necessary. Because of the significance of the possible effects of the limitation in evidence available to us as to the existence of inventories at 31 December 2006 and 31 July 2007, we are unable to reach a review conclusion as to whether material modifications should be made to the 31 July 2007 Financial Information.

APPENDIX II ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY

A. FINANCIAL INFORMATION

INCOME STATEMENTS

	NOTES	Year ended 31 December			Seven months ended 31 July	
		2005	2006	2007	2007	2008
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)	
Revenue	8	—	2,084	5,058	4,435	5,440
Cost of sales		<u>—</u>	<u>(443)</u>	<u>(1,205)</u>	<u>(1,075)</u>	<u>(2,452)</u>
Gross profit		—	1,641	3,853	3,360	2,988
Other income		—	50	80	25	35
Distribution expenses		—	(730)	(1,326)	(883)	(1,108)
Administrative expenses		(1,536)	(4,670)	(3,814)	(2,502)	(2,060)
Interest on secured loan		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(120)</u>
Loss for the year/period	10	<u>(1,536)</u>	<u>(3,709)</u>	<u>(1,207)</u>	<u>—</u>	<u>(265)</u>
Deemed distribution	12	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,288</u>

APPENDIX II ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY

BALANCE SHEETS

		At 31 December		At 31 July	
	<i>NOTES</i>	2005	2006	2007	2008
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS					
Property, plant and equipment	13	16,160	18,592	20,870	21,900
Mining right	14	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,071</u>
		<u>16,160</u>	<u>18,592</u>	<u>20,870</u>	<u>35,971</u>
CURRENT ASSETS					
Inventories	15	3,038	9,188	16,630	1,376
Trade, bills and other receivables	16	8	816	1,828	5,890
Amount due from a related party	18	—	—	—	2,818
Bank balances and cash	17	<u>48</u>	<u>314</u>	<u>147</u>	<u>969</u>
		<u>3,094</u>	<u>10,318</u>	<u>18,605</u>	<u>11,053</u>
CURRENT LIABILITIES					
Other payables		381	6,649	10,320	8,330
Amounts due to related parties	18	25,032	32,523	6,323	6,214
Tax payable		—	—	10,338	11,630
Secured loan	19	<u>—</u>	<u>—</u>	<u>—</u>	<u>14,089</u>
		<u>25,413</u>	<u>39,172</u>	<u>26,981</u>	<u>40,263</u>
NET CURRENT LIABILITIES		<u>(22,319)</u>	<u>(28,854)</u>	<u>(8,376)</u>	<u>(29,210)</u>
		<u>(6,159)</u>	<u>(10,262)</u>	<u>12,494</u>	<u>6,761</u>
CAPITAL AND RESERVES					
Paid-up capital	20	943	943	943	943
Reserves		<u>(7,102)</u>	<u>(11,205)</u>	<u>11,551</u>	<u>5,818</u>
		<u>(6,159)</u>	<u>(10,262)</u>	<u>12,494</u>	<u>6,761</u>

APPENDIX II ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY

STATEMENTS OF CHANGES IN EQUITY

	Share capital	Capital reserve	Exchange reserve	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2005	943	—	—	(5,450)	(4,507)
Exchange differences arising on translation of functional currency to presentation currency	—	—	(116)	—	(116)
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,536)</u>	<u>(1,536)</u>
Total recognised loss for the year	<u>—</u>	<u>—</u>	<u>(116)</u>	<u>(1,536)</u>	<u>(1,652)</u>
At 31 December 2005	943	—	(116)	(6,986)	(6,159)
Exchange differences arising on translation of functional currency to presentation currency	—	—	(394)	—	(394)
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(3,709)</u>	<u>(3,709)</u>
Total recognised loss for the year	<u>—</u>	<u>—</u>	<u>(394)</u>	<u>(3,709)</u>	<u>(4,103)</u>
At 31 December 2006	943	—	(510)	(10,695)	(10,262)
Exchange differences arising on translation of functional currency to presentation currency	—	—	912	—	912
Loss for the year	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,207)</u>	<u>(1,207)</u>
Total recognised income and expenses for the year	<u>—</u>	<u>—</u>	<u>912</u>	<u>(1,207)</u>	<u>(295)</u>
Waiver of an amount due to a related party (<i>Note 18</i>)	—	32,701	—	—	32,701
Income tax on waiver of an amount due to a related party	<u>—</u>	<u>(9,650)</u>	<u>—</u>	<u>—</u>	<u>(9,650)</u>

APPENDIX II **ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY**

	Share capital	Capital reserve	Exchange reserve	Accumulated losses	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2007	943	23,051	402	(11,902)	12,494
Exchange differences arising on translation of functional currency to presentation currency	—	—	707	—	707
Loss for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>(265)</u>	<u>(265)</u>
Total recognised income and expenses for the period	—	—	707	(265)	442
Capital contribution from a related party (<i>Note 14</i>)	—	2,818	—	—	2,818
Income tax on capital contribution from a related party	—	(705)	—	—	(705)
Deemed distribution to a related party (<i>Note 12</i>)	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,288)</u>	<u>(8,288)</u>
At 31 July 2008	<u>943</u>	<u>25,164</u>	<u>1,109</u>	<u>(20,455)</u>	<u>6,761</u>
<i>Unaudited</i>					
At 1 January 2007	943	—	(510)	(10,695)	(10,262)
Exchange differences arising on translation of functional currency to presentation currency	<u>—</u>	<u>—</u>	<u>535</u>	<u>—</u>	<u>535</u>
Total recognised income for the period	<u>—</u>	<u>—</u>	<u>535</u>	<u>—</u>	<u>535</u>
Waiver of an amount due to a related party (<i>Note 18</i>)	—	32,701	—	—	32,701
Income tax on waiver of an amount due to a related party	<u>—</u>	<u>(9,650)</u>	<u>—</u>	<u>—</u>	<u>(9,650)</u>
At 31 July 2007	<u>943</u>	<u>23,051</u>	<u>25</u>	<u>(10,695)</u>	<u>13,324</u>

APPENDIX II ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY

CASH FLOW STATEMENTS

	Year ended 31 December			Seven months ended 31 July	
	2005	2006	2007	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
OPERATING ACTIVITIES					
Loss for the year/period	(1,536)	(3,709)	(1,207)	—	(265)
Adjustments for:					
Amortisation of mining right	—	—	—	—	18
Bank interest income	—	(1)	(2)	(1)	(1)
Depreciation of property, plant and equipment	1,005	1,128	1,301	747	885
Interest expenses on loan	—	—	—	—	120
Write-off of other receivables	—	38	—	—	—
Operating cash flows before movements in working capital	(531)	(2,544)	92	746	757
(Increase) decrease in inventories	—	(6,028)	(6,750)	(2,753)	808
Decrease (increase) in trade, bills and other receivables	10	(846)	(951)	(1,366)	(3,958)
Increase (decrease) in other payables	232	6,253	3,171	664	(2,565)
NET CASH USED IN OPERATING ACTIVITIES	<u>(289)</u>	<u>(3,165)</u>	<u>(4,438)</u>	<u>(2,709)</u>	<u>(4,958)</u>
INVESTING ACTIVITIES					
Advance to a related party	—	—	—	(907)	—
Interest received	—	1	2	1	1
Purchase of property, plant and equipment	—	(2,845)	(2,133)	(1,590)	(730)
Purchase of mining right	—	—	—	—	(14,089)
NET CASH USED IN INVESTING ACTIVITIES	<u>—</u>	<u>(2,844)</u>	<u>(2,131)</u>	<u>(2,496)</u>	<u>(14,818)</u>
FINANCING ACTIVITIES					
Loan raised	—	—	—	—	14,089
Advance from related parties	337	6,277	6,414	5,043	6,647
Interest paid	—	—	—	—	(120)
NET CASH FROM FINANCING ACTIVITIES	<u>337</u>	<u>6,277</u>	<u>6,414</u>	<u>5,043</u>	<u>20,616</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>48</u>	<u>268</u>	<u>(155)</u>	<u>(162)</u>	<u>840</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	<u>—</u>	<u>48</u>	<u>314</u>	<u>314</u>	<u>147</u>
Effect of foreign exchange rate changes	—	(2)	(12)	(6)	(18)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD representing bank balances and cash	<u><u>48</u></u>	<u><u>314</u></u>	<u><u>147</u></u>	<u><u>146</u></u>	<u><u>969</u></u>

NOTES TO THE FINANCIAL INFORMATION**1. GENERAL INFORMATION**

During the Relevant Periods, the ultimate holding company of Sifa Mining was Foshan Goldsonic Telecom Development Company Limited ("Foshan Goldsonic"), a company established in the PRC. On 25 September 2008, Richly Giant, through its wholly owned subsidiary, China Yellow Stone Investment Company Limited ("China Yellow Stone"), acquired 50.8% equity interest in Sifa Mining and Foshan Goldsonic ceased to be the ultimate holding company of Sifa Mining. The principal place of business of Sifa Mining is situated at Group 7, Huang Gu Ling Village, Gui Lin North Road, Huangshi City, Hubei Province of the PRC.

The functional currency of Sifa Mining is Renminbi ("RMB"). The Financial Information is presented in Hong Kong dollar for the convenience of the shareholders of the Company, the shares of which are listed in Hong Kong.

The Financial Information of the Relevant Periods has been prepared in accordance with the accounting policies adopted by the Company, details of which are set out in Note 4, which conform with HKFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION

In preparing the financial information, the directors of the Sifa Mining have given careful consideration to the future liquidity of Sifa Mining in light of the Sifa Mining's loss of HK\$1,536,000, HK\$3,709,000, HK\$1,207,000, nil and HK\$265,000 for each of three years ended 31 December 2007, seven months ended 31 July 2007 and 2008, respectively, and net current liabilities of HK\$22,319,000, HK\$28,854,000, HK\$8,376,000 and HK\$29,210,000 respectively at 31 December 2005, 2006, 2007 and 31 July 2008. The directors of Sifa Mining are of the opinion that taking into account the estimated future funds generated from the operation, Sifa Mining has sufficient financial resources to meet its financial obligation as they fall due for the foreseeable future.

In addition, Mr. Steve Lau has agreed to provide adequate funds to enable Sifa Mining to meet in full its financial obligations as they fall due until the completion of the Acquisition. The Company has also agreed that upon the completion of the Acquisition, it will provide financial support to Sifa Mining to enable it to meet its financial obligations as they fall due for the foreseeable future. Accordingly, the Financial Information have been prepared on a going concern basis.

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA issued a number of Hong Kong Accounting Standards ("HKASs"), Hong Kong Financial Reporting Standards, amendments and interpretations (herein collectively referred to as "new HKFRSs"), which are effective for the accounting periods beginning on 1 January 2008 or effective from 1 July 2008. For the purposes of preparing and presenting the Financial Information for the Relevant Periods, Sifa Mining has consistently adopted all the new HKFRSs throughout the Relevant Periods.

At the date of this report, the HKICPA has issued the following new, amended and revised standards and interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKAS 39 (Amendments)	Eligible Hedged Items ³

HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 8	Operating Segments ²
HK(IFRIC) - Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate ²
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation ⁵

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for annual periods beginning on or after 1 July 2008

⁵ Effective for annual periods beginning on or after 1 October 2008

The directors of Sifa Mining anticipate that the application of the new, revised and amended standards or interpretation will have no material impact on the results and the financial position of Sifa Mining.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis. The principal accounting policies adopted are as follows:

Revenue recognition

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

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

Interest income from 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.

Property, plant and equipment

Property, plant and equipment (other than construction in progress) is stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Construction in progress represents buildings, mining structures, various plant and equipment and other fixed assets under construction and pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and available for use in the manner intended by management.

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

An item of property, 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 income statement in the year/period in which the item is derecognised.

Mining right

Mining right is stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Mining right is amortised using the units of production method based on the proven and probable mineral reserves.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the materials and supplies to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Impairment losses

At each balance sheet date, Sifa Mining 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 the 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.

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/period. Taxable profit differs from the profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods, and it further excludes income statement items that are never taxable or deductible. Sifa Mining's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Current tax is charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly to equity.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the balance sheet 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 the initial recognition 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 profits will be available to allow all or part of the asset to be recovered.

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

Foreign currencies

For the purposes of presenting the financial statements, the assets and liabilities of Sifa Mining are translated into the presentation currency of the Company (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 exchange reserve).

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 lease.

Sifa Mining as lessee

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

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

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

Government grant - mining right

Sifa Mining was allowed to conduct mining activities at a mining site located in Hubei Province, the PRC without payment of mining right fee until July 2008. Accordingly, the mining right as at 31 December 2005, 2006 and 2007 was stated at nil balance in the balance sheet.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when Sifa Mining 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

Sifa Mining's financial assets are classified as loans and receivables which 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, bills and other receivables and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

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

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

Impairment of financial assets

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

The objective evidence of impairment could include:

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

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.

The carrying amount of the financial asset is reduced by the impairment loss directly.

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

Sifa Mining's financial liabilities (including other payables, amounts due to related parties and secured loan) are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and Sifa Mining 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 or receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are removed from Sifa Mining's balance sheet when the obligation specified in the relevant contract expires or is discharged and cancelled. The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Useful lives of mining right

Sifa Mining's management determines the estimated useful life for its mining right based on the expected lifespan of the mine reserves. Although the mining right was granted for a term of 25 years, the directors of Sifa Mining are of the opinion that Sifa Mining will be able to obtain renewal of the mining right from the relevant government authorities continuously.

Amortisation rate is determined based on estimated proven and probable mine reserve quantities with reference to an independent technical assessment report. The estimates involve subjective judgements in developing such information and have taken into account the recent production and technical information about the mine. The capitalised cost of the mining right is amortised using the units of production method. Any change to the estimated proven and probable mine reserve will affect the amortisation charge of the mining right. Management will reassess the useful life whenever the ability to renew the mining right and business license is changed.

6. CAPITAL RISK MANAGEMENT

Sifa Mining manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The overall strategy of Sifa Mining remained unchanged during the Relevant Periods.

The capital structure of Sifa Mining consists of debt, which mainly includes amounts due to related parties and secured loan as disclosed in Notes 18 and 19, respectively, and equity attributable to equity holders of Sifa Mining, comprising paid-up capital, capital reserve, exchange reserve and accumulated losses.

The directors of Sifa Mining review the capital structure periodically. As a part of this review, the directors consider changes in economic conditions and take appropriate actions to adjust Sifa Mining's capital structure. Sifa Mining monitors capital by maintaining cash flows from operating activities, investing activities and financing activities.

7. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	At 31 December			At 31 July
	2005	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	51	1,051	391	8,291
Financial liabilities				
At amortised cost	25,329	38,894	16,158	27,526

b. Financial risk management objectives and policies

Sifa Mining's major financial instruments including trade, bills and other receivables, bank balances and cash, other payables, amounts due to related parties and secured loan. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manners.

Interest rate risk

Sifa Mining is exposed to fair value interest rate risk in relation to its fixed-rate secured loan (see Note 19 for details of this loan). Sifa Mining 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.

Sifa Mining's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

Credit risk

Sifa Mining's maximum exposure to credit risk which would cause a financial loss to Sifa Mining due to failure to discharge an obligation by the counterparties are the carrying amounts of the respective recognised financial assets as stated in the balance sheet.

Sifa Mining has concentration of credit risk during the two years ended 31 December 2007 and the period ended 31 July 2008 because its products are mainly sold to five major customers, which are engaged in minerals processing in the PRC. In order to minimise the credit risk, management of Sifa Mining has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue receivables. In addition, Sifa Mining 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 Sifa Mining consider that Sifa Mining's credit risk is significantly reduced.

The credit risk for bank balances is considered minimal as such amounts are placed with banks with good credit ratings.

Liquidity risk

Sifa Mining relies on a short-term loan to finance its payment of the mining right fee. Sifa Mining has net current liabilities amounting to approximately HK\$22,319,000, HK\$28,854,000, HK\$8,376,000 and HK\$29,210,000 at 31 December 2005, 2006, 2007 and 31 July 2008 respectively.

In order to manage its liquidity risks, Sifa Mining has obtained an undertaking from the Company and Mr. Steve Lau that they will provide Sifa Mining with sufficient financial support so that it can operate as a going concern and to meet its financial obligations as they fall due.

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

APPENDIX II ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY

Liquidity table

	Weighted average effective interest rate %	Less than 1 month or on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 31 July 2008						
Non-derivative financial liabilities						
Other payables	—	7,223	—	—	7,223	7,223
Amounts due to related parties	—	6,214	—	—	6,214	6,214
Secured other borrowing — fixed rate	7.47	—	—	14,652	14,652	14,089
		<u>13,437</u>	<u>—</u>	<u>14,652</u>	<u>28,089</u>	<u>27,526</u>
At 31 December 2007						
Non-derivative financial liabilities						
Other payables	—	9,835	—	—	9,835	9,835
Amounts due to related parties	—	<u>6,323</u>	<u>—</u>	<u>—</u>	<u>6,323</u>	<u>6,323</u>
		<u>16,158</u>	<u>—</u>	<u>—</u>	<u>16,158</u>	<u>16,158</u>
At 31 December 2006						
Non-derivative financial liabilities						
Other payables	—	6,371	—	—	6,371	6,371
Amounts due to related parties	—	<u>32,523</u>	<u>—</u>	<u>—</u>	<u>32,523</u>	<u>32,523</u>
		<u>38,894</u>	<u>—</u>	<u>—</u>	<u>38,894</u>	<u>38,894</u>
At 31 December 2005						
Non-derivative financial liabilities						
Other payables	—	297	—	—	297	297
Amounts due to related parties	—	<u>25,032</u>	<u>—</u>	<u>—</u>	<u>25,032</u>	<u>25,032</u>
		<u>25,329</u>	<u>—</u>	<u>—</u>	<u>25,329</u>	<u>25,329</u>

c. Fair values

The fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices or rates from observable current market transaction as input.

The directors of Sifa Mining consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Information approximate their corresponding fair values.

8. REVENUE

Revenue represents amounts received and receivable from outside customers for sales of celestite during the Relevant Periods, net of sales related taxes.

9. INCOME TAX EXPENSE

Sifa Mining was subject to PRC Enterprise Income Tax at 33% on its assessable profit for the three years ended 31 December 2007.

On 16 March 2007, the PRC promulgated Order No. 63 - Law of the PRC on Enterprise Income Tax (the "New Law"). On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and the Implementation Regulations changed the statutory tax rate from 33% to 25% from 1 January 2008 onwards. Accordingly, the income tax rate applicable to Sifa Mining is 25% from 1 January 2008 onwards.

PRC Enterprise Income Tax for the year ended 31 December 2007 and seven months period ended 31 July 2007 and 31 July 2008 was charged directly to capital reserve as it related to waiver of an amount due to a related company that was recognised directly in capital reserve.

No provision for PRC Enterprise Income Tax has been made in the Financial Information for the two years ended 31 December 2006 as Sifa Mining had no assessable profit during these years.

The taxation for the Relevant Periods can be reconciled to the loss for the year/period in the income statements as follows:

	Year ended 31 December			Seven months ended	
	2005	2006	2007	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Loss for the year/period	(1,536)	(3,709)	(1,207)	—	(265)
Tax at the domestic income tax rate	(507)	(1,224)	(398)	—	(66)
Tax effect of expenses not deductible for tax purpose	43	681	160	83	68
Utilisation of tax losses previously not recognised	—	—	—	(83)	(2)
Tax effect of tax losses not recognised	464	543	238	—	—
Taxation for the year/period	—	—	—	—	—

APPENDIX II ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY

At 31 December 2005, 2006, 2007 and 31 July 2008, Sifa Mining had unused tax losses of approximately HK\$2,641,000, HK\$4,458,000, HK\$5,546,000 and HK\$5,855,000 respectively. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward for a period of five years from their respective year of origination.

10. LOSS FOR THE YEAR/PERIOD

	Year ended 31 December			Seven months ended 31 July	
	2005	2006	2007	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Loss for the year/period has been arrived at after charging (crediting):					
Directors' emoluments (<i>Note 11</i>)	58	118	127	73	—
Other staff costs	293	999	1,126	625	1,047
Contributions to retirement benefit scheme	33	75	155	87	103
Total staff costs	384	1,192	1,408	785	1,150
Amortisation of mining right	—	—	—	—	18
Depreciation of property, plant and equipment	1,005	1,128	1,301	747	885
Write-off of other receivables	—	38	—	—	—
Bank interest income	—	(1)	(2)	(1)	(1)

11. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors' emoluments

During the Relevant Periods, emoluments were only paid or payable to one director, Mr. Chen Qing An, who resigned as a director during the year ended 31 December 2007.

	Year ended 31 December			Seven months ended 31 July	
	2005	2006	2007	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Fees	—	—	—	—	—
Other emoluments	57	115	123	71	—
Contributions to retirement benefit scheme	1	3	4	2	—
	58	118	127	73	—

APPENDIX II ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY

Employees' emoluments

Of the five highest paid individuals of Sifa Mining for the Relevant Periods, one was a director of Sifa Mining whose emoluments are included in the disclosures above. The emoluments of the remaining four individuals are as follows:

	Year ended 31 December			Seven months ended 31 July	
	2005 HK\$'000	2006 HK\$'000	2007 HK\$'000	2007 HK\$'000 (unaudited)	2008 HK\$'000
Salaries and other emoluments	208	188	317	149	253
Contributions to retirement benefit scheme	<u>5</u>	<u>11</u>	<u>15</u>	<u>9</u>	<u>10</u>
	<u>213</u>	<u>199</u>	<u>332</u>	<u>158</u>	<u>263</u>

During the Relevant Periods, no emoluments were paid by Sifa Mining to any of the directors or the five highest paid individuals as an inducement to join or upon joining Sifa Mining or as compensation for loss of office. In addition, no directors of Sifa Mining waived any emoluments during the Relevant Periods.

12. DEEMED DISTRIBUTION

On 31 July 2008, 223,660 tons of minerals inventory with a carrying amount of HK\$15,391,000 were transferred to Mr. Zhang Zhulin, a director of Sifa Mining and 81.25% equity owner of Foshan Goldsonic, and an amount of HK\$7,103,000, which was owed by Sifa Mining to him as at 31 July 2008, was extinguished. The difference of HK\$8,288,000 represents a deemed distribution to Mr. Zhang Zhulin (See also Notes 18 and 25).

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Mining structure HK\$'000	Plant and machinery HK\$'000	Furniture and fixtures HK\$'000	Construction in progress HK\$'000	Total HK\$'000
COST						
At 1 January 2005	9,120	8,213	616	79	844	18,872
Currency realignment	<u>175</u>	<u>158</u>	<u>12</u>	<u>2</u>	<u>16</u>	<u>363</u>
At 31 December 2005	9,295	8,371	628	81	860	19,235
Currency realignment	453	335	37	3	55	883
Additions	662	—	290	15	1,878	2,845
Transfer	<u>1,357</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,357)</u>	<u>—</u>

APPENDIX II**ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY**

	Buildings	Mining structure	Plant and machinery	Furniture and fixtures	Construction in progress	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 31 December 2006	11,767	8,706	955	99	1,436	22,963
Currency realignment	925	655	82	8	167	1,837
Additions	263	—	197	4	1,669	2,133
Transfer	593	—	—	—	(593)	—
At 31 December 2007	13,548	9,361	1,234	111	2,679	26,933
Currency realignment	770	531	75	8	156	1,540
Additions	—	—	346	26	358	730
At 31 July 2008	14,318	9,892	1,655	145	3,193	29,203
DEPRECIATION						
At 1 January 2005	912	822	246	32	—	2,012
Currency realignment	26	24	7	1	—	58
Provided for the year	456	410	123	16	—	1,005
At 31 December 2005	1,394	1,256	376	49	—	3,075
Currency realignment	77	67	21	3	—	168
Provided for the year	536	419	156	17	—	1,128
At 31 December 2006	2,007	1,742	553	69	—	4,371
Currency realignment	182	152	53	4	—	391
Provided for the year	615	446	219	21	—	1,301
At 31 December 2007	2,804	2,340	825	94	—	6,063
Currency realignment	164	136	49	6	—	355
Provided for the period	413	285	171	16	—	885
At 31 July 2008	3,381	2,761	1,045	116	—	7,303
CARRYING VALUE						
At 31 December 2005	7,901	7,115	252	32	860	16,160
At 31 December 2006	9,760	6,964	402	30	1,436	18,592
At 31 December 2007	10,744	7,021	409	17	2,679	20,870
At 31 July 2008	10,937	7,131	610	29	3,193	21,900

The above items of property, plant and equipment (other than construction in progress) are depreciated on a straight line basis at the following rates per annum:

Buildings	5%
Mining structure	5%
Plant and machinery	20%
Furniture and fixtures	20%

Sifa Mining does not have formal title to the land on which its buildings and mining structures are built. It is currently in the process of applying such title. In the opinion of the directors of Sifa Mining, Sifa Mining will be able to obtain the title.

14. MINING RIGHT

	<i>HK\$'000</i>
COST	
At 1 January 2005, 31 December 2005, 2006 and 2007	—
Addition	<u>14,089</u>
At 31 July 2008	<u>14,089</u>
AMORTISATION	
At 1 January 2005, 31 December 2005, 2006 and 2007	—
Charge for the period	<u>18</u>
At 31 July 2008	<u>18</u>
CARRYING VALUE	
At 31 December 2005, 2006 and 2007	<u>—</u>
At 31 July 2008	<u><u>14,071</u></u>

Sifa Mining obtained the mining right to conduct mining activities in its mining site located at Huangshi in the PRC in August 2002 for a period of 5 years from the local government at nil consideration.

In September 2007, Sifa Mining renewed its mining right with the local government for another 5 years to end in September 2012. As a condition for such renewal, Sifa Mining was committed to pay a mining right fee in one lump sum. In May 2008, Sifa Mining agreed to pay a sum of RMB12,398,500 (equivalent to HK\$14,089,000) to the relevant government authority in return for an extension of the mining right for a period of 25 years to end in September 2032. The payment was made in full in July 2008 and the directors of Sifa Mining are of the opinion that the formal mining right license will be issued in due course.

At 31 July 2008, Mr. Zhang Zhulin, a director of Sifa Mining, has undertaken to pay one-fifth of mining right fee amounting to RMB2,479,700 (equivalent to HK\$2,818,000) for Sifa Mining as a capital contribution to Sifa Mining.

The payment of mining right fee was capitalised and is to be amortised using the units of production method based on the proven and probable mineral reserve under the assumption that Sifa Mining will be able to renew its mining license when necessary so that all mineral reserve will be mined.

APPENDIX II ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY

15. INVENTORIES

At the respective balance sheet dates, the inventories represented finished goods held for sale.

16. TRADE, BILLS AND OTHER RECEIVABLES

	At 31 December			At 31 July
	2005	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	—	612	120	4,170
Bills receivable	—	—	—	210
Other receivable and deposits	8	204	1,708	1,510
	<u>8</u>	<u>816</u>	<u>1,828</u>	<u>5,890</u>

Sifa Mining allows a credit period ranged from 30 to 90 days to its customers. The following is an aged analysis of the trade and bills receivables at the respective balance sheet date:

	At 31 December			At 31 July
	2005	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
0-30 days	—	—	—	—
31-90 days	—	612	14	4,362
Over 90 days	—	—	106	18
	<u>—</u>	<u>612</u>	<u>120</u>	<u>4,380</u>

Before accepting any new customer, Sifa Mining assesses the potential customer's credit quality and defines its credit limit. Limits attributed to customers are reviewed periodically. Majority of the trade receivables that are neither past due nor impaired have no default payment history.

Included in Sifa Mining's trade and bills receivables were debtors with a carrying amount of nil, nil, HK\$106,000 and HK\$18,000 which were past due at 31 December, 2005, 31 December 2006, 31 December 2007 and 31 July 2008 respectively for which Sifa Mining has not provided for impairment loss as there has not been a significant deterioration in credit quality of these customers and Sifa Mining believes that the amounts are still recoverable. Sifa Mining does not hold any collateral over these balances.

17. BANK BALANCES AND CASH

All bank deposits have a maturity of three months or less, and carry interest at market rates which range from 0.65% to 0.80% per annum during the Relevant Periods.

APPENDIX II ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY

18. AMOUNT(S) DUE FROM (TO) RELATED PARTIES

	At 31 December			At 31 July
	2005	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amount due from:				
Mr. Zhang Zhulin (<i>notes i & v</i>)	—	—	—	2,818
Amount due to:				
Mr. Zhang Zhulin (<i>notes i & v</i>)	25,032	30,034	1,469	—
Foshan Goldsonic (<i>notes ii & v</i>)	—	2,000	4,699	4,966
黃石市龍福礦業發展有限公司 (“黃石市龍福礦業”) (<i>notes iii & v</i>)	—	489	155	112
佛山程捷貿易有限公司 (“佛山程捷”) (<i>notes iv & v</i>)	—	—	—	1,136
	<u>25,032</u>	<u>32,523</u>	<u>6,323</u>	<u>6,214</u>

Notes:

- (i) Mr. Zhang Zhulin is a director of Sifa Mining and he also owns 81.25% equity interest in Foshan Goldsonic. On 31 July 2008, the amount due to him of HK\$7,103,000 was settled by transfer of Sifa Mining's minerals inventory as part of the process undertaken by Sifa Mining to prepare itself for its acquisition by Richly Giant.
- (ii) Foshan Goldsonic was the holding company of Sifa Mining, owning 70% equity interest, until 25 September 2008.
- (iii) 黃石市龍福礦業 is a subsidiary of Foshan Goldsonic and was a fellow subsidiary of Sifa Mining until 25 September 2008.
- (iv) 佛山程捷 owns 10% equity interest in Sifa Mining.
- (v) The amounts are unsecured, interest-free and repayable on demand.

19. SECURED LOAN

In June 2008, Sifa Mining raised a loan of RMB12,398,500 from an independent third party to finance its payment for the mining right fee (Note 14). The loan was interest bearing at 7.47% per annum, repayable within one year and secured by 100,000 tons of minerals, owned or to be mined by Sifa Mining.

Subsequent to 31 July 2008, the repayment of the secured loan was extended to 31 December 2009 and the interest rate was adjusted to 8.47% per annum, as disclosed in section C of this report.

20. PAID-UP CAPITAL

Sifa Mining was established on 5 August 1999 with a registered and paid up capital of RMB1,000,000. There was no movement in the capital during the Relevant Periods.

APPENDIX II ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY

21. OPERATING LEASE COMMITMENTS

Minimum lease payments paid under operating leases during the Relevant Periods:

	Year ended 31 December			Seven months ended 31 July	
	2005	2006	2007	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Premises	<u>—</u>	<u>—</u>	<u>162</u>	<u>20</u>	<u>216</u>

At the respective balance sheet dates, Sifa Mining had commitments for future minimum lease payments in respect of premises under non-cancellable operating leases which fall due as follows:

	At 31 December			At 31 July
	2005	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	—	—	340	348
In the second to fifth year inclusive	—	—	1,058	1,124
After the fifth year	<u>—</u>	<u>—</u>	<u>1,182</u>	<u>1,124</u>
	<u>—</u>	<u>—</u>	<u>2,580</u>	<u>2,596</u>

Leases are negotiated and rentals are fixed for a period of two to ten years.

22. CAPITAL COMMITMENTS

	At 31 December			At 31 July
	2005	2006	2007	2008
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the Financial Information	<u>1,442</u>	<u>1,293</u>	<u>744</u>	<u>565</u>

As described in Note 14, as at 31 December 2007, Sifa Mining was committed to pay a mining right fee in one lump sum. The amount of RMB12,398,500 (equivalent to HK\$14,089,000) was paid in May 2008.

23. PLEDGE OF ASSETS

At 31 July 2008, the loan as set out in Note 19 was secured by 100,000 tons of minerals, owned or to be mined by Sifa Mining.

APPENDIX II ACCOUNTANTS' REPORT ON THE PRC MINING COMPANY

24. RETIREMENT BENEFIT PLANS

All the full-time staff of Sifa Mining are members of a state-managed pension scheme. Pursuant to local regulations, Sifa Mining is required to pay an amount equivalent to a certain percentage of the salary costs as contributions to the pension scheme. At 31 December 2005, 31 December 2006, 31 December 2007 and 31 July 2008, the outstanding pension obligations payable was approximately HK\$35,000, HK\$81,000, HK\$243,000 and HK\$365,000 respectively.

25. RELATED PARTY DISCLOSURES

- (i) During the Relevant Periods, Sifa Mining entered into the following transactions with related parties:

Name of related parties	Nature of transactions	Year ended 31 December			Seven months ended 31 July	
		2005	2006	2007	2007	2008
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(unaudited)				
金地礦業 and its affiliate (note a)	Consultancy fee paid for obtaining survey information	—	92	361	255	—
Mr. Zhang Zhulin	Waiver of amount due to him	—	—	32,701	—	—
	Undertaking of mining right fee	—	—	—	—	2,818

note:

- (a) 金地礦業 owns a 20% equity interest in Sifa Mining.

On 31 July 2008, as described in Note 12, 223,660 tons of minerals inventory with carrying amount of HK\$15,391,000 were transferred to Mr. Zhang Zhulin and the amount of HK\$7,103,000, which was owed by Sifa Mining to him as at 31 July 2008, was extinguished. The difference of HK\$8,288,000 represents a deemed distribution to Mr. Zhang Zhulin. Mr. Zhang Zhulin have undertaken to indemnify Sifa Mining of any tax exposures that may arise regarding the transfer of these minerals inventory.

In addition, in preparation for a partial transfer of interest in Sifa Mining, Mr. Zhang Zhulin, Foshan Goldsonic and Mr. Steve Lau have undertaken to indemnify Sifa Mining of any penalties that may arise regarding any non-compliance of PRC rules and regulations that Sifa Mining may have committed but had not been notified as at 31 July 2008.

- (ii) Details of balances with related parties at the respective balance sheet dates are set out in Note 18.
- (iii) Compensation of key management personnel

Key management personnel of Sifa Mining mainly comprise directors. The compensation of a director of Sifa Mining during the Relevant Periods is set out in Note 11.

B. DISTRIBUTABLE RESERVES

At 31 July 2008, Sifa Mining had no reserve available for distribution to its equity holders.

C. SUBSEQUENT EVENT

On 28 November 2008, Sifa Mining entered into a supplemental loan agreement to extend the repayment of the secured loan to 31 December 2009. The interest was adjusted from 7.47% to 8.47% per annum.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Sifa Mining have been prepared subsequent to 31 July 2008.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

1. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

- (i) **Set out below is the management discussion and analysis of the Group for the year ended 31 December 2005.**

Financial Review

The Group recorded a consolidated turnover during the year ended 31 December 2005 of total HK\$2,664 million as compared with that of HK\$2,086 million for the nine months period ended 31 December 2004.

In facing of challenges from different distribution channels with particular the price competition from leading telecom and home appliances chain stores with a view to enlarge their market shares, to attract customers and to clear up inventories to speed up their cash flow, the Group recorded a decrease in gross margin from 4.4% for the nine months period ended 31 December 2004 to 3.6% for the year ended 31 December 2005.

To increase the geographical coverage and deepening market penetration, distribution costs increased substantially in the beginning of the year 2005. Even though the Group streamlined its operations in the second half of the year 2005, total distribution costs and administrative expenses still showed an increase of 54% and 29% respectively in comparison with that of the nine months period ended 31 December 2004. The increase in administrative expenses was mainly due to the additional allowance for trade receivable of HK\$7 million made during the year in accordance with the Group's policies and practices. The raise in interest rate also led to an increase in finance expenses of 30% over the year 2004. As a result, the net profit attributable to shareholders for the year 2005 was HK\$11 million, decreased by 73% as compared with that of HK\$43 million for the nine months period ended 31 December 2004.

Liquidity, Financial Resources and Capital Resources

As at 31 December 2005, the Group had total bank deposits and cash balances amounted to approximately HK\$353 million (2004: approximately HK\$302 million).

As at 31 December 2005, the Group's aggregate bank borrowings amounted to approximately HK\$272 million (2004: approximately HK\$466 million). The decrease in bank borrowings during the year 2005 was mainly attributable to the decrease in working capital requirement arising from tightening the management and controls over the inventory and accounts receivable.

The Group obtained a 3-year syndicated loan of US\$16 million in September of year 2005 which provided a more stable financing structure to the Group and a better control over the financing cost. However, due to the breach in one of the financial covenants, the loan was classified as short-term in year 2005 in accordance with the corresponding accounting standard.

The Group recorded total current assets of approximately HK\$665 million as at 31 December 2005 (2004: HK\$862 million) and total current liabilities of approximately HK\$329 million as at 31 December 2005 (2004: HK\$453 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 2.02 as at 31 December 2005 (2004: 1.90).

Gearing Ratio

As at 31 December 2005, the Group's gearing ratio, being the ratio of the total long term liabilities to the shareholder's equity, was zero.

Foreign Currency Risk

During the year 2005, there was no material change in the Group's funding and treasury policy. As over 90% of the Group's sales and purchases were denominated in RMB and the exchange rate of RMB and Hong Kong dollar was relatively stable, the risk of currency exposure was considered minimal.

Charges on the Group Assets

As at 31 December 2005, approximately HK\$147 million was pledged to the banks to secure banking facilities, including short-term bank borrowings and bills payables, granted to the Group (2004: approximately HK\$177 million).

Significant Investments, Material Acquisitions and Disposals

The Group disposed of 46% interest in Synergy Pacific (Holding) Limited, a former 51% subsidiary of the Group, in exchange of 49% interests in Synergy Technologies (Asia) Limited. After the restructuring, the Group held 100% interests in Synergy Technologies (Asia) Limited and 5% interest in Synergy Pacific (Holding) Limited. Save and except the aforesaid, the Group did not have any material acquisitions or disposal of subsidiaries and affiliated companies during the year 2005.

Contingent Liabilities

As at 31 December 2005, the Group had no significant contingent liabilities.

Employee and Remuneration Policies

As at 31 December 2005, the Group had a total number of 789 employees (2004: 1,249), which included 708 marketing representatives and non-contracted promoters in various cities in the PRC (2004: 1,155). After streamlining the operations, the number of marketing representatives and promoters reduced during the year 2005 without any significantly affecting the Group's overall turnover. Employees were remunerated according to the nature of their job and market trend, with quarterly performance evaluation to determine rewards in motivating individuals. The Group provides 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 31 December 2004. No option had been granted since the adoption of the option scheme in the year 2005 except that a share option to acquire 11% shareholding of Synergy Technologies (Asia) Limited was granted to Mr. Fong Kin Kiu, the director and co-founder of Synergy Technologies (Asia) Limited, Chief Executive Officer of Synergy Pacific (Holding) Limited and Chief Technology Officer of the Company, during the year 2005.

- (ii) **Set out below is the management discussion and analysis of the Group for the year ended 31 December 2006.**

Financial Review

The Group recorded a consolidated turnover during the year ended 31 December 2006 of total HK\$3,047 million as compared with that of HK\$2,664 million for the year ended 31 December 2005.

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 2005. With tightening control over various administrative functions, the administrative expenses dropped for 15% as compared to the year of 2005. The raise in bank borrowings due to the commencement of new businesses in 2006 led to an increase in finance costs of 25% over the year of 2005. As a result, the net profit attributable to shareholders for the year 2006 was HK\$31 million, increased by 182% as compared with that of HK\$11 million for the year ended 31 December 2005.

Liquidity, Financial Resources and Capital Resources

As at 31 December 2006, the Group had total bank deposits and cash balances amounted to approximately HK\$201 million (2005: approximately HK\$353 million).

As at 31 December 2006, the Group's aggregate bank borrowings amounted to approximately HK\$677 million (2005: approximately HK\$272 million). The increase in bank borrowing from HK\$272 million as at 31 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 of 2006. There was a 3-year syndicated loan of US\$13 million as at 31 December 2006, which was raised in September 2005 and amounted to US\$16 million as at 31 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 13 April 2007.

The Group recorded total current assets of approximately HK\$1,163 million as at 31 December 2006 (2005: HK\$665 million) and total current liabilities of approximately HK\$787 million as at 31 December 2006 (2005: HK\$329 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 1.48 as at 31 December 2006 (2005: 2.02).

Gearing Ratio

As at 31 December 2006, the Group's gearing ratio, being the ratio of the total long term liabilities to the shareholder's equity, was zero.

Foreign Currency Risk

During the year of 2006, 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 RMB and the exchange rate of RMB against Hong Kong dollar is relatively predictable, the risk of currency exposure is considered minimal.

Charges on the Group Assets

As at 31 December 2006, approximately HK\$151 million was pledged to the banks to secure short-term bank borrowings granted to the Group (2005: approximately HK\$147 million).

Significant Investments, Material Acquisitions and Disposals

During the year of 2006, 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 addition, the Group obtained the national distribution rights for eight Samsung handset models which was the first Samsung distributorship for the Group. Save and except the aforesaid, the Group did not have any material acquisitions or disposal of subsidiaries and affiliated companies during the year 2006.

Contingent Liabilities

As at 31 December 2006, the Group had no significant contingent liabilities.

Employee and Remuneration Policies

As at 31 December 2006, the Group had a total number of 1,620 employees (2005: 789), which included 1,531 marketing representatives and non-contracted promoters in various cities in the PRC (2005: 708). The increase in the number of employees was mainly due to the commencement of the two new businesses during the year 2006. 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 31 December 2005. No option had been granted during the year 2006.

(iii) **Set out below is the management discussion and analysis of the Group for the year ended 31 December 2007.**

Financial Review

The Group recorded a consolidated turnover during the year ended 31 December 2007 of total HK\$2,744.6 million as compared with that of HK\$3,046.8 million for the year ended 31 December 2006.

The Group suffered from tough price competition among the mobile phone models, namely N3220 and N7610, as these models were running towards the ends of their product life cycles. For Samsung mobile phone national distribution, due to the repeated delay in the launch of 2 new Samsung models from 2nd quarter to 3rd quarter of the year 2007, the Group did not deliver any new model during such time and result in loss of operating costs. The unexpected quality problem in one of the Group's key models, namely D848 of Samsung, and the loss due to the provision made for the slow moving models like, N9300, E50, 788e, i858, N3220, N6708, N7610 and D848 further increased the loss during the year 2007. Because of the above, the Group suffered a first time net loss for the year 2007 since its first listing in 2000.

The intense competition and quality issue, as explained above, accounted for the decrease in revenue for the year, as well as the drop in gross profit margin from 3.7% for the year ended 31 December 2006 to -3.4% for the year ended 31 December 2007.

The Group reported a net loss of HK\$266.8 million for the year 2007 when compared to the net profit of HK\$31.3 million of previous year 2006.

Liquidity, Financial Resources and Capital Resources

As at 31 December 2007, the Group has total bank deposits and cash balances amounted to approximately HK\$157.9 million (2006: approximately HK\$201 million).

As at 31 December 2007, the Group's aggregate bank borrowings amounted to approximately HK\$120.2 million (2006: approximately HK\$676.7 million). The decrease in bank borrowings during the year 2007 was mainly attributable to the Group's intention to reduce its borrowing level.

The Group obtained a 3-year syndicated loan of US\$16 million in September of year 2005 and amounted to US\$13 million as at 31 December 2006. The aforesaid loan had been fully settled during the year 2007. Owing to the breaches in certain financial covenants, bank loans were classified as short-term in year 2005 in accordance with the corresponding accounting standards.

In June 2007, the Group had carried out a placement of 40,000,000 ordinary shares of HK\$0.10 each at a price of HK\$1.35 per share. The net proceeds generated from such placement amounted to approximately HK\$51.4 million and had been applied as general working capital of the Group. During the year, the Group allotted and issued a total of 7,690,000 ordinary shares of HK\$0.10 each as a result of the exercise of share options. The net proceeds amounted to approximately HK\$9.9 million and had been applied as general working capital of the Group.

The Group recorded total current assets of approximately HK\$442 million as at 31 December 2007 (2006: HK\$1,163 million) and total current liabilities of approximately HK\$261 million as at 31 December 2007 (2006: HK\$787 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 1.69 as at 31 December 2007 (2006: 1.48).

Gearing Ratio

As at 31 December 2007, the Group's gearing ratio, being the ratio of the total long term liabilities to the shareholder's equity, was zero.

Foreign Currency Risk

The Group considered the only potential currency exposure was in RMB as the majority of the Group's revenue is derived in the PRC. The management considered that the Group's operation in the PRC will benefit from the upward appreciation of the RMB in the year 2007. It was the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group.

Charges on the Group Assets

As at 31 December 2007, approximately HK\$75 million was pledged to the banks to secure banking facilities, including short-term bank borrowings and bills payables, granted to the Group (2006: approximately HK\$151 million).

Significant Investments, Material Acquisitions and Disposals

In February 2007, the Group contracted to acquire 51% stake in Zhuhai Reminda Telecom Equipment Company Limited (珠海市雷鳴達通訊設備有限公司), a company which is principally and actively involved in the business of distribution and retailing of mobile phones, telecommunication equipments and their repairing services in Zhuhai area, in consideration of the issuance and allotment of 8,000,000 ordinary shares of HK\$0.10 each in the Company. This acquisition leads the Group entering the retailing area of the mobile phone industry in which it is complementary and synergistic to the Group's existing business.

In April 2007, the Group contracted to acquire 50% shareholding in DW Mobile Technology Limited which is principally and actively involved in the business of outlook and content design, marketing and distribution of licensed, characterized and premium mobile phones in consideration of the issuance and allotment of 9,000,000 ordinary shares of HK\$0.10 each in the Company.

In June 2007, the Company entered into an agreement with TeleChoice International Limited (“TeleChoice”), an indirect subsidiary of Singapore Technologies Telemedia Pte Ltd, to establish a joint venture to engage in the logistics and fulfillment business for Nokia-branded mobile handsets and accessories in the PRC. The agreement was completed in September 2007 whereas TeleChoice had injected HK\$50 million for a 40% stake of the joint venture. At the same time, the Company had paid HK\$1 million in cash and would pay the balance of HK\$24 million in cash and/or via transfer of inventories and assets into the joint venture for a 60% equity stake.

In July 2007, the Group entered into an agreement (amended by supplemental agreements in July and November 2007) to acquire from Mr. Lau Siu Ying (the Chairman and CEO of the Company), Mr. Lau Hung Bing and Mr. Lau Kin Ying (both are brothers of Mr. Lau Siu Ying) (collectively the “Vendors”) approximately 40.8% equity interest in a mining company in the PRC (the “PRC Mining Company”). The PRC Mining Company has the right to conduct mining activities in a mining site which is located in Huangshi, southeastern Hubei. The mining site has a general mining area of approximately 0.62 square kilometers and the mineral resources of the mining site include Celestite, Zinc and Lead. The total consideration of HK\$367.2 million makes up of cash of HK\$40 million and 240 million ordinary shares of the Company. In November 2007, the Group entered into an agreement to further acquire another 10% equity interest in the PRC Mining Company at a consideration of HK\$90 million. Upon the completion of these two acquisitions, the PRC Mining Company is expected to become a subsidiary of the Group. The management of the Group (the “Management”) is optimistic and confident in the future performance of the PRC Mining Company. It is believed that this business segment in natural resources will become another core business of the Group in the near future.

In August 2007, the Group acquired 25% stake of Intelligence Tech Limited, a company providing software and hardware design, as well as total integrated solutions for mobile terminal technology, particularly focusing in the development of unique feature phone, smartphone and PDA phone targeting the PRC market in consideration of HK\$100,000 in cash and the issuance and allotment of 6,000,000 shares of HK\$0.10 each in the Company. In the same month, the Group also acquired 50% interest in Artchief Industries Limited, which is principally and actively involved in the business of trading and development of consumable wireless audio products for a cash consideration of HK\$11.5 million.

In October 2007, the Group contracted to dispose 49% interest in its mobile handset national distribution business in the PRC to Mr. Lau Siu Ying (the Chairman and CEO of the Company) at a consideration of HK\$57.8 million.

Contingent Liabilities

A subsidiary of the Group is a defendant in a legal action brought by a Taiwanese supplier for a trade debt of HK\$4.6 million plus overdue interest and related legal expenses of HK\$0.6 million in relation to goods purchased from the supplier since August 2006.

Employee and Remuneration Policies

As at 31 December 2007, the Group had a total number of 270 employees (2006: 1,620). The decrease in the number of employees was mainly due to the restructuring of the mobile handset distribution businesses during the year 2007, in which the NS fulfillment business required much less manpower than that as required by the national distribution business. Employees were remunerated according to the nature of their job duties and market trend. Quarterly performance evaluation was 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 during the year 2007.

(iv) **Set out below is the management discussion and analysis of the Group for the six months ended 30 June 2008.**

Financial Review

The Group recorded a consolidated revenue during the six months ended 30 June 2008 of HK\$1,026.4 million when compared to the previous period in 2007 of HK\$1,587 million. The decrease in revenue was mainly attributable to the restructuring of the loss making national distribution business which had a significant contribution to the revenue in the previous period in 2007.

The selling and distribution costs during the six months ended 30 June 2008 amounted to HK\$14.9 million when compared to the previous period in 2007 of HK\$41.8 million. The reduction of 64% in year 2008 as compared with the previous period in 2007 was mainly due to the decrease in the size of the workforce and the reduction in the advertising and promotional expenses upon the restructuring of the loss making national distribution business. The Group reported a net loss of HK\$1.6 million during the period in 2008 when compared to the previous period in 2007 of HK\$84.8 million, which was due to the significant improvement made during the period in 2008.

Liquidity, Financial Resources and Capital Resources

As at 30 June 2008, the Group had total bank deposits and cash balances amounted to approximately HK\$87.1 million (31 December 2007: approximately HK\$157.9 million).

As at 30 June 2008, the Group's aggregate bank borrowings amounted to approximately HK\$55 million (31 December 2007: approximately HK\$120.2 million). The decrease in bank borrowings was mainly attributable to the intention of the Group to reduce its borrowing level. Owing to breaches in certain financial covenants, the bank loans were classified as short-term in accordance with the corresponding accounting standards. The Group has informed the relevant bankers and the applications for the waiver to comply with such covenants are still in progress. The Group is confident that its applications will ultimately reach a successful conclusion.

The Group recorded total current assets of approximately HK\$367 million as at 30 June 2008 (31 December 2007: HK\$442 million) and total current liabilities of approximately HK\$181 million as at 30 June 2008 (31 December 2007: HK\$261 million). The current ratio of the Group, calculated by dividing the current assets by the current liabilities, was approximately 2.03 as at 30 June 2008 (31 December 2007: 1.69).

Gearing Ratio

As at 30 June 2008, the Group's gearing ratio, being the ratio of the total long term liabilities to the shareholder's equity, was zero.

Foreign Currency Risk

During the period of six months ended 30 June 2008, there was no material change in the funding and treasury policy of the Group. The Group considers the only potential currency exposure is in RMB as the majority of its revenue is derived in the PRC. The Group believes that its operation in the PRC will benefit from the recent upward appreciation of the RMB.

Charges on the Group Assets

As at 30 June 2008, approximately HK\$30 million was pledged to the banks to secure short-term bank borrowings granted to the Group (31 December 2007: approximately HK\$75 million).

Significant Investments, Material Acquisitions and Disposals

Owing to the unsatisfactory performance in DW Mobile Technology Limited, being one of the associates, the Group had disposed of this company during the period in 2008.

Contingent Liabilities

A subsidiary of the Group is a defendant in a legal action brought by a Taiwanese supplier for a trade debt of HK\$4.6 million plus overdue interest and related legal expenses of HK\$0.6 million in relation to goods purchased from the supplier since August 2006.

Employee and Remuneration Policies

As at 30 June 2008, the Group had a total number of 226 employees (31 December 2007: 270). Employees were remunerated according to the nature of their job duties and market trend. The Group provided staff welfare and fund contribution to its employees in accordance with the prevailing regulations in the PRC and Hong Kong. There was no material change in the remuneration policy, bonus scheme and share option scheme during the period. The Group has a share option scheme under which the Company may grant share options to the participants, including directors and employees, to subscribe for shares of the Company.

2. MANAGEMENT DISCUSSION AND ANALYSIS OF THE PRC MINING COMPANY

Set out below is the management discussion and analysis of the PRC Mining Company for the three years ended 31 December 2007 and the period ended 31 July 2008.

Financial Review*Turnover*

Turnover of the PRC Mining Company was primarily arising from sales of celestite. During the period under review, the PRC Mining Company recorded sales of celestite of zero, HK\$2,084,000, HK\$5,058,000 and HK\$5,440,000 for the year ended 31 December 2005, 2006 and 2007 and the period ended 31 July 2008 respectively. Due to the internal systemizing operation, the improvement works on mineral storage area and prohibition in usage of explosives in August owing to the launch of 2008 Beijing Olympic Games, the exploitation work of the PRC Mining Company had been affected from March to August 2008. As though, there was still a significant increase in revenue for the year ended 31 December 2007.

Profit/loss

During the period under review, the PRC Mining Company recorded a loss after tax of HK\$1,536,000, HK\$3,709,000, HK\$1,207,000 and HK\$265,000 for the year ended 31 December 2005, 2006 and 2007 and the period ended 31 July 2008 respectively. The significant increase in net loss for the year ended 31 December 2006 was primarily due to recurrent administrative expenses. The significant decrease in net loss for the year ended 31 December 2007 was primarily due to increase in revenue by approximately HK\$2,974,000 as compared to the revenue in year 2006.

Liquidity, Financial Resources and Capital Resources*Credit risk*

The PRC Mining Company's credit risk was primarily attributable to its trade receivables. It had concentration of credit risk during the 2 years ended 31 December 2007 and the seven months ended 31 July 2008 because its products were mainly sold to five major customers, which were engaged in mineral processing in the PRC. The credit risk for bank balances was considered minimal as such amounts were placed with banks with good credit ratings.

Liquidity risk

The PRC Mining Company had net current liabilities amounting to approximately HK\$22,319,000, HK\$28,854,000, HK\$8,376,000 and HK\$29,210,000 as at 31 December 2005, 2006 and 2007 and 31 July 2008 respectively. The PRC Mining Company was exposed to liquidity risk of being unable to raise sufficient funds to meet its financial obligations when they fall due.

To manage the liquidity risk, the PRC Mining Company had obtained financial support from its major shareholders to meet in full its financial obligations as and when they arise and to continue its operations in the foreseeable future.

Financial resources and capital resources

The PRC Mining Company had bank balances and cash of approximately HK\$48,000, HK\$314,000, HK\$147,000 and HK\$969,000 as at 31 December 2005, 2006 and 2007 and 31 July 2008 respectively. The amounts due to related parties were approximately HK\$25,032,000, HK\$32,523,000, HK\$6,323,000 and HK\$6,214,000 as at 31 December 2005, 2006 and 2007 and 31 July 2008 respectively and were unsecured, interest-free and repayable on demand. There was no bank loan as at 31 December 2005, 2006 and 2007 and 31 July 2008 respectively.

Gearing Ratio

The gearing ratio of the PRC Mining Company, calculated as the total long term liabilities to the capital and reserves, was zero as at 31 December 2005, 2006 and 2007 and 31 July 2008.

Foreign Currency Risk

The PRC Mining Company's main operations are in the PRC and have no significant exposure to any specific foreign currency other than RMB.

Charges on Assets

As at 31 December 2005, 2006 and 2007, no asset of the PRC Mining Company has been pledged. As at 31 July 2008, the loan as set out in Note 19 of the accountants' report as set out in Appendix II to this circular was secured by 100,000 tons of minerals, owned or to be mined by Sifa Mining.

Capital commitments

The PRC Mining Company had capital commitments outstanding of approximately HK\$1,442,000, HK\$1,293,000, HK\$744,000 and HK\$565,000 as at 31 December 2005, 2006 and 2007 and 31 July 2008.

Significant Investments, Material Acquisition and Disposals

The PRC Mining Company did not have any significant investment, material acquisition and disposal during the period under review.

Contingent Liabilities

The PRC Mining Company did not have any significant contingent liabilities during the period under review.

Employee and Remuneration Policies

As at 31 December 2005, 2006 and 2007 and 31 July 2008, the PRC Mining Company had 38, 40, 40 and 36 employees respectively. Staff costs, including directors' emoluments, other staff costs and contributions to retirement benefit scheme, was approximately HK\$384,000, HK\$1,192,000, HK\$1,408,000 and HK\$1,150,000 for the year ended 31 December 2005, 2006 and 2007 and period ended 31 July 2008 respectively. The PRC Mining Company remunerates its employees based on their performance, experience and the prevailing industry practice.

Set out below are texts of the reports from Deloitte Touche Tohmatsu and Wallbanck Brothers Securities (Hong Kong) Limited in connection with the cash flow forecast underlying the asset valuation of the mining right of the Mining Site as at 30 September 2008 and prepared for the purpose of inclusion in this circular.

1. REPORT FROM DELOITTE TOUCHE TOHMATSU

Deloitte.
德勤

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

29 January 2009

The Board of Directors
China Fortune Holdings Limited
Room 1505-7, Tower A,
Regent Centre
63 Wo Yi Hop Road
Kwai Chung, N.T.
Hong Kong

Dear Sirs,

We have examined the cash flow projection used in the valuation of the mining right of Huangshi Sifa Mining Company Limited (the “Target Mine”) (the “Underlying Forecast”) in accordance with the International Standard on Assurance Engagements 3400 “Examination of prospective financial information”. The scope of our engagement included an examination of the arithmetical accuracy of the calculations in the preparation of the Underlying Forecast.

Management is responsible for the Underlying Forecast including the assumptions on which it is based. Because the Underlying Forecast relates to cash flows, no accounting policies of the Company have been adopted in its preparation. It is our responsibility to form an opinion, based on our examination of the Underlying Forecast, and to report our opinion solely to you, as a body, solely for the purpose of reporting under paragraph 29(2) of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and for no other purpose. We accept no responsibility to any other person in respect of, arising out of, or in connection with our work.

Our work has been undertaken solely to assist the directors of the Company in evaluating whether the Underlying Forecast has been properly compiled in accordance with the assumptions made by the directors of the Company. Our work does not constitute a valuation of the Target Mine. As described above, the Underlying Forecast has been prepared in connection with the valuation of the

Target Mine. The Underlying Forecast has been prepared using a set of assumptions that include hypothetical assumptions about future events and management's action that are not necessarily expected to occur. Consequently, readers are cautioned that the Underlying Forecast may not be appropriate for purposes other than that described above.

Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to believe that these assumptions do not provide a reasonable basis for the Underlying Forecast. Further in our opinion, the Underlying Forecast is properly prepared on the basis of the assumptions, is arithmetically accurate and is presented in accordance with the assumptions made by the directors of the Company.

Even if the events anticipated under the hypothetical assumptions described above occur, actual results are still likely to be different from the Underlying Forecast since other anticipated events frequently do not occur as expected and the variation may be material.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

2. REPORT FROM WALLBANCK BROTHERS SECURITIES (HONG KONG) LIMITED**WALLBANCK BROTHERS
Securities (Hong Kong) Limited**

29 January 2009

The Board of Directors
China Fortune Holdings Limited
Room 1505-7, Tower A,
Regent Centre
63 Wo Yi Hop Road,
Kwai Chung, N.T.,
Hong Kong

Dear Sirs,

We refer to the valuation prepared by LCH (Asia-Pacific) Surveyors Limited (“LCH”) in relation to the appraisal of the asset valuation of (the “Valuation”) of the mining right of the Mining Site as set out in Appendix VI to the circular of the Company dated 29 January 2009 (the “Circular”), of which this report forms part.

We have reviewed the forecast upon which the Valuation has been made for which you as the directors of the Company are responsible and discussed with you and LCH the information and documents provided by you which formed part of the bases and assumptions upon which the forecast has been prepared. We have also considered the letter from Deloitte Touche Tohmatsu dated 29 January 2009 addressed to yourselves as set out in Section (1) of Appendix IV to the Circular regarding the accounting policies and calculations upon which the forecast has been made.

On the basis of the foregoing, we are of the opinion that the forecast upon which the Valuation has been made, for which you as the directors of the Company are solely responsible, have been made after due and careful enquiry by you.

Yours faithfully,
For and on behalf of
WALLBANCK BROTHERS
Securities (Hong Kong) Limited
Phil Chan
Chief Executive Officer

The following is the text of the accountants' report received from Deloitte Touche Tohmatsu, the independent reporting accountants, for inclusion in this circular, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this circular.



Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

**ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION
TO THE DIRECTORS OF CHINA FORTUNE HOLDINGS LIMITED**

We report on the unaudited pro forma financial information of China Fortune Holdings Limited (“the Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) set out on pages 153 to 163 in Appendix V to the circular dated 29 January 2009 issued by the Company to its shareholders (the “Circular”), which has been prepared by the directors of the Company for illustration purposes only, to provide information about how the proposed acquisition of an aggregate 50.8% equity interest in Huangshi Sifa Mining Company Limited (together with the Group, hereinafter collectively referred to as the “Enlarged Group”) might have affected the financial information presented. The basis of preparation of the unaudited pro forma financial information is set out in Appendix V to the Circular.

Respective responsibilities of directors of the Company and the reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Enlarged Group as at 30 June 2008 or at any future date; or
- the results and cash flows of the Enlarged Group for the year ended 31 December 2007 or any future period.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 January 2009

A. INTRODUCTION

Pursuant to various agreements as set out in the Circular, the Company has conditionally agreed to acquire an indirect 50.8% equity interest in Sifa Mining for a stated aggregate consideration of HK\$398,000,000, to be satisfied by (i) cash of HK\$40,000,000; (ii) 306,016,300 shares in the Company at an agreed value of HK\$0.55 per share; (iii) convertible bonds at an aggregate nominal value of HK\$100,000,000 and (iv) interest-free promissory notes at an aggregate nominal value of HK\$89,691,035.

For the purpose of this pro forma financial information, the total fair value of the consideration is assumed to be HK\$290,996,000, including cash of HK\$40,000,000, 306,016,300 shares in the Company at market price of HK\$88,745,000 at 30 September 2008, convertible bonds of HK\$94,836,000 and promissory notes of HK\$67,415,000. In addition, in the opinion of the directors of the Company, the fair value of the mining right is assumed to be RMB621,000,000 (equivalent to HK\$705,916,000), which takes into consideration the agreed-upon procedures valuation report as of 30 September 2008, prepared by LCH (Asia-Pacific) Surveyors Limited. The valuation report states that the market value of the mining right was in the range of RMB547,000,000 (equivalent to HK\$621,797,000) to RMB707,000,000 (equivalent to HK\$803,675,000). The fair value of the shares, convertible bonds and promissory notes are estimated as of 30 September 2008, the date on which the fair value of the mining right is valued. All of these are subject to change upon completion of the Acquisition because variables that affect the fair value of the shares, convertible bonds, promissory notes and mining right may have changed by that date.

The accompanying unaudited pro forma financial information of the Group as enlarged by the Acquisition (the “Enlarged Group”) has been prepared to illustrate the effect of the proposed Acquisition.

The unaudited pro forma combined balance sheet of the Enlarged Group as at 30 June 2008 is prepared as if the Acquisition had been completed on 30 June 2008 and is based on (i) the unaudited consolidated balance sheet of the Group as at 30 June 2008, which has been extracted from the interim report of the Company for the period then ended; and (ii) the audited balance sheet of Sifa Mining as at 31 July 2008 as extracted from the accountants’ report thereon as set out in Appendix II to this circular, after making pro forma adjustments that are (i) directly attributable to the Acquisition; and (ii) factually supportable.

The unaudited pro forma combined income statement and cash flow statement of the Enlarged Group for the year ended 31 December 2007 are prepared as if the Acquisition had been completed on 1 January 2007 and are based on the audited consolidated income statement and cash flow statement of the Group for the year ended 31 December 2007, as extracted from the annual report of the Company, and the audited income statement and cash flow statement of Sifa Mining for the same year as extracted from the accountants’ report set out in Appendix II to this circular.

APPENDIX V**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

The unaudited pro forma financial information is prepared to provide information on the Enlarged Group as a result of the Acquisition. As it is prepared for illustration purposes only, it does not purport to represent what the financial position or the results or cash flows of the Enlarged Group will be on completion of the Acquisition.

B. UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE ENLARGED GROUP

	The Group as at 30 June 2008 HK\$'000	Sifa Mining as at 31 July 2008 HK\$'000	Pro Forma Combined HK\$'000	Pro Forma adjustments HK\$'000	<i>Notes</i>	Pro Forma Enlarged Group HK\$'000
Non-current Assets						
Property, plant and equipment	3,160	21,900	25,060	—		25,060
Mining right	—	14,071	14,071	691,845	a	705,916
Goodwill	12,925	—	12,925	23,968	f	36,893
Interest in an associate	12,886	—	12,886	—		12,886
Available-for-sale investment	918	—	918	—		918
Deposit paid for acquisition of a subsidiary	25,000	—	25,000	(25,000)	b	—
Other non-current assets	22,000	—	22,000	—		22,000
Club membership	1,116	—	1,116	—		1,116
	<u>78,005</u>	<u>35,971</u>	<u>113,976</u>	<u>690,813</u>		<u>804,789</u>
Current Assets						
Inventories	130,897	1,376	132,273	—		132,273
Trade and other receivables	144,369	5,890	150,259	—		150,259
Bills receivable	176	—	176	—		176
Amount due from a related party	—	2,818	2,818	—		2,818

APPENDIX V
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group	Sifa Mining	Pro	Pro	<i>Notes</i>	Pro
	as at	as at	Forma	Forma		Forma
	30 June	31 July	Combined	adjustments		Enlarged
	2008	2008	HK\$'000	HK\$'000		Group
	<i>HK\$'000</i>	<i>HK\$'000</i>				<i>HK\$'000</i>
Amount due from a minority shareholder of a subsidiary	4,923	—	4,923	—		4,923
Pledged bank deposits	30,215	—	30,215	—		30,215
Bank balances and cash	<u>56,904</u>	<u>969</u>	<u>57,873</u>	<u>(15,000)</u>	b	<u>42,873</u>
	<u>367,484</u>	<u>11,053</u>	<u>378,537</u>	<u>(15,000)</u>		<u>363,537</u>
Current Liabilities						
Trade and other payables	(65,956)	(8,330)	(74,286)	—		(74,286)
Amount due to an associate	(500)	—	(500)	—		(500)
Amount due to related parties	—	(6,214)	(6,214)	—		(6,214)
Taxation payables	(1,507)	(11,630)	(13,137)	—		(13,137)
Bank borrowings	(52,995)	—	(52,995)	—		(52,995)
Bank overdraft - secured	(1,977)	—	(1,977)	—		(1,977)
Secured loan	—	(14,089)	(14,089)	—		(14,089)
Promissory notes	—	—	—	(26,180)	d	(26,180)
Embedded derivatives in convertible bonds	—	—	—	(11,854)	c	(11,854)
Other financial liabilities	<u>(57,933)</u>	<u>—</u>	<u>(57,933)</u>	<u>—</u>		<u>(57,933)</u>
	<u>(180,868)</u>	<u>(40,263)</u>	<u>(221,131)</u>	<u>(38,034)</u>		<u>(259,165)</u>
Net Current Assets (Liabilities)	<u>186,616</u>	<u>(29,210)</u>	<u>157,406</u>	<u>(53,034)</u>		<u>104,372</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>264,621</u>	<u>6,761</u>	<u>271,382</u>	<u>637,779</u>		<u>909,161</u>

APPENDIX V
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

	The Group	Sifa Mining	Pro	Pro	<i>Notes</i>	Pro
	as at	as at	Forma	Forma		Forma
	30 June	31 July	Combined	adjustments		Enlarged
	2008	2008				Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Non-current Liabilities						
Promissory notes	—	—	—	(41,235)	d	(41,235)
Deferred tax liability	—	—	—	(172,961)	a	(172,961)
Convertible bonds — liability portion	—	—	—	(82,982)	c	(82,982)
	—	—	—	(297,178)		(297,178)
NET ASSETS	<u>264,621</u>	<u>6,761</u>	<u>271,382</u>	<u>340,601</u>		<u>611,983</u>
Capital and Reserves						
Share capital	37,279	943	38,222	29,659	e	67,881
Reserves	<u>222,599</u>	<u>5,818</u>	<u>228,417</u>	<u>52,325</u>	e	<u>280,742</u>
	259,878	6,761	266,639	81,984		348,623
Minority interests	<u>4,743</u>	—	<u>4,743</u>	<u>258,617</u>	g	<u>263,360</u>
	<u>264,621</u>	<u>6,761</u>	<u>271,382</u>	<u>340,601</u>		<u>611,983</u>

APPENDIX V**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP****C. UNAUDITED PRO FORMA COMBINED INCOME STATEMENT OF THE ENLARGED
GROUP****Year ended 31 December 2007**

	The Group	Sifa Mining	Pro Forma Combined	Pro Forma adjustments	<i>Notes</i>	Pro Forma Enlarged Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Revenue	2,744,597	5,058	2,749,655	—		2,749,655
Cost of sales	(2,838,162)	(1,205)	(2,839,367)	(10,491)	h	(2,849,858)
Gross (loss) profit	(93,565)	3,853	(89,712)	(10,491)		(100,203)
Other income	17,791	80	17,871	—		17,871
Selling and distribution expenses	(50,623)	(1,326)	(51,949)	—		(51,949)
Administrative expenses						
— Share-based payment expenses	(14,816)	—	(14,816)	—		(14,816)
— Other administrative expenses	(31,490)	(3,814)	(35,304)	—		(35,304)
Allowance for trade and other receivables	(46,379)	—	(46,379)	—		(46,379)
Impairment loss recognised in respect of interests in associates	(18,193)	—	(18,193)	—		(18,193)
Fair value gain on an investment property	2,240	—	2,240	—		2,240
Share of results of associates	(2,125)	—	(2,125)	—		(2,125)
Finance costs	(26,350)	—	(26,350)	(14,457)	i	(40,807)
Loss before taxation	(263,510)	(1,207)	(264,717)	(24,948)		(289,665)
Income tax expenses	(3,337)	—	(3,337)	2,623	h	(714)
Loss for the year	(266,847)	(1,207)	(268,054)	(22,325)		(290,379)
Attributable to:						
Equity holder of the parent	(266,679)	(1,207)	(267,886)	(18,454)		(286,340)
Minority shareholders	(168)	—	(168)	(3,871)	j	(4,039)
	<u>(266,847)</u>	<u>(1,207)</u>	<u>(268,054)</u>	<u>(22,325)</u>		<u>(290,379)</u>

APPENDIX V**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP****D. UNAUDITED PRO FORMA COMBINED CASH STATEMENT OF THE ENLARGED
GROUP**

Year ended 31 December 2007

	The Group	Sifa Mining	Pro Forma Combined	Pro Forma adjustments	<i>Notes</i>	Pro Forma Enlarged Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Operating activities						
Loss before taxation	(263,510)	(1,207)	(264,717)	(24,948)	h, i	(289,665)
Adjustments for:						
Allowance for trade and other receivables	46,379	—	46,379	—		46,379
Amortisation of mining right	—	—	—	10,491	h	10,491
Depreciation of property, plant and equipment	657	1,301	1,958	—		1,958
Fair value gain on an investment property	(2,240)	—	(2,240)	—		(2,240)
Gain on fair value changes of held for trading investment	(1,375)	—	(1,375)	—		(1,375)
Impairment loss recognised in respect of interests in associates	18,193	—	18,193	—		18,193
Interest expenses	26,350	—	26,350	14,457	i	40,807
Interest income	(7,406)	(2)	(7,408)	—		(7,408)
Loss on disposal of property, plant and equipment	93	—	93	—		93
Share-based payment expenses	14,816	—	14,816	—		14,816
Share of results of associates	2,125	—	2,125	—		2,125
Write down of inventories	<u>4,305</u>	<u>—</u>	<u>4,305</u>	<u>—</u>		<u>4,305</u>
Operating cash flows before movements in working capital	<u>(161,613)</u>	<u>92</u>	<u>(161,521)</u>	<u>—</u>		<u>(161,521)</u>

APPENDIX V**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP****Year ended 31 December 2007**

	The Group	Sifa Mining	Pro Forma Combined	Pro Forma adjustments	<i>Notes</i>	Pro Forma Enlarged Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Decrease (increase) in inventories	507,862	(6,750)	501,112	—		501,112
Decrease (increase) in trade and other receivables	173,952	(951)	173,001	—		173,001
Decrease in bills receivable	15,414	—	15,414	—		15,414
Decrease in held for trading investments	13,439	—	13,439	—		13,439
(Decrease) increase in trade and other payables	<u>(36,864)</u>	<u>3,171</u>	<u>(33,693)</u>	<u>—</u>		<u>(33,693)</u>
Cash generated from (used in) operations	512,190	(4,438)	507,752	—		507,752
PRC Enterprise Income Tax paid	(1,104)	—	(1,104)	—		(1,104)
Hong Kong Profits Tax refunded	<u>312</u>	<u>—</u>	<u>312</u>	<u>—</u>		<u>312</u>
NET CASH FROM (USED IN) OPERATING ACTIVITIES	<u>511,398</u>	<u>(4,438)</u>	<u>506,960</u>	<u>—</u>		<u>506,960</u>
INVESTING ACTIVITIES						
Decrease in pledged deposits	75,767	—	75,767	—		75,767
Interest received	7,406	2	7,408	—		7,408
Proceeds from disposal of property, plant and equipment	71	—	71	—		71
Deposit paid for acquisition of a subsidiary	(25,000)	—	(25,000)	25,000	b	—
Payments for other non-current assets	(21,400)	—	(21,400)	—		(21,400)
Acquisition of investments in associates	(12,195)	—	(12,195)	—		(12,195)

APPENDIX V**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**

Year ended 31 December 2007

	The Group	Sifa Mining	Pro Forma Combined	Pro Forma adjustments	<i>Notes</i>	Pro Forma Enlarged Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
Advance to a minority shareholder of a subsidiary	(5,350)	—	(5,350)	—		(5,350)
Purchase of property, plant and equipment	(1,509)	(2,133)	(3,642)	—		(3,642)
Acquisition of subsidiaries	<u>(1,233)</u>	<u>—</u>	<u>(1,233)</u>	<u>(39,686)</u>	b	<u>(40,919)</u>
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<u>16,557</u>	<u>(2,131)</u>	<u>14,426</u>	<u>(14,686)</u>		<u>(260)</u>
FINANCING ACTIVITIES						
Bank and other borrowings repaid	(1,386,141)	—	(1,386,141)	—		(1,386,141)
Interest paid	(23,205)	—	(23,205)	—		(23,205)
Dividend paid	(3,151)	—	(3,151)	—		(3,151)
Expenses paid in connection with issue of shares	(2,624)	—	(2,624)	—		(2,624)
Bank and other borrowings raised	798,703	—	798,703	—		798,703
Proceeds from issue of shares	54,000	—	54,000	—		54,000
Other financial liabilities raised	50,000	—	50,000	—		50,000
Proceeds from exercise of share options	9,920	—	9,920	—		9,920
Advance from related parties	—	6,414	6,414	—		6,414
Advance from a director	1,742	—	1,742	—		1,742
Advance from an associate	<u>500</u>	<u>—</u>	<u>500</u>	<u>—</u>		<u>500</u>

APPENDIX V**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP****Year ended 31 December 2007**

	The Group	Sifa Mining	Pro Forma Combined	Pro Forma adjustments	<i>Notes</i>	Pro Forma Enlarged Group
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(500,256)</u>	<u>6,414</u>	<u>(493,842)</u>	<u>—</u>		<u>(493,842)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	27,699	(155)	27,544	(14,686)		12,858
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	49,390	314	49,704	(314)	b	49,390
Effect of foreign exchange rate changes	<u>5,802</u>	<u>(12)</u>	<u>5,790</u>	<u>—</u>		<u>5,790</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>82,891</u>	<u>147</u>	<u>83,038</u>	<u>(15,000)</u>		<u>68,038</u>

E. NOTES

- (a) This represents the excess of the estimated fair value of the mining right held by Sifa Mining, over its book value as of 30 September 2008 by HK\$691,845,000. In the opinion of directors of the Company, the fair value of the mining right as at 30 September 2008 is assumed to be RMB621,000,000 (equivalent to HK\$705,916,000), which takes into consideration the agreed-upon procedures valuation report as of 30 September 2008, prepared by LCH (Asia-Pacific) Surveyors Limited, a firm of independent qualified valuers not connected to the Group. The valuation report states that the market value of the mining right was in the range of RMB547,000,000 (equivalent to HK\$621,797,000) to RMB707,000,000 (equivalent to HK\$803,675,000). Deferred tax on the fair value adjustment of HK\$172,961,000 is provided at the PRC Enterprise Income Tax rate of 25%.
- (b) This represents the cash portion of the Acquisition consideration of HK\$40,000,000 paid out by internal resources. Of this, an amount of HK\$25,000,000 was paid prior to 30 June 2008 and was accounted for by the Group as a deposit at 30 June 2008. The balance of HK\$15,000,000 is deducted from bank balances and cash.
- (c) These represent the liability component and the embedded derivative of the convertible bonds issued for the Acquisition. The estimated fair value of the liability component of the convertible bonds, based on a valuation determined using the effective interest method as of 30 September 2008, is HK\$82,982,000, and the estimated fair value of the embedded derivative in the convertible bonds, determined using the Binomial Model, is HK\$11,854,000.
- (d) This represents the estimated fair value of the promissory notes, based on a valuation determined using an effective interest rate of 10% per annum as of 30 September 2008, and after adjusting for the guaranteed profit shortfall of HK\$11,524,000 as explained below.

Pursuant to the Acquisition agreements, the vendor has warranted and undertaken that, for a period of one year from the date of completion of the Acquisition, the profit before tax of Sifa Mining will not be less than RMB72,000,000 (the “Guaranteed Profit”) and that any shortfall from the Guaranteed Profit will be compensated to the Group by reducing the same amount from the outstanding balance of the promissory notes.

Because the projected profit before tax of Sifa Mining during the guaranteed period falls short of the Guaranteed Profit by HK\$11,524,000, such shortfall is deducted from the balance of the promissory notes as a purchase price adjustment.

- (e) This represents 306,016,300 new ordinary shares of HK\$0.1 each issued at the market price of HK\$0.29 as at 30 September 2008, the date on which the fair value of mining right is estimated, and the effect of eliminating of the share capital and pre-acquisition reserves of Sifa Mining.

- (f) This is goodwill arising from the Acquisition, represented by the excess of the fair value of the consideration of HK\$290,996,000 over the fair value of the net assets of Sifa Mining attributable to the Company in the amount of HK\$267,028,000.
- (g) This represents 49.2% minority interest of Sifa Mining, after adjusting for the increase in fair value of its mining right (net of deferred tax effect) by HK\$518,884,000.
- (h) This represents the amortisation of the mining right arising from the fair value adjustment and the related deferred tax provided at the PRC Enterprise Income Tax rate of 25%, on the basis that the Acquisition was completed on 1 January 2007. The mining right is amortised using the units of production method based on the proven and probable mineral reserves.
- (i) This represents the imputed interest expenses on the convertible bonds and the promissory notes issued as part of the consideration for the Acquisition, assuming an effective rate of 10% per annum, as if they were issued on 1 January 2007.
- (j) This represents the minority shareholders' share of the amortisation expenses of the mining right and the deferred tax credit for the year.
- (k) Adjustments (h), (i) and (j) have continuing effects.

The following is the text of the valuation report on the mining rights of the PRC Mining Company as at 30 September 2008 prepared by LCH (Asia-Pacific) Surveyors Limited for the purposes of inclusion in this circular.



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors Limited

CHARTERED SURVEYORS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standards, Eighth Edition, 2007 published by the International Valuation Standards Committee which entitles the valuer to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. It is emphasised that the findings and conclusions presented below are based on the documents and facts known to the valuer at the date of this report. If additional documents and facts are made available, the valuer reserves the right to amend this report and its conclusions.

17th Floor
Champion Building
287-291 Des Voeux Road Central
Hong Kong

29 January 2009

The Directors
China Fortune Holdings Limited
Room 1505-1507 on the 15th Floor
Tower A, Regent Centre
63 Wo Yi Hop Road
Kwai Chung, New Territories
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of China Fortune Holdings Limited (hereinafter referred to as the "Company") to us, we were retained to analyse and prepare an agreed-upon procedures valuation report to document our opinion on the market value of a designated intangible asset (see Note) i.e. an exclusive mining rights currently 黃石鋸發礦業有限公司

Note: Intangible assets are assets without physical existence which, although not always reported on a company's balance sheet, may make a significant contribution to the value of an enterprise. Examples of intangible assets including, but are not limited to trademarks, tradenames, assembled work force, design rights, patents, proprietary computer software, customer lists and technical know-how.

(translated as Huangshi Sifa Mining Company Limited and hereinafter referred to as “Sifa Mining”) has interest in the People’s Republic of China (hereinafter referred to as the “Appraised Asset”). Our findings and conclusions in this agreed-upon procedures valuation are documented as follows:

Introduction

Mining is a very risky business and the initial work which needs to be carried out in order to find and prove up a deposit will, more often than not, prove it to be uneconomic rather than profitable to exploit. Exploration can be split into two separate parts — one is to find a new mine in the vicinity of an old one, the other is built from scratch by deciding what geological environments are most likely to contain the mineral which is being sought then to be followed by reading through literature to find where those environments are to be found and then sending out an exploration team to test the hypothesis.

All mining activity takes place within the earth’s crust, about the top 7-35 km (kilometer) of the solid matter comprising the bulk of the planet. However, the distribution of metals within the crust is by no means uniform, as can be seen by the differences in the types of rock which it contains, be it limestone, granite, sandstone or basalt. Nevertheless, these different rock types are generally of uniform composition, at least locally, and further concentrations need to occur in order to produce concentrations of materials which can be mined and sold at a profit. Such concentrations decided whether a mineral deposit is economically worth to extract or not. There are some generally accepted background concentrations of the major metallic elements and the concentration factors required for economic viability identified by some industry practitioners such as Charles Kernot (1999). These concentration factors are only of importance for the metals because of the geological controls on their formation.

Metal deposits are categorised both in terms of the metals which they contain and the controls on their origin which governs their three dimensional shape. The metals themselves are deemed to be either ferrous (containing iron) or non-ferrous. Non-ferrous metals are, in turn, subdivided into those which are precious, base or minor. The precious metals are essentially limited to gold, platinum and silver as these metals are relatively rare, but have great demand and widely traded.

The base metals are, essentially, the six major metals are aluminum, copper, lead, nickel, tin and zinc. These metals have a wide range of applications throughout industry and could be thought of as the industrial metals as opposed to the range of industrial trial minerals.

The minor metals are those metals produced either as by-products of the extraction of the major metals or are required for specific applications and are therefore produced in small quantities from primary deposits. Examples are opto-electronic elements gallium and germanium.

Instruction

The Company is considering the acquisition of an interest in the Huangshi City Mt. Shizili Celestite Mine (hereinafter referred to as the “Controlled Property”). The Controlled Property having an area of approximately 0.62 square kilometers (or “sq. km.” as used in the report) and lying in Tuan

Cheng Shan Economic Development Zone, Huangshi City, Hubei Province of the People's Republic of China (hereinafter referred to as the "PRC" or "China") is controlled and operated by Sifa Mining. The Controlled Property forms part of the Mt. Shizili mining area and to be described in details in Section: **Description of Sifa Mining and the Appraised Asset** of this report. The Controlled Property is near the major city of Wuhan on the Yangtze River. The region has been, and continues to be, a significant mineral producing area. The exclusive mining rights forms the Appraised Asset in the report.

At the instruction of the management of the Company, we have investigated and analysed the Appraised Asset as part of a going-concern business of Sifa Mining, and to express our opinion of the range of market values of the Appraised Asset under different price growth rates as at 30 September 2008 (hereinafter referred to as the "Date of Valuation") for their internal management reference purpose. Our valuation (the word *valuation* has the same meaning as *appraisal* in the report) has been made based on a set of documents provided by the management of the Company and/or the management of Sifa Mining, the technical advices given by various technical experts and/or specialists, and with reference to the guidelines contained in the International Valuation Standards, Eighth Edition, 2007 published by the International Valuation Standards Committee (see Note 1) and hereinafter referred to as the "IVS").

According to the IVS, the standard of value to Extractive Industries (see Note 2) valuations is Market Value as defined in the *IVS 1: Market Value Basis of Valuation*. The term "Market Value" as used herein is defined as the price, expressed in terms of cash equivalents, at which an asset would change hands between a (hypothetical willing and able) buyer and a (hypothetical willing and able) seller after proper marketing, acting at arm's length (in an open and unrestricted market), when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts. Under this definition, we further assumed that both the buyer and the seller contemplate the retention of the Appraised Asset at its present status for the continuation of the current going concern business, and both seeking their maximum economic self-interest in arriving at an arm's-length transaction.

We understand that the management of the Company will use our work product as part of its business due diligence and we have not been engaged to make specific sale or purchase recommendations. We further understand that the management of the Company will not rely solely on our work, and that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its business decision with regards to the Appraised Asset.

Notes:

1. International Valuation Guidance Note No. 4: Valuation of Intangible Assets and International Valuation Guidance Note No. 14 : Valuation of Properties in the Extractive Industries.
2. Defined by the IVS as "Those industries involved in the finding, extracting and associated processing of natural resources located on, in or near the earth's crust. They are composed of the Minerals Industry and the Petroleum Industry. They do not include the industry sector focused on extraction of water from the earth, but they do include extraction of geothermal fluid for its energy content".

Description of Sifa Mining and the Appraised Asset (See Note)

We were given to understand that Sifa Mining was first incorporated in 1999 as a domestic limited liability company and named as 黃石市鋇發礦業有限責任公司 (translated as Huangshi Shi Sifa Mining Limited Liability Company). It was transformed to a Sino-foreign equity joint venture company named as 黃石鋇發礦業有限公司 (translated as Huangshi Sifa Mining Company Limited) on 25 September 2008. Sifa Mining is in the mineral extractive industry specialised in metallic mineral deposits with the registered capital of RMB 1 million. According to a 企業法人營業執照 Enterprise Legal Person Business License No. 420200010006040 dated 25 September 2008, the operation term of the company was 30 years from 25 September 2008 to 24 September 2038. The business scope of the company was restricted to “鋇礦(天青石)開採、加工銷售 (採礦許可證有效期至2012年9月25日止)。以下開採須憑《採礦許可證》方可經營; 天青石伴礦 (鉛鋅礦) 開採、加工銷售” (translated as “mining, processing, sales and marketing of strontium ore (celestite) with the permit expiring on 25 September 2012; mining, processing, sales and marketing of zinc and lead ore (with appropriate permit)”). The registered office of Sifa Mining is situated at Group 7, Huang Gu Ling Village, Gui Lin North Road, Huangshi City, Hubei Province of the PRC.

We were advised that Sifa Mining was 19.2 per cent. (or “%” as used in the report) owned by 佛山高訊通信發展有限公司 (translated as Foshan Goldsonic Telecom Development Company Limited), 20 per cent. by 黃石市金地礦業有限責任公司 (translated as Huangshi Jindi Mining Company Limited), 50.8 per cent. owned by 中國黃石投資有限公司 (translated as China Huangshi Investment Company Limited) and 10 per cent. by 佛山市程捷貿易有限公司 (translated as Foshan Cheng Jie Trading Company Limited) in China.

The primarily economic asset of Sifa Mining is its holding of the Appraised Asset — an exclusive mining rights for a period of five years and commencing from 25 September 2007 to 25 September 2012 (both dates inclusive) under a 採礦許可證 Mining Operation Permit dated 25 September 2007 at No. 4200000211409 and granted by 湖北省國土資源廳 Department of Land and Resources of Hubei Province, the PRC. The geographical coordinates of the Controlled Property are: Longitude 115°00’26”-115°01’19” and Latitude 30°12’13”-30°12’33”. Under this permit, the Controlled Property was granted to Sifa Mining. The mining technique was restricted to underground mining and the scale of production was set at 100,000 tonnes per annum. The depth of mining was set in the range of 143 metres (or “m” as used in the report) to -105 m. We were advised that the estimated maximum production capacity of the Mine (to be defined at the later part of this section) is 170,000 tonnes of Strontium ore and 60,000 tonnes of lead-zinc ore per annum. Subject to the company’s further capital investment, the maximum capacity can be further expanded.

We noted that the Mt. Shizili mining area is lying from Zhang’s Ancestral Temple on the east to Xiaojiapu on the west, and from Fujiazhuang Village on the south to Wuqi School Farm on the north. The area is administered by the Economic and Technology Development Zone of Huangshi City and

Note: Extracted from various reports and documents, including but not limited to, those prepared by the technical team of Sifa Mining and the audit review conducted by our Study Team dated October 2007. This report shall read together with our Technical Assessment Report which published separately in Appendix VI of the Company’s circular dated 31 December 2007.

Xialu District. The geographical coordinates of Mt. Shizili mining area are: Longitude 114°59'49"-115°02'00" and Latitude 30°12'06"-30°12'48". It covers an area of about 4.53 sq.m. The mining area is respectively 7 km away from the railway station of Huangshi City and the Yangtze River Wharf. The national expressway from Wuchang to Huangshi passes through the northern part of this mining area and is linked to the urban area by secondary roads. It is conveniently located for access to major neighboring cities via a good road system. The regional airport at the city of Wuhan lies approximately 90 km by road from the mine.

The landform of this mining area is mountainous, hilly region. Its highest point — the peak of Mt. Shizili is 143.62 m in elevation and its lowest point — Zhangjia Lake, at the northeast, is about 15.20 m in elevation.

The mining area is very close to the center of Huangshi City, with developed economy, sufficient supply of water and electricity, highly concentrated mining and mill processing industries and affluent labor force. The aquaculture industry near the lake region is highly developed with a variety of fishes, shrimps and crabs produced.

The Mt. Shizili mining area has abundance of polymetallic deposits variously containing copper, iron, gold, silver, lead, and zinc and nonmetallic deposits containing limestone, dolomite, marble, and celestite. This mining area is a significant part of the mineralised zone along the middle and lower reaches of the Yangtze River and an important mineral producing area. Elevations across the mining area are in the general range of 15 to 145 m above mean sea level, creating an area with low to moderate relief.

Two types of mineralised bodies have been identified by previous workers on the Controlled Property — gold and strontium-lead-zinc. Twenty-five gold-bearing bodies have been delineated, the majority of which are located at the surface and in the near-subsurface in an east-northeast-trending fault zone hosted by diorite and quartz diorite. These bodies variously occur as irregular veins and lenses, with dip typically being to the north-northwest. Gold content has been reported to be in the range of 1.16 to 15.40 grams per ton ("gpt"). The largest of the bodies that has been identified, designated No. 12, lies in the central portion of the Controlled Property. A portion of these bodies have been mined at the surface, and the grade and quantities of gold contained in the remaining bodies is insufficient to allow their economic exploitation by any type of mechanised method. However, we were given to understand that surface mining is no longer permitted on the Controlled Property.

The combined series of strontium-lead-zinc-bearing bodies contains three different basic mineral assemblages as follows:

- Sr Ore — Those portions of the deposits containing the mineral celestite (SrSO_4), which is mined for its strontium content, with negligible or no detectable lead (Pb) and zinc (Zn) content.
- Sr-Pb-Zn Ore — Those portions of the deposits containing predominantly celestite with associated lead and zinc content.
- Pb-Zn Ore — Those portions of the deposits containing only lead and zinc.

These bodies have been placed in four groups, numbered I through IV, with 155 discrete bodies having been delineated. These bodies occur in the subsurface, some at depths of more than 500 meters below the surface. Brief discussions of the four groups of mineralised bodies are presented below. For ease of discussion, elevations are expressed in terms of distance above or below sea level, using the 100-meter designation of levels as done by previous workers and as currently used at the Mine.

- Group I — This is the largest group, consisting of 25 bodies of differing size generally occurring above the -100m level in the eastern portion of the mining area. The Mine is developed in the I₂ Ore Body, the largest of the mineralised bodies identified in the mining area. Mineralisation is generally associated with the contact between the quartz diorite porphyrites and the silty claystone of the Puyin Formation and the dolostone of the Jialing River Formation. Mineralisation is predominantly celestite, with local lead and zinc-bearing occurrences. The I₂ Ore Body is the subject of the report.
- Group II — This group consists of 95 bodies of differing size generally occurring between the 0m and -400m levels in the eastern portion of the mining area. Mineralisation occurs within the Jialing River Formation within favorable strata and fracture zones that form between the sedimentary layers. It extends to the contact with the underlying Daye Formation, where the dolostone of the lower Jialing River Formation rests on the limestone of the upper Daye Formation. Mineralisation is predominantly celestite, with lesser lead and zinc-bearing occurrences.
- Group III — This group consists of 32 relatively small bodies lying in the east-central portion of the mining area between the -200m and -600m levels. Mineralisation occurs within the 4th Section of the Daye Formation as lenticular bodies associated with fracture zones that form between stratigraphic layers. It is predominantly lead and zinc, with lesser amounts of celestite.
- Group IV — This group contains three small bodies lying between the -500m and -700m levels within limestone of the Daye Formation. Mineralisation is predominantly lead and zinc.

Mining activities controlled and operated by Sifa Mining are developed in the I₂ Ore Body with the geographical coordinates identified at Longitude 115°00'35 and Latitude 30°12'20 (hereinafter referred to as the "Mine"). The Mine extends in an east-northeast direction across the eastern portion of the Controlled Property for a distance of around 600 meters. The I₂ Ore Body has irregular configuration, with much of the western and central portion of the body being a discrete, massive deposit in the rough form of an inverted V. To the east, the body loses its continuity and is represented by small mineralised bodies above and below that appear to represent divergence and diminution of mineralisation from the main body.

The predominant ore being produced from the Mine is celestite from the western portion of the body, with ore currently, as advised, being extracted from the 0m level and above. Where observed during the last mine visit, the ore consisted of massive celestite, with both the ore and the unmineralised wall rock being brecciated. No sedimentary features were observed, although a coating of dust from mining and the closely spaced nature of mine roof supports made direct observation of the wall rock difficult. During our last visit, the mine's chief engineer stated that dolostone was present below the floor in areas.

During our last mine visit, nine samples were taken to check the tenor of the mineralisation and to check for important by-product metals associated with the celestite and lead-zinc mineralisation. The analytic methods that were used provided results for a large number of elements and oxides, including elements believed to be of significance for the Mt. Shizili mining area. These elements include gold (Au), silver (Ag), cadmium (Cd), arsenic (As), uranium (U), lead (Pb), zinc (Zn), barium (Ba), iron (Fe) and strontium (Sr). Silicon dioxide (SiO₂) content was also determined.

Referring to the technical report set out in Appendix VI to the circular of the Company dated 31 December 2007, at the time of the study, it was estimated that there are approximately 8,412,000 metric tonnes of Sr ore, 508,000 metric tonnes of Sr-Pb-Zn ore and 1,079,000 metric tonnes Pb-Zn ore in the I₂ Ore Body. The cut-off grade of Sr is in the region of 37.6% to 46.79%, Pb is in the region of 0.27% to 0.93% and Zn is in the region of 4.91% to 5.12%. The deposit is classified either as 122 and 2S22 using China's Solid Minerals Resource Classification. We noted that in the various local geology reports, a lower grade 333 Pb of approximately 785 metallic tonnes with cut-off grade of 0.55% and a lower grade 333 Zn of approximately 1,898 metallic tonnes with cut-off grade of 1.33% were reported. We were further advised that there are no material difference of the estimated tonnage ores since October 2007.

Gold has been reported and tonnage estimated for the Controlled Property in both the 1994 and 2007 geology reports. Based on a review of the information in these reports, it appears that the mineralisation occurs as a series of discrete ore shoots within an east-northeast-trending fault zone hosted by diorite and quartz diorite. The ore shoots are thin, generally less than three meters in width; short, generally less than 100 meters in length; and steeply dipping. It is unlikely their vertical continuity will exceed their strike length. There has been mining of these deposits dating back to at least 1993, most, if not all, of which appears to have focused on shallow, oxidized ore exposed at the surface.

The amount of gold estimated amounts to 1,883 kilograms (60,566 troy ounces) at an average grade of 3.2 gpt. It is also likely that some portion of the gold estimated has been recovered by mining, particularly the largest deposit, the No. 12 body, which appears to be the deposit surface mined above the celestite mine. Mining economics would be further complicated by the fact that the geometry of gold-bearing veins would require underground mining, which is more costly than surface mining, and by the fact that surface mining apparently is not allowed on the Controlled Property.

Local miners worked the Mt. Shizili mining area from 1998 until 2000, at which time mining operations were terminated by order of the government. It was at this time that Sifa Mining was formed and proceeded to obtain the necessary government license to commence operations on the Controlled Property. This led to the development of the Mine, which is currently extracting celestite ore and processing it at a nearby mill.

Our last inspection revealed that the Mine was divided into eastern and western districts where access to the celestite ore bodies in these districts was provided by two inclined shafts, one known as the East Shaft and the other the West Shaft. A vertical shaft also existed on the property, although this shaft was not in use. The bottom of both inclined shafts terminated at the 0m level (sea level) and were connected by a nominal 2 m x 2 m horizontal tunnel. This tunnel provides access to the ore bodies, the transportation of ore from the mine, the ventilation to the underground workings, and the removal of water from the mine workings.

The East Shaft was 180 meters long, has an inclination of approximately 17 degrees, and was concrete lined throughout its length. The West Shaft was 125 meters long, inclined at 23.5 degrees, and was randomly supported with timber and steel. Both shafts were equipped with electric hoists for hauling ore from the mine and for lowering empty mine cars to the loading points at the base of the inclines.

The Mine uses the sub-level caving method to mine the celestite ore. Development within the ore body consisted of driving a series of parallel crosscuts or adits from the central tunnel connecting the two shafts to the extremities (boundaries) of the ore-body. The vertical interval between levels in a wide ore body such as this one ranges between 7 and 15 meters, depending on the tendency of the ore to cave. At the Mine, ore development and extraction has been completed at the +23m and +11m levels and mining was taking place only at the 0m level. Thus the celestite ore between the 0m. level and the overlying +11m level was mined.

In order to minimise the dilution of the ore during caving operations, the crosscut adits are mined in sequence so that caving occurs at the working faces in an approximate straight line and caving follows the retreat mining in the crosscut adits.

The extraction of wide ore bodies (that is, greater than 25 meters) at relatively shallow depths (say, 100 meters), causes significant surface subsidence, manifested as sinkholes or large depressions on the surface. This process was evident at the Mine and attempts have been made to prevent access to the caved areas on the surface by displaying suitable warning signs.

These sinkholes or surface depressions create an additional hazard to the underground mining operations because of the effects of high rainfall across the general mining area. Mine management has recognized the potential for inrushes of water or mud resulting from heavy rains and has installed additional pumping capacity in the eastern and western areas of the mine.

The effects of the sub-level caving method used to extract celestite ore was also evident in the tunnels on the 0m level of the mine. Substantial timber and steel supports were installed in almost all mine roadways on this level and the maintenance of damaged supports was required on a regular basis.

Mining operations on the 0m level will continue until the celestite and lead/zinc ore reserves between the +11m level and the 0m level are extracted and removed via the East and West Shafts.

As advised, the planned extraction of the ore-bodies below the 0m level will use the currently unused 4-meter diameter and 110-meter deep concrete-lined vertical shaft and another shaft (yet to be excavated) to provide a minimum of two accesses to the working places required for an underground mine. Lateral (horizontal) development tunnels connecting the two shafts will be required to service the sub-level caving operations in the ore-bodies to be mined at the planned elevations below the 0m level.

The Controlled Property is irregular in shape with the following 7 coordinates formed the boundary of the Controlled Property. They are presented in the table below:

Inflection Point	Co-ordination X	Co-ordination Y
1	3343520.00	38597000.00
2	3343600.00	38597400.00
3	3343800.00	38597700.00
4	3343800.00	38598400.00
5	3343400.00	38598400.00
6	3343220.00	38597600.00
7	3343200.00	38597000.00

Source: from Sifa Mining

The real estate assets on the Mine comprise 27 various major buildings and structures erected on 2 parcels of leased land. The various buildings and structures erected on the land are of single to 2-storeys in height and used for production, storage, office, dormitory and other ancillary supporting facilities. They were completed in early 2000. Together, they have a total gross floor area of approximately 2,599.11 sq.m.

Mining is conducted by two contractors and only celestite ore was being processed at the mine's mill, with any lead/zinc ore recovered and trucked to a plant located in the neighboring town of Daye, where it is processed on a toll basis. We were given to understand that Sifa Mining having no ownership interest in these facilities.

Establishment of Titles

Due to the purpose of this engagement and the market value basis of valuation, the management of the Company is requested to provide us the necessary documents to support that the legally interested party in the Appraised Asset i.e. Sifa Mining has free and uninterrupted rights to assign the Appraised Asset (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full. Should this not be the case or only a restricted title was available (i.e. has a right to use but further application procedures are required), no commercial (market) value will be assigned to the Appraised Asset.

We have been provided with copies of the title documents and legal opinions dated 13 January 2009 issued by Guantao Law Firm (觀韜律師事務所), lawyers qualified to practice in China (the "Legal Opinion"). According to the Legal Opinion, Sifa Mining has obtained full legal and beneficial title in respect of the Appraised Asset granted under a Mining Operation Permit dated 25 September 2007 and issued by the Department of Land and Resources of Hubei Province. The Legal Opinion further opined that Sifa Mining is required to pay the necessary premium and expenses to the mining rights; to reach employment contracts with its employees and to pay necessary insurance premium; and to obtain the relevant land use rights and building ownership for construction of the mine.

However, we have not inspected the original documents that filed in the relevant local authorities to verify ownership or to verify any amendment which may not appear on the copies handed to us. We are not attorney of laws by nature, thus we are unable to ascertain the titles and to report any encumbrances that may be registered against the Appraised Asset. However, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copy of the Legal Opinion with regards to the existing legally interested party in the Appraised Asset. No responsibility and liability is assumed in relation to those opinions or copies of documents.

Industry and Market Overview (see Note)*The Economic Outlook of China*

The economy of China is the third largest in the world when measured by nominal GDP (Gross Domestic Product). Its economic output for 2007 was 3.218 trillion US\$. The GDP growth of China for 2007 was 13%. With the strong growth of China's economy at a compound annual growth rate of approximately 10.3% from 1990 to 2007, it is expected that the China economic growth would remain at 8.5% to 9% from 2008 to 2011. Due to large scale investments both from domestic and foreign companies, China's booming economy has consistently overshoot government targets in recent years. Therefore, overall the prospects for the Chinese economy are favourable in the next few years.

For Hubei Province, despite of the Macro Regulation and Control from the Chinese government, the growth rate of the GDP of Hubei Province in 2007 was about 14.5%. For the development trend of GDP in recent years (as at the end of each year), please refer to the table below.

Year	2003	2004	2005	2006	2007
GDP Growth (%)	9.3	11.5	11.4	12.1	14.5

Source: From National Bureau of Statistics of China

For Huangshi City, the GDP growth for 2007 was 16.4%, the highest growth since 1996. The fixed asset investment, retail sales of consumer products and the income from tourism in Huangshi City throughout 2007 was RMB17.985 billion, RMB17.497 billion and RMB1.25 billion, up 30.3%, 18.0% and 47.9% respectively comparing with 2006. Export in 2007 was increased by 17.9% to USD1.218 billion, compared to 2006.

As from statistic report of Huangshi City, economic structure of primary, secondary and tertiary industries are in scale of 8.0:53.1:38.9. In 2007, investment demand contributed 45.55% of the

Note: The information provided in this section relating to the mineral extraction industry and market is derived in part or extracted or referred to from various official and unofficial sources. The official sources include various quasi-governmental or world organisation websites (such as gov.cn, National Bureau of Statistics of China and World Bank). The unofficial sources include information provided by the management of the Company, various websites (include Bloomberg.com, steel35.com, asianmetal.cn, cnmn.com.cn, alibaba.com.cn, fenmoyejin.com, en.wikipedia.org and Yahoo! Finance), newspapers, research reports and journals (such as U.S. Geological Survey) from various industry practitioners or analysts. We need to state that such official and unofficial information have not been prepared or independently verified by us, and may not be consistent with other information compiled within or outside the industry. None of our staff involved in preparing this report make any representation as to the correctness or accuracy of such information and accordingly such information should not be unduly relied upon. The information used in this section is for description purpose and intended to make the readers have a better understanding on the subject industry and market. None of the data described in this section was adopted as parameter in our valuation. The readers should conduct his/her due diligence with regards to the correctness and accuracy of such information for his/her own use.

economic growth, equivalent to about GDP growth rate of 7.47% while the consumption demand contributed 47.59% of the economic growth, equivalent to about GDP growth rate of 7.8%. Growth in Consumer Price Index (CPI) was about 4.8% while the price for raw material and energy increased 14.05%.

Industry Overview

Since 1998, when the Chinese government issued the laws regulating exploration and mining rights, operating a mining business in China must first obtain those rights from the government with a price. The business was considered to be opened to foreign investors in 2003 when the Chinese government allowed the transfer of the mining rights to all kinds of entities. It is now easier and more secure than ever for these foreign mining companies to operate in China. Apart from the above, several measures have also been taken to encourage foreign investment and participation in developing China's mining industry by the government. These measures include the privatisation of the mining sector, streamlining of permitting and approval processes, granting irrevocable exclusive mining rights to foreign entities and relaxing rules on repatriation of capital profit. These measures benefit not only the foreign investors but also the local miners in that the cost of mining can be reduced and thus more profit can be generated.

Recent years, the dynamic and growing economy of China had a huge impact on the world mining industry. According to some industry analysts, *"by the mid 2000s China had emerged as a world leader in both production and consumption of mined metals and was the global leader in zinc, and iron ore production, as well as a major source of copper, gold and lead. It also led the world in copper and zinc consumption, while its consumption of iron ore, lead, and gold substantially increased world demand for these metals"*(extracted from *"Mining, Metal"*, *Encyclopedia of Global Industries*, Thomson Gale, 2006).

Strontium

According to the U.S. Geological Survey, Mineral Commodity Summaries, world production of strontium reached an estimated 600 thousand metric tons of strontium content in 2007, a 2.56% increase from 2006. Like previous years, China is still the world's leading producer of strontium carbonate, followed by Germany and Mexico. The table below presented the trend of world production of strontium minerals in recent years, and the figures in 2007 was an estimate.

Year	2003	2004	2005	2006	2007
Production (in thousand metric tons)	470	551	494	585	600

Source: U.S. Geological Survey, Mineral Commodity Summaries, 2008

Strontium can be obtained from two main sources of mine, which are celestite (which is found in the subject mine) and strontianite. China uses mostly domestic and some imported celestite to supply its strontium carbonate plants. While Chinese celestite reserves are smaller and of lower

purification, it is questioned that whether Chinese celestite producers will be able to maintain high enough production levels to meet the high demand at strontium carbonate plant. In other words, the excess demand for domestic celestite may mean that the producers can clear their stock no matter how much to produce.

There are different kinds of usage for strontium. Commercially, it can be used as the ingredient of red color fireworks, signal flare, parts of car wheels and car engine, reflective traffic signs, energy saving lamps and ingredient in refining the zinc ore. Besides, as strontium is non-toxic and provides a dense glass that shields viewers from X-rays generated by the high voltage of the tube, it is now almost exclusively for cathode ray tubes in televisions and computers. Strontium is also used in military purpose.

According to the U.S. Geological Survey, the demand for strontium carbonate for faceplate glass for cathode ray tubes (CRTs) continues globally. Although CRTs are still available, growth continues in flat-panel technology, which requires much smaller quantities of strontium carbonate, resulting in steadily decreasing demand for strontium carbonate for television displays, especially in North America and Europe, which are the major markets for Chinese strontium carbonate. This may hinder the demand of celestite in the future.

Market practitioners expected that most of the developed strontium mines, with few exception, will fully depleted in five years. It may further intense the market supply on the domestic celestite in the future. According to resources information website (www.lrn.cn), as at August 2006, the subject mine is the third largest strontium mine and the second largest strontium mine (not yet in operation) in China.

According to price.mofcom.gov.cn, the celestite with average grading of 94% is selling around US\$80-US\$100 per tonne.

Zinc

World zinc production kept increasing since 2002 due to the strong demand from China. In 2007, the world production of zinc was estimated 10.5 million metric tonnes, a 5% growth from 2006. China, as continuing be the world leader in production of zinc, produced an estimated of 2.8 million metric tons of zinc in 2007. The table below indicated the world production of zinc in recent years.

Year	2003	2004	2005	2006	2007
Production (in million metric tons)	9.01	9.60	9.80	10.00	10.50

Source: U.S. Geological Survey, Mineral Commodity Summaries, 2008

In spite of the increasing trend of zinc production, it did not help relaxing its rising price. According to market analyst, the robust demand growth in China has been the driving factor behind the increase in 2006 and 2007 consumption and the U.S. now has only limited impact on the overall zinc demand as China's share of global zinc consumption is 2.6 times bigger than that of the U.S.

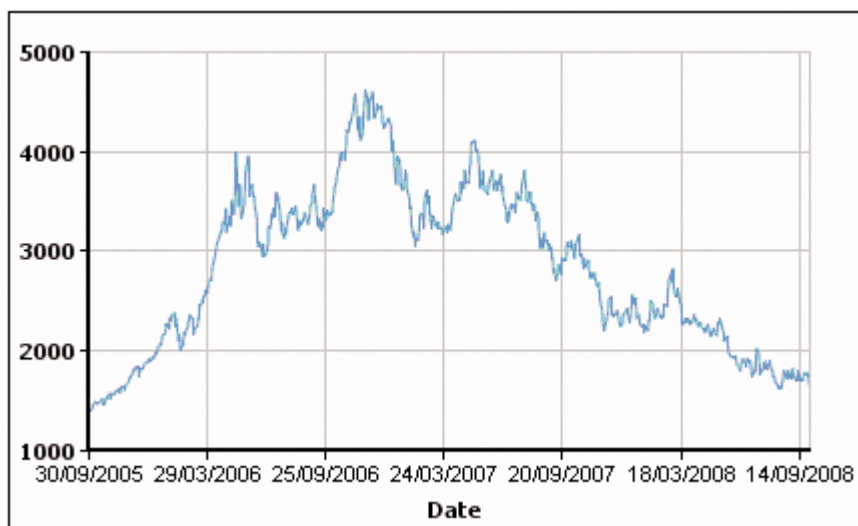
APPENDIX VI**VALUATION OF THE EXCLUSIVE MINING
RIGHTS OWNED BY THE PRC MINING COMPANY**

According to the forecast from Antailke, a research agency, in August 2006, China may need 4.8 million metric tons of zinc by the end of the decade from 3.08 million tins in 2005. The imported zinc and zinc-related product kept increasing in recent years as follow:

Year	2002	2003	2004	2005	2006
Imported amount (in million US\$)	312	418	653	1,006	1,580

Source: National Bureau of Statistics of China

The following graph indicated the price trend of zinc price (in US\$/ton) from September 2005 to September 2008.



Source: From London Metal Exchange

Lead

According to the U.S. Geological Survey, during 2007, the estimated world use of lead increased by 4% in which much of the growth was attributed to the automotive, telecommunications, and information technology sectors. The world production of lead mine in 2007 was estimated of 3.55 million metric tons in which over 37% of it was come from China. While the lead mine reserve of Australia is the largest in the world, lead mine production was account for about 18% of the world production. The table below indicated the world production of lead in recent years.

Year	2003	2004	2005	2006	2007
Production (in million metric tons)	2.95	3.15	3.27	3.47	3.55

Source: U.S. Geological Survey, Mineral Commodity Summaries, 2008

Increased in lead production are anticipated in the near future in Canada, China, India, and several European countries.

The following graph indicated the price trend of lead (in US\$/ton) from September 2005 to September 2008.



Source: London Metal Exchange

Gold

Gold is one of the most well known metals in the world. It may have been the first metal used by humans. It occurs as nuggets or grains in rocks, underground “veins” and in alluvial deposits. Since the 1880s, South Africa has been the source for a large proportion of the world’s gold supply, with about 50% of all gold ever produced having come from South Africa. At its highest in 1970, the production of gold from South Africa accounted for 79% of the world supply, producing about 1,000 tons. The other major producers are United States, Australia, China, Russia and Peru. The world’s oceans also hold a vast amount of gold, however in very low concentrations. The table below gives the figures for the world production of gold in recent years.

Year	2003	2004	2005	2006	2007
Production (in metric tons of gold content)	2,550	2,430	2,470	2,460	2,500

Source: U.S. Geological Survey, Mineral Commodity Summaries, 2008

Due to the strengthening of the South African currency, rand, several gold mines in South Africa had to curtail expansion operations and reduce gold production. In the United States, domestic mine output continued to be dominated by Nevada, where production accounted for about 80% of the U.S. total. In a recent assessment of U.S. gold resources, 33,000 tons of gold in identified and undiscovered resources. However, the gold resources in the U.S. are only a small portion of global gold resources.

China's gold production has risen significantly in recent years to an output of over 200 tons per year. It ranks third largest producer of gold in the world. Most of China's production comes from small, underground mines working vein deposits with little mechanization or infrastructure.

Historically, gold has been considered one of the safest investments in the world. It is unusual in that it is both a commodity and a monetary asset. All the gold that has ever been mined still exists above ground in some form or another and the majority of above-ground stocks could easily be mobilized. Therefore, any upward movement of price is often met by the resale of above-ground stock. This is one of the reasons why the gold price is historically less volatile than most of the other commodity prices. Annual demand for gold falls into three main categories with the jewelry market being the largest which was worth \$ 40 billion in 2005. The other two categories are industrial demand in the electronic sector and investment demand.

Below is a chart showing the growth of gold price since 30 September 2005.



Source: Bloomberg

Comparing to the last year, the price of most of the metals has been dropped significantly. Risk in capital market has also been increased during the second half of 2008.

Valuation Procedures Adopted

In performing the valuation of the Appraised Asset, we have adopted the following procedures which were agreed with the management of the Company before the engagement. They were:

- To prepare and submit a list(s) of required document and information regarding the Controlled Property during the course of valuation. The completeness of our evaluation depends on the availability of the required information being supply by the management of the Company or its appointed personnel.

- To read and based on the content of the supplied material such as product information, market information and financial information and its related materials such as historical geological studies, explanatory statements and relevant correspondence to arrive at our conclusion. In the course of our valuation, we will assume the information that in the materials is correct and we will only verify the provided information when and where possible. However, we will not ascertain the correctness of the information contained in the materials like an auditor in giving an audit opinion.
- To hold discussions with relevant personnel in order to have a better understanding on the Controlled Property and the Appraised Asset.
- To base on the latest inspection record of the Controlled Property to have an understanding on the general environment of the Controlled Property. The purpose of our latest inspection was not to have a full scope investigation on the quantity and the quality of the subject as contained in the materials provided to us; rather, it was designed to give the valuer(s) a better understanding of the subject as contained in the materials provided.
- To conduct appropriate research and technical consultation in order to obtain sufficient information for arriving at our conclusion. The extent of research and consultation is at our discretion.
- To value the Appraised Asset using the appropriate premise of value and method(s).
- To document our findings in our appraisal report.

The Basis of Valuation and Assumptions

The Appraised Asset is valued on the basis of market value in continued use and as part of a going concern business of Sifa Mining. The continued use premise assumes that the Appraised Asset will be used for the purpose for which the Appraised Asset was conceived or is currently used. Implicit in this definition is the fact that the willing buyer would not pay more to acquire the Appraised Asset than he could reasonably expect to earn in the future from an investment in the Appraised Asset.

Our valuation has been made on the assumption that, as at the date of report,

1. the legally interested party in the Controlled Property has free and uninterrupted rights to use or assign the interests of the Appraised Asset for the whole of the unexpired terms as granted and any premiums/administrative costs payable have already been fully paid;

2. the subject Mining Operation Permit can be renewed after September 2012 from time to time in order to achieve the planned extraction phase (see Note), say 50 years, and the business. This assumption was made based on the Legal Opinion on the《湖北省採礦權出讓合同》(translated as “Hubei Province Mining Right Transfer Agreement”) dated 28 May 2008 between Sifa Mining and the Department of Land and Resources of Hubei Province, the PRC, which stated that the contractual term of the mining right is 25 years and upon expiration, Sifa Mining can apply for the extension of the subject agreement for another term if they can prove the mine is not yet depleted. The Legal Opinion further stated that upon expiration of the current Mining Operation Permit, Sifa Mining can apply for the extensions in accordance with the Hubei Province Mining Right Transfer Agreement, provided that Sifa Mining is in compliance with the legal requirements;
3. the subject Enterprise Legal Person Business License is able to renew from time to time in order to achieve the planned extraction phase as stated in 2. above;
4. the legally interested party in the Controlled Property successfully complete the subsequent development program and are able to obtain the expected result within the planned extraction phase by using the Appraised Asset as part of its going concern business;
5. the subsequent feasibility studies and governmental endorsement confirmed the quality and quantity discovered during the mine development stage under various reserve classification systems commonly adopt in the world or in China (the Solid Minerals Resource Classification (GB/T17766-1999));
6. all required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can readily be obtained or renewed on which the valuation contained in our report are based;
7. there will not be material changes in government policies or political, legal (including legislation or regulations or rules), fiscal (including interest rate and exchange rate), market or economic conditions, the bases or rates of taxation in the PRC, where the Controlled Property is situated;
8. the contractors of the legally interested party in the Controlled Property successfully develop the Controlled Property as planned, and is able to mine, to transport and to process the predicted products and that the legally interested party in the Controlled Property is able to sell the predicted products to its clientele at market price as projected;

Note: According to GN 14 of the IVS, “The Minerals Industry generally has a planned extraction phase, though this phase is often extended through Minerals Reserve additions. Once extraction is completed, no more known economically recoverable asset remains in place at that time”.

9. the Appraised Asset successfully yielded the economic benefits as projected in the financial projection as provided by the management of the Company and Sifa Mining;
10. the prospective earnings would provide a reasonable return to the legally interested party in the Appraised Asset and that the legally interested party in the Appraised Asset has adequate working capital to implement the scheduled mining operations from time to time;
11. the legally interested party in the Appraised Asset has adopted reasonable and necessary security measures and has considered several contingency plans against any disruption (such as fire, change of government policy, labour dispute, implementation of serious statutory mining safety measures, geologic formation structurally deformed, soil erosion and other types of unexpected accident or natural disasters of catastrophes) to the scheduled mining operations; and
12. the Appraised Asset, as part of a going concern business of Sifa Mining, can be freely disposed and transferred free of all encumbrances for its existing or approved uses in the market to both local and overseas purchasers without payment of any premium to the government.

Should this not be the case, it will have adverse impact to the reported findings and conclusion herein.

Factors Considered in the Valuation

Unless otherwise stated, the valuation of the Appraised Asset has taken account of all pertinent factors affecting the Appraised Asset and its ability, if renewed successful, to generate future investment returns as part of a going concern business of the existing legally interested party in the Controlled Property i.e. Sifa Mining. The factors considered in the appraisal included, but were not limited to, the following:

- the nature and the characteristics of the Controlled Property such as the historical background and the ground work to develop the Controlled Property;
- the use of the Appraised Asset as part of a going concern business of the existing legally interested party in the Controlled Property;
- the cost and financial information (including the historical and projected) as contained in various documents;
- technical review of the mining operations and resource/reserve estimation by various technical experts;
- projected future results (including but not limited to the estimation of extraction tonnes, metallic grade and recovery rate) based on assumptions made by the appointed personnel from Sifa Mining;

- the nature of the Appraised Asset such as the remaining life and its characteristics;
- the nature and the going concern business of Sifa Mining in the Controlled Property;
- the existing legally interested party in the Appraised Asset is able to renew the subject Mining Operation Permit after the expiration date from time to time and be part of a going concern business of the existing legally interested party in the Controlled Property;
- the quality of the mining facilities;
- the capability of the existing contractors in the Controlled Property to develop the Controlled Property and its subsequent operations;
- the capability and determination of the contractors in the Controlled Property to follow the planned development schedule as imposed by Sifa Mining from time to time;
- the capability and determination of Sifa Mining to maintain its existing clientele and its expansion in the future;
- the capability and determination of Sifa Mining to continue the existing marketing strategy of its predicted product, if successful mined and processed;
- the capability and determination of the contractors in the Controlled Property to construct and implement the scheduled production process to extract ores for processing as predicted;
- the capability and determination of the contractors in the Controlled Property and Sifa Mining to follow the government and industry management quality standards and to review/up-lift its standards to catch the industry need from time to time;
- the capability and determination of the contractors in the Controlled Property and Sifa Mining to protect its mining operations against any disruption of the normal operation of the Controlled Property;
- the capability and determination of the contractors in the Controlled Property to maintain a cost effective and stable supply chain of the materials to produce its predicted products;
- the capability and determination of Sifa Mining to maintain an experienced management team as part of its going concern business to supervise the contractors;
- the capability and determination of the legally interested party in the Appraised Asset to provide a workable platform by using the Appraised Asset to the contractors to earn their economic income from time to time;
- the economic and industry data affecting the Controlled Property and the mineral extraction industry in China;

- the market-derived investment returns of similar business; and
- the risks facing the operations of the Controlled Property and the Appraised Asset as part of a going concern business of Sifa Mining.

Approach to Value

In the process of valuing the Appraised Asset, we have considered the classical appraisal approaches to value, namely the Cost Approach (termed Asset-based Approach for business valuations), the Sales Comparison Approach (termed Market Approach for business valuations) and Income Approach (including market-related discounted cash flow) as stipulated in the relevant guidance notes of the IVS. While some intangible assets are readily appraised by all three approaches, certain approaches provide more reliable results than others for particular type of intellectual property. With regards to the Appraised Asset, the Income Approach is often considered to include the more widely accepted methods and procedures for achieving a reliable value.

The Cost Approach seeks to estimate the market value of an intangible asset by quantifying the amount of money that would be required to replace the income producing capability of the intangible asset. In other words, this approach assumes that the intangible asset's value is indicated by the cost of developing or acquiring it. The disadvantage of this approach is, in many instances, will understate the value of an intangible asset as it does not take into consideration the stunning market potential and future growth of the industry and business, the owner's or operator's business model, and the impact of its management's abilities. We have considered this approach as the least applicable approach as it is difficult to assess the replacement cost of the Appraised Asset and the value of the expertise used in developing the Appraised Asset since 1950's.

The Sales Comparison Approach establishes value based on recent sales or licensing of comparable assets. In the valuation of an intangible asset, similar assets recently sold or currently offered for sale are analysed and compared with the intangible asset being valued. Since intangible asset is typically highly specialised, finding good market comparables is often difficult. Ipso facto, financial details of sale or licensing transactions are rarely disclosed as licenses are private legal agreements that are generally not transferable unless occurring as a part of a complete business transfer. However, details of these transactional data and the basis are seldom made available to the public through public domains. Under such circumstances, we have not relied on the Sales Comparison Approach in our estimate of the market value of the Appraised Asset due to insufficient supporting data (market-based transactional information, in this instance).

The Income Approach focuses on the income producing capability of an intangible asset. In other words, the value of an intangible asset is estimated as the present value of the future economic income attributable to the ownership of the intangible asset over its expected remaining useful life. Based on this valuation principle, the Income Approach estimates the future economic benefits and discounts or capitalises these benefits to its present value using a discount rate or capitalisation rate suitable for the risks associated with realising those benefits. In our opinion, this approach is the most appropriate in valuing the Appraised Asset since a rational buyer normally will purchase an asset only if the

present value of the expected economic benefits is at least equal to the purchase price. Likewise, a rational seller normally will not sell if the present value of the expected economic benefits is more than the selling price. Thus, a sale generally will occur only at an amount equal to the economic benefits of the Appraised Asset.

Valuation Methodology

In choosing the Income Approach as the most appropriate approach, we have used the Discounted Cash Flow (“DCF”) analysis to identify the indication value of the Appraised Asset. The DCF analysis is designed to serve the purpose of valuating the total sum of money to be received during the useful life of an asset by investing certain amount of capital after considered the time value of money (see Note). The use of DCF analysis reflects investment criteria and requires the valuer to make empirical and subjective assumptions.

In considering the DCF analysis as the most appropriate method to assess the value of the Appraised Asset, we have used the Net Present Value (“NPV”) technique. By using this technique, the expected net cash flows (after deducting from net income, the capital expenditures and net changes in working capital and the addition of depreciation) generated from the Appraised Asset are set out year by year till the end of the expected extraction phase and brought to a present value by use of present value factors at the appropriate rate. In constructing the cumulative present value table, positive present values are netted off against deficit present values so as to arrive at the “net present value”.

The NPV is the difference between the present values of project benefits and project costs. The NPV is computed using the following formula (for illustration purpose):

$$NPV = \sum_{i=0}^n \frac{b_i - c_i}{(1+r)^i}$$

Where b_i = benefits in period i
 c_i = costs in period i
 r = discount rate
 n = discounting period
 i = Period

The first step of the valuation is to estimate the economic income projection. The projections of the future revenues used in this valuation are prepared by the appointed personnel and provided by the management of the Company and Sifa Mining with reference to historical and current data, and they are responsible for the assumptions upon which the projections are based. Having discussed with the appointed personnel, we understood that the assumptions adopted by them reflected their judgment of the ability of the Appraised Asset to generate from the market. The appointed personnel confirmed to us that they have had due regard to published research data, current industry conditions and relevant

Note: The time value of money is based on the premise that one will prefer to receive a certain amount of money today than the same amount in the future, all else equal.

experience, and they attested that the supplied data are accurate and reasonable. We are given to understand that it represented the most likely result to be made by Sifa Mining via contractors in developing and operating the Controlled Property. These data have been utilised without further verification.

The next step is to estimate the appropriate present value factor i.e. discount rate. Discount rate equals cost of capital. The cost of capital represents investors' expectations and for any given investment is a combination of three basic factors, namely the risk-free rate, the expected inflation and a premium for risk. There are many ways to estimate the discount rate such as the Build-up Model, the Capital Asset Pricing Model and the Arbitrage Pricing Model for equity investment and the Weighted Average of Cost of Capital for normal investment. The use of the appropriate model in each analyse depends on numerous factors, in particular the future capital structure of the investment. There is no universal model that applies to all cases. In this engagement, we have considered the Weighted Average Cost of Capital ("WACC") which is common in valuing a forward looking investment.

The WACC Model is an average representing the expected return on all of a company's capital. Each source of capital, such as stocks, bonds, and other debt, is assigned a required rate of return, and then these required rates of return are weighted in proportion to the share each source of capital contributes to the company's capital structure. The resulting rate is what the firm would use as a minimum for evaluating a capital project or investment (extracted from investorwords.com for readers' easy understanding).

The WACC is computed using the following formula (for illustration purpose):

$$\text{WACC} = P_e \times R_e + P_l \times R_l$$

Where P_e = percentage of equity investment to total capital funds

P_l = percentage of loaned funds

R_e = opportunity cost of capital of equity funds

R_l = effective cost of loaned funds

In estimating the WACC in our valuation, we have adopted a market-derived WACC of similar publicly traded companies in the stock exchange of China where the Controlled Property and Sifa Mining are operating, they can form a reliable representative industry of mineral extraction business. The similar companies are: Tibet Mineral Development Co., Ltd., Yunnan Chihong Zinc & Germanium Co., Ltd., Shenzhen Zhongjin Lingnan Nonfermet Company Limited, TianJin Good Hand Railway Holding Company Ltd., Zhongjin Gold Co., Ltd., Shandong Gold-Mining Co., Ltd., Guizhou Redstar Development Company Limited and Qinghai Jinrui Mineral Development Co., Ltd.

APPENDIX VI
VALUATION OF THE EXCLUSIVE MINING RIGHTS OWNED BY THE PRC MINING COMPANY

Name of the Listed Companies	Market Capitalisation (RMB in million)	Weighting	WACC	Weighted Average WACC
Shenzhen Zhongjin Lingnan Nonfermet Company Limited	10,678.15	0.2072	19.19%	3.98%
TianJin Good Hand Railway Holding Company Limited	1,610.41	0.0313	18.59%	0.58%
Yunnan Chihong Zinc & Germanium Co., Ltd.	9,063.60	0.1759	17.10%	3.01%
Tibet Mineral Development Co., Ltd.	2,462.00	0.0478	19.69%	0.94%
Zhongjin Gold Co., Ltd.	12,110.77	0.2350	18.13%	4.26%
Shandong Gold-Mining Co., Ltd.	13,440.92	0.2609	16.10%	4.20%
Guizhou Redstar Developing Company Limited	1,557.92	0.0302	18.79%	0.57%
Qinghai Jinrui Mineral Development Co., Ltd.	600.73	0.0117	15.65%	0.18%
	<u>51,524.50</u>	<u>1.00</u>		<u>17.72%</u>

** Due to rounding process, the figures will be different from the actual worksheet.*

Source: From Bloomberg, at September 2008

We take the view that cost of capital in a capital investment is forward looking, same as the capital investment itself. Thus, we need to take into consideration of the capital structure of the investment in the future to determine its required cost of capital i.e. discount rate. We have cross reference our finding to the WACC of the Company, for the capital structure of Sifa Mining will be tied up with the Company upon completion of the sale. From the Bloomberg, we noted that the WACC of the Company is 6.97% which reflected the cost of capital required for the Company as a handset retailer. Having considered the possible risks of the mining business to the Company upon completion of the sale of Sifa Mining as a subsidiary of the Company, an additional risk premium of, say 3.65% was added to the existing Company's WACC to reflect the risk to be faced by the Appraised Asset as part of a business of Sifa Mining, which in future, will become part of a business of the Company. Thus, a reference WACC of 10.62% has been used in our consideration. We take the view that the WACC of the Appraised Asset shall be situated between the Company's WACC and the representative industry WACC.

For the estimation of the inflation rate and long-term growth rate, we have made reference to the Hubei Province economy (of which Sifa Mining and the Controlled Property are incorporated and operating), China's economy and the lead, zinc and strontium ores markets in China. Having considered the quantity and quality of available data, and each analysed method in providing a valid indication of discount rate, we have, therefore, assigned a discount rate of 14.17% (rounding) in the appraisal.

APPENDIX VI**VALUATION OF THE EXCLUSIVE MINING
RIGHTS OWNED BY THE PRC MINING COMPANY**

We have conducted an analysis on different growth rate of prices of the products Sifa Mining is producing by using the Appraised Asset. The range of the price growth rate adopted was 3% to 5%, starting from 2011. The analysed result is shown as follows:

Value of the Appraised Asset Under Different Prices Growth Rate

	Growth Rate	Indicated Market Value (RMB, million)
Lowest Estimate	3.00%	547
Medium Estimate	4.00%	621
Highest Estimate	5.00%	707

Matters that Might Affect the Value Reported

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the Appraised Asset. Also, no allowance has been made in our valuation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the Appraised Asset. Unless otherwise stated, it is assumed that the Appraised Asset is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

As at the Latest Practical Date of this circular, we were unable to identify any adverse news against the Appraised Asset or Sifa Mining which may affect the reported value in our report. Thus, we are not in the position to report and comment on its impact (if any) to the Appraised Asset. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the value reported herein.

Inspections and Investigations

Based on our latest inspection record, we cannot express an opinion about or advice upon the condition of uninspected parts and our report should not be taken as making any implied representation or statement about such parts. No structural survey, investigation, test or examination had been made in our latest inspection, but in the course of our inspections we did not note any serious defects in the sections inspected. We are not, however, able to report that the Controlled Property is free from rot, infestation or any other defects. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our valuation has been made on the assumption that no unauthorised alteration, extension or addition has been made in the Controlled Property, and that the inspection and the use of our report do not purport to be a structural survey of the Controlled Property, in particular the adits. We have assumed that the Controlled Property is free of rot and inherent danger or unsuitable materials and techniques.

If the management of the Company is proposing to purchase the Controlled Property or its related assets and wants to satisfy them as to the condition of it, then the management of the Company should obtain a third party surveyor's detailed inspection and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

We have not carried out on-site measurements to verify the correctness of the areas, the coordinates or the elevations of the Controlled Property, but have assumed that the figures shown on the documents, in particular the *Final Report of Surveying the Resource Reserve in the Mining Area of Mt. Shizili Supplement* and handed to us are correct. All dimensions, measurements and areas are approximations.

Our engagement and the agreed procedures to value did not include an independent land survey to verify the legal boundaries of the Controlled Property. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of the Controlled Property that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the Controlled Property should conduct their own legal boundaries due diligence work.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the Controlled Property and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the Controlled Property. We have not carried out any investigation into past or present uses, either of the Controlled Property or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the Controlled Property from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the Controlled Property or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might affect the conclusion now reported. Also, we made no comments on the environmental impact of the design of the mining facilities and the mining operations which was silent in the documents provided though a Sewage and Waste Disposal Permit was granted to the Controlled Property.

Sources of Information and its Verification

For the purpose of this appraisal, we were furnished with various copies of documents related to this appraisal and these copies have been referenced without further verifying with the relevant bodies and/or authorities. We need to state that we are not attorney of laws by nature, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company. In our valuation, we have assumed that the Appraised Asset is able to sell and purchase in the market without any legal impediment (especially from the regulators). Should this not be the case, it will affect the reported value significantly. The readers are reminded to have their own legal due diligence work on such risks. No responsibility or liability is assumed.

Our procedures to value did not include undertaking a feasibility study of the proposed expansion of the mining operations or the Controlled Property. Accordingly we do not express an opinion as to the merit or demerit of any future expansion (if any).

Unless otherwise stated, we have not carried out a valuation on a redevelopment basis on the Controlled Property and the study of possible alternative development options and the related economics do not come within the scope of our report.

We are not contracted to conduct a due diligence to review the existing mineral extraction industry and the official policy on granting out mining rights in China. In the course of valuation, we have solely depended on the advice given by the management of Sifa Mining via the Company. We are unable to accept any responsibility for the reliability of the advice.

Also, we are not contracted to conduct a detailed geological study or mine plan, thus, our report is not a detailed evaluation of the feasibility of the Controlled Property. In the course of the valuation, we have solely depended on the advice given by the management of Sifa Mining via the Company. We are unable to accept any responsibility for the reliability of the advice.

Our engagement did not include an independent geological survey to verify the information provided. Since we are not the authorised person to conduct geological survey in China and the enormous resources required in conducting a detailed inspection and survey, we were further instructed to conduct our valuation based on the information given in the various reports or explanatory statements. We are unable to accept any responsibility for the reliability of the information given in these documents.

When we adopted the work products from other professions, external service/data providers and/or the management of Sifa Mining via the Company in our valuation, the assumptions and caveats adopted by them in arriving at their opinions also apply in our valuation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our valuation.

We are unable to accept any responsibility for the information that has not been supplied to us by the management of Sifa Mining via the Company. We have sought and received confirmation from the management of the Company that no material factors have been omitted from the information supplied. The valuation is based upon the assumption of full disclosure between the Company and us of material and latent facts that may affect the appraisal. No responsibility is assumed for withheld information (if any).

Unless otherwise stated, the base currency of our report is Renminbi Yuan (“RMB”).

Limiting Conditions of This Report

This report is provided strictly for the sole use of the Company. Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in this circular for the Company’s shareholders’ reference.

Our opinion of value in this report is valid only for the stated purpose and only for the Date of Valuation. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or financial condition or other conditions, which occur subsequent to the date hereof.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of our services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

Opinion of Value

Based on the investigation, analysis, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that as at the Date of Valuation, the market value of the Appraised Asset as part of a going concern business of Sifa Mining (before taking into consideration any transaction costs), is reasonably stated in the range of **RENMINBI FIVE HUNDRED AND FORTY SEVEN MILLION YUAN to RENMINBI SEVEN HUNDRED AND SEVEN MILLION YUAN (RMB547,000,000 to RMB707,000,000).**

Statements

Our opinion of value is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the appraisal, the readers are urged to consider carefully the nature of such assumptions which are disclosed in our report and should exercise caution in interpreting our report.

Our valuation is prepared in line with the guidelines as contained in the IVS. The valuation has been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuation.

We retain a copy of our report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of our report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of value and we have no present nor prospective interest in the Appraised Asset, the Company, Sifa Mining or the value reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Joseph Ho Chin Choi *BSc PgD RPS (GP)*
Managing Director

Contributing professional and semi-professional members in the report:

Elsa Ng Hung Mui *BSc MSc RPS (GP)*

Terry Fung Chi Hang *BSc*

Sam Lai Siu Nam *BBA*

Notes:

- 1 *Mr. Joseph Ho Chin Choi has been conducting asset valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Australia, Scotland, Finland, Germany, Guyana, Canada and the United States of America for various purposes since 1988. He obtained the Examination Certificate of the Uniform Standards of Professional Appraisal Practice issued by the American Society of Appraisers in 1996. He has extensive experience in the valuation of various types of intangible assets and power plants, toll road, health products and foodstuffs, coking coal plant, agricultural property assets, financial services, luxurious consumer goods, pharmaceutical and biotechnology, electronic consumer products manufactory, semiconductors, mineral resources, telecommunication, media and information technology related businesses for the listed companies in Hong Kong, Taiwan, mainland China, Malaysia, Singapore, Canada and the United States of America. At present, he is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the Hong Kong Institute of Surveyors ("HKIS").*
- 2 *Ms. Elsa Ng Hung Mui has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 9 years of experience in valuing properties in mainland China. She obtained a Master Degree of Science in Finance and involved in various financial assets valuations in the past years. At present, she is a valuer in the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS. Over the length of her valuation experience, she has valued and managed the valuation of a number of mineral resources projects for fund raising, financial reporting and initial public offering in Singapore and in Hong Kong.*

- 3 *Mr. Terry Fung Chi Hang is a graduate surveyor who has been involved in valuation of real estate properties both in Hong Kong and in mainland China for more than 2 years. He obtained a Bachelor Degree in Estate Management and involved in various assets valuations, mine valuation and agriculture property assets valuation.*
- 4 *Mr. Sam Lai Siu Nam has been conducting business enterprise, financial and intangible asset valuations in Hong Kong since graduation in 2006. He has experiences in valuing a wide variety of financial assets such as employee stock option, convertible bond, equity-linked note and financial guarantee contract and business enterprises such as mining, forestry, property development, toll road and commercial retail business for purposes like merger and acquisition, disposal and annual accounting.*

The following is the text of the letter, summary of valuer and valuation certificate on the market values of the properties held by the Enlarged Group as at 31 October 2008 prepared by LCH (Asia-Pacific) Surveyors Limited for the purposes of inclusion in this circular.



利駿行測量師有限公司

LCH (Asia-Pacific) Surveyors Limited

CHARTERED SURVEYORS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

The readers are reminded that the report which follows has been prepared in accordance with the guidelines set by the International Valuation Standards, Eighth Edition, 2007 (hereinafter referred to as “IVS”) published by the International Valuation Standards Committee and the HKIS Valuation Standards on Properties, First Edition, 2005 (hereinafter referred to as “HKIS Standards”) published by the Hong Kong Institute of Surveyors (hereinafter referred to as “HKIS”). Both standards entitle the valuer to make assumptions which may on further investigation, for instance by the readers’ legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. If additional documents and facts are made available, the valuer reserves the right to amend this Valuation and its conclusion.

17th Floor
Champion Building
287-291 Des Voeux Road Central
Hong Kong

29 January 2009

The Directors

China Fortune Holdings Limited
Rooms 1505-1507 on the 15th Floor
Tower A of Regent Centre
63 Wo Yi Hop Road
Kwai Chung, New Territories
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of China Fortune Holdings Limited (hereinafter referred to as the “Company”) and its subsidiaries (hereinafter together with the Company referred to as the “Group”) to us to value certain properties in which the Group and 黃石鋸發礦業有限公司 (translated as Huangshi Sifa Mining Company Limited and hereinafter referred to as the “PRC Mining Company”, together with the Group referred to as the “Enlarged Group”) have interests in Hong Kong and the People’s Republic of China (hereinafter referred to

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

as the “PRC” or “China”), we confirm that we have made relevant enquiries and obtained such further information as we consider necessary to support our opinion of values of the properties as at 31 October 2008 (hereinafter referred to as the “Date of Valuation”) for the Company’s internal management reference purpose.

We understand that the use of our work product (regardless of form of presentation) would form part of the Company’s business due diligence to the properties and we have not been engaged to make specific sale or purchase recommendations. We further understand that the use of our work product will not supplant other due diligence which a rational investor should conduct in reaching business decisions regarding the properties. Our findings and conclusion in this valuation are documented in a valuation report and submitted to the Company at today’s date.

At the request of the management of the Company, we prepared this summary report (including this letter, a summary of values and the valuation certificate) to summarise our findings and conclusion as documented in the valuation report for the purpose of inclusion in this circular at today’s date for the Company’s shareholders’ reference. Terms herein used without definition shall have the same meanings as in the valuation report, and the assumptions and caveats adopted in this summary report also apply to the valuation report.

BASIS OF VALUATION AND ASSUMPTIONS

According to the IVS and the HKIS Standards, there are two valuation bases, namely market value basis and valuation bases other than market value. In this engagement, our opinion of values of the properties are on the market value basis.

The term “Market Value” is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

Properties in respect Group I and Group II held under operating lease in Hong Kong and in the PRC have no commercial values due mainly to the short-term nature of the tenancy agreements or prohibition against assignment or sub-letting or lack of substantial profit rents. For property in Group III, no commercial value was assigned in the absence of long-term title certificate of the land use right.

MATTERS THAT MIGHT AFFECT THE VALUES REPORTED

No allowance has been made in our valuations for any charges, mortgages, outstanding premium or amounts owing on the properties. Unless otherwise stated, it is assumed that the properties are free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect their values.

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

As at the Latest Practicable Date of this circular, we were unable to identify any adverse news against the properties which may affect the reported values in our work product. Thus, we are not in the position to report and comment on its impact (if any) to the properties. However, should it be established subsequently that such news did exist at the Date of Valuation, we reserve the right to adjust the values reported herein.

ESTABLISHMENT OF TITLES

Due to the market value basis of valuation, the management of the Company provided us the necessary documents to support that the legally interested parties in the properties have free and uninterrupted rights to assign, to mortgage or to let the properties (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full or outstanding procedures have been completed. However, our procedures to value, as agreed with the management of the Company, did not require us to conduct legal due diligence on the legality and formality on the way that the legally interested parties obtained the properties from the relevant authorities.

For the sake of valuation, we have been provided with lease agreements regarding the properties. However, we have not examined the original documents to verify the ownership and encumbrances or to ascertain the existence of any lease amendments, which may not appear on the copies handed to us. All documents disclosed (if any) are for reference only and no responsibility is assumed for any legal matters concerning the legal title and the rights (if any) to the properties valued. Any responsibility for our misinterpretation of the documents cannot be accepted. For properties in Group II and Group III, the inherent defects in the land registration system of China forbidden us to inspect the original documents of the properties filed in the relevant authorities to verify ownership or to verify any amendment which may not appear on the copies handed to us. We need to state that we are not legal professionals and are not qualified to ascertain the titles and to report any encumbrances that may be registered against the properties.

INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES IN ACCORDANCE WITH VS4 OF THE HKIS STANDARDS

As part of our agreed-upon procedures, we have inspected some of the properties and made reference to our previous inspection records in respect of which we have been provided with such information as we have requested for the purpose of our valuations. We have not inspected those parts of the properties which were covered, unexposed or inaccessible and such parts have been assumed to be in reasonable condition. We cannot express an opinion about or advice upon the condition of the properties and our work product should not be taken as making any implied representation or statement about the condition of the properties. No structural survey, investigation or examination has been made, but in the course of our inspections, we did not note any serious defects in the properties inspected. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to the utilities (if any) and we are unable to identify those utilities covered, unexposed or inaccessible.

We have not carried out on-site measurements to verify the correctness of the areas of the properties, but have assumed that the areas shown on the documents and handed to us are correct. All dimensions, measurements and areas are approximations.

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Our engagement and the agreed procedures to value the properties did not include an independent land survey to verify the legal boundaries of the properties. We need to state that we are not in the land survey profession, therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries of such properties that appeared on the documents handed to us. No responsibility from our part is assumed. The management of the Company or interested party in the properties should conduct their own legal boundaries due diligence work.

SOURCES OF INFORMATION AND ITS VERIFICATION IN ACCORDANCE WITH VS5 OF THE HKIS STANDARDS

We have relied solely on the information provided by the management of the Company or its appointed personnel without further verification and have fully accepted advice given to us on such matters as planning approvals or statutory notices, locations, titles, easements, tenure, occupation, lettings, rental, site and floor areas and all other relevant matters.

The scope of valuations has been determined by reference to the property list provided by the management of the Company. All properties on the list have been included in our valuations. The management of the Company has confirmed to us that it has no property interests other than those specified on the list supplied to us.

Unless otherwise stated, we have not carried out any valuation on a redevelopment basis and the study of possible alternative development options and the related economics do not come within the scope of our work product.

Our valuations have been made only based on the advice and information made available to us. While a limited scope of general inquiries had been made to the local property market practitioners, we are not in a position to verify and ascertain the correctness of the advice given by the relevant personnel. No responsibility and liability is assumed.

Information furnished by others, upon which all or portions of our work product are based, is believed to be reliable but has not been verified in all cases. Our procedures to value or work do not constitute an audit, review, or compilation of the information provided. Thus, no warranty is made nor liability assumed for the accuracy of any data, advice, opinions, or estimates identified as being furnished by others which have been used in formulating our work product.

When we adopted the work products from other professions, external data providers and the management of the Company in our valuations, the assumptions and caveats that adopted by them in arriving at their figures also applied in our valuations. The procedures we have taken do not provide all the evidence that would be required in an audit and, as we have not performed an audit, accordingly, we do not express an audit opinion.

To the best of our knowledge, all data set forth in the attached valuation certificate are true and accurate. Although gathered from reliable sources, no warranty is made nor liability assumed for the accuracy of any data, opinions, or estimates identified as being furnished by others which have been used in formulating the attached valuation certificate.

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

We are unable to accept any responsibility for the information that has not been supplied to us by the management of the Company or its appointed personnel. Also, we have sought and received confirmation from the management of the Company or its appointed personnel that no materials factors have been omitted from the information supplied. Our analysis and valuations are based upon full disclosure between us and the Company of material and latent facts that may affect the valuations.

Unless otherwise stated, all monetary amounts are in Hong Kong dollars (HK\$).

LIMITING CONDITIONS OF THIS SUMMARY REPORT

Our opinion of values of the properties in this summary report is valid only for the stated purpose and only for the Date of Valuation, and for the sole use of the named Company. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this summary report, and the valuer accepts no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and local government policy and no obligation is assumed to revise the attached valuation certificate to reflect events or conditions, which occur or make known to us subsequent to the date hereof.

Neither the whole nor any part of this summary report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this summary report in this circular to the Company's shareholders' reference.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such losses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

STATEMENTS

The attached valuation certificate is prepared in line with the requirements contained in Chapter 5 and Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as well as the guidelines contained in the HKIS Standards. The valuations have been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuations.

We retain a copy of this summary report and the detailed valuation report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of this report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us.

The valuations of the properties depend solely on the assumptions made in this report and not all of which can be easily quantified or ascertained exactly. Should some or all of the assumptions prove to be inaccurate at a later date, it will affect the reported values significantly.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have no present nor prospective interest in the properties, the Enlarged Group or the values reported.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Joseph Ho Chin Choi BSc PgD RPS (GP)
Managing Director

Contributing valuers

Elsa Ng Hung Mui B.Sc. M.Sc. RPS (GP)

Terry Fung Chi Hang BSc

Note: Mr. Joseph Ho Chin Choi has been conducting asset valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Australia, Scotland, Finland, Germany, Guyana, Canada and the United States of America for various purposes since 1988. He obtained the Examination Certificate of the Uniform Standards of Professional Appraisal Practice issued by the American Society of Appraisers in 1996. He has extensive experience in the valuation of various types of intangible assets and power plants, toll road, health products and foodstuffs, coking coal plant, agricultural property assets, financial services, luxurious consumer goods, pharmaceutical and biotechnology, electronic consumer products manufactory, semiconductors, mineral resources, telecommunication, media and information technology related businesses for the listed companies in Hong Kong, Taiwan, Mainland China, Malaysia, Singapore, Canada and the United States of America. At present, he is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

SUMMARY OF VALUES**Group I — Properties occupied by the Enlarged Group under operating lease in Hong Kong and valued on market value basis**

Property	Amount of Valuations in its existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
1. Unit 1115 on 11th Floor of Tower A Regent Centre No.63 Wo Yi Hop Road Kwai Chung New Territories	No Commercial Value
2. Units 1505, 1506 and 1507 with 3 private water closets on 15th Floor of Tower A Regent Centre No.63 Wo Yi Hop Road Kwai Chung New Territories	No Commercial Value
	Sub-total: Nil

Group II — Properties occupied by the Enlarged Group under operating lease in the PRC and valued on market value basis

Property	Amount of Valuations in its existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
3. An office unit No. 313 on the 3rd Floor of Xinmao Building No. 2 Taichong Nan Road Shanghai Waigaoqiao Free Trade Zone Shanghai	No Commercial Value

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Amount of Valuations in its existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
4. An office unit No. 328 on the 3rd Floor of Xinmao Building No. 2 Taichong Nan Road Shanghai Waigaoqiao Free Trade Zone Shanghai	No Commercial Value
5. An office unit No. 346 on the 3rd Floor of Xinmao Building No. 2 Taichong Nan Road Shanghai Waigaoqiao Free Trade Zone Shanghai	No Commercial Value
6. An unit No. F2/G on the 8th Floor of Keji Jingxheng East Block located at No. 668 Beijing East Road Shanghai	No Commercial Value
7. Unit B1 on the 5th Floor Jinbaolu Commercial Plaza No.189 Zijing Road Xiangzhou District Zhuhai City Guangdong Province	No Commercial Value

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Amount of Valuations in its existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
8. A retail Unit No.44 on the Lower Ground Huayuanxincun Type C2 Yingbindadao Gongbei Xiangzhou District Zhuhai City Guangdong Province	No Commercial Value
9. Portion of China Resource Vanguard Department Store on the Level 2 of Zhuhai International Building Yingbinnanlu Gongbei Xiangzhou District Zhuhai City Guangdong Province	No Commercial Value
10. A retail unit on the Level 2 Zhuhai Special Economic Zone state-owned Foreign Currency Duty Free Emporium (currently known as Zhuhai Duty-Free Shop) No.220 Jidajingshanlu Zhuhai City Guangdong Province	No Commercial Value
11. A retail unit No.164 of Block No.5 Jinjing Garden Jida District Zhuhai City Guangdong Province	No Commercial Value

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Amount of Valuations in its existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
12. Retail units G23-G24 Tongluowan Shopping Mall No.220 Jidajingshanlu Xiangzhou District Zhuhai City Guangdong Province	No Commercial Value
13. A retail unit No.12 on the 1st Floor of Huaye Building No.2168 Qianshan Mingzhu Nanlu Xiangzhou District Zhuhai City Guangdong Province	No Commercial Value
14. A retail unit No.2 No.3048 Mingzhu Nanlu Xiangzhou District Zhuhai City Guangdong Province	No Commercial Value
15. A retail unit No.2 on the 1st Floor of Zhuhai Mingzhu Commercial Plaza (currently known as Qianshan Xinmei Department Stores) No.1389 Mingzhu Nanlu Zhuhai City Guangdong Province	No Commercial Value
16. Portion below the staircase which next to the east of sales room on the 1st Floor of Telecommunication Composite Building No.3 Chuxiang Mingzhu Nanlu Xiangzhou District Zhuhai City Guangdong Province	No Commercial Value

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Amount of Valuations in its existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
17. A retail unit No.135 Zijing Road Xiangzhou District Zhuhai City Guangdong Province	No Commercial Value
18. A retail unit on the 4th Floor Jinbaolu Commercial Plaza No.189 Zijing Road Xiangzhou District Zhuhai City Guangdong Province	No Commercial Value
19. A retail unit on the 1st Floor No.2 Huanping First Street Nanping Town Zhuhai City Guangdong Province	No Commercial Value
20. A retail unit No.B52 on the 4th Floor of Jiabaohua Digital Computer 1st Street Jinbaolu Commercial Plaza No.189 Zijing Road Xiangzhou District Zhuhai City Guangdong Province	No Commercial Value
21. A parcel of land located at Xia Lu District Gui Lin North Road Huangshi City Hubei Province	No Commercial Value
	Sub-total: <u>Nil</u>

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Group III — Property occupied by the Enlarged Group without long-term title certificate in the PRC and valued on market value basis

Property	Amount of Valuations in its existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
22. Two parcels of land together with office buildings erected thereon Huang Gu Ling Village Gui Lin North Road Huangshi City Hubei Province	No Commercial Value
	Sub-total: _____ Nil
	Grand Total: _____ Nil

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

VALUATION CERTIFICATE

Group I — Properties occupied by the Enlarged Group under operating lease in Hong Kong and valued on market value basis

Property	Description and occupancy	Amount of valuations in its existing state attributable to the Enlarged Group as at 31 October 2008 <i>HK\$</i>
1. Unit 1115 on 11th Floor of Tower A Regent Centre No.63 Wo Yi Hop Road Kwai Chung New Territories	The property comprises an industrial unit on the 11th Floor of a 25-storeyed industrial development which was completed in 1996. The property has a gross floor area of approximately 125.00 sq.m. According to a lease agreement dated 13 August 2008 and made between Winsor Parking Limited and Synergy Technologies (Asia) Limited, a subsidiary of the Company, the property was leased to Synergy Technology (Asia) Limited for a term of 1 year commencing from 1 August 2008 and expiring on 31 July 2009 at a monthly rental of \$11,264.40, exclusive of Rates, Government rent and management fee. The property is currently occupied by the Group for office purpose.	No Commercial Value

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
2. Units 1505, 1506 and 1507 with 3 private water closets on 15th Floor of Tower A Regent Centre No.63 Wo Yi Hop Road Kwai Chung New Territories	The property comprises 3 adjoining industrial units with 3 private water closets on the 15th Floor of a 25-storeyed industrial development which was completed in 1996. The property has a gross floor area of approximately 382.00 sq.m. According to a lease agreement dated 21 August 2008 and made between Cherichourt Company Limited and Express Fortune Limited, a subsidiary of the Company, the property was leased to Express Fortune Limited for a term of 1 year commencing from 1 August 2008 and expiring on 31 July 2009 at a monthly rental of \$36,141.60, exclusive of Rates, Government rent and management fee. The property is currently occupied by the Group for office purpose.	No Commercial Value

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Group II — Properties occupied by the Enlarged Group under operating lease in the PRC and valued on market value basis

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
3. An office unit No. 313 on the 3rd Floor of Xinmao Building No. 2 Taichong Nan Road Shanghai Waigaoqiao Free Trade Zone Shanghai	The property comprises an office unit on the Level 3 of a 3-storeyed office building which was completed in 1990's. The property has a gross floor area of approximately 26.00 sq.m. According to a tenancy agreement dated 2 November 2007 and made between Shanghai Waigaoqiao Free Trade Zone Xia Development Co. Ltd (上海市外高橋保稅區新發展有限公司) and 上海遠嘉國際貿易有限公司 (translated as Shanghai Yuanjia International Trading Limited), a subsidiary of the Company, an office unit was rented to Shanghai Yuanjia International Trading Limited for a term of 1 year commencing from 1 November 2007 and expiring on 9 December 2008 at an annual rental of RMB 39,858. We have inspected and confirmed by the Group that the property as at the date of valuation was occupied by the Group for office purpose.	No Commercial Value

Property	Description and occupancy	Amount of valuations in its existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
4. An office unit No. 328 on the 3rd Floor of Xinmao Building No. 2 Taichong Nan Road Shanghai Waigaoqiao Free Trade Zone Shanghai	The property comprises an office unit on the Level 3 of a 3-storeyed office building which was completed in 1990's. The property has a gross floor area of approximately 26.00 sq.m. According to a tenancy agreement dated 10 September 2008 and made between Shanghai Waigaoqiao Free Trade Zone Xia Development Co. Ltd (上海市外高橋保稅區新發展有限公司) and 長遠(上海)國際貿易有限公司 (translated as Fortune (Shanghai) International Trading Limited), a subsidiary of the Company, an office unit was rented to Fortune (Shanghai) International Trading Limited for a term of 1 year commencing from 1 September 2008 and expiring on 31 October 2009 at an annual rental of RMB 33,251. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for office purpose.	No Commercial Value

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
5. An office unit No. 346 on the 3rd Floor of Xinmao Building located at No. 2 Taichong Nan Road Shanghai Waigaoqiao Free Trade Zone Shanghai	The property comprises an office unit on the Level 3 of a 3-storeyed office building which was completed in 1990's. The property has a gross floor area of approximately 26.00 sq.m. According to a tenancy agreement dated 10 September 2008 and made between Shanghai Waigaoqiao Free Trade Zone Xia Development Co. Ltd (上海市外高橋保稅區新發展有限公司) and Shanghai Telefortune Trading Co. Ltd., a subsidiary of the Company, an office unit was rented to Shanghai Telefortune Trading Co. Ltd for a term of 1 year commencing from 1 August 2008 and expiring on 31 July 2009 at an annual rental of RMB 39,858. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for office purpose.	No Commercial Value

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
6. An unit No. F2/G on the 8th Floor of Keji Jingxheng East Block located at No. 668 Beijing East Road Shanghai	The property comprises an office unit on the Level 8 of a 26-storeyed building which was completed in 1998. The property has a gross floor area of approximately 236.32 sq.m. According to a tenancy agreement dated 18 March 2008 and made between 上海新黃浦置業股份有限公司 (translated as Shanghai Xinhuangpu Real Estate Shares Limited) and Shanghai Telefortune Trading Co. Ltd., a subsidiary of the Company, an office unit was rented to Shanghai Telefortune Trading Co. Ltd for a term of 1 year commencing from 1 April 2008 and expiring on 31 March 2009 at an annual rental of RMB 28,033. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for office purpose.	No Commercial Value

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
7. Unit B1 on the 5th Floor Jinbaolu Commercial Plaza No.189 Zijing Road Xiangzhou District Zhuhai City Guangdong Province The People's Republic of China	The property comprises an office unit and a warehouse on the 5th Floor of a 6-storeyed building which was completed in 1999. The property has a gross floor area of approximately 717.08 sq.m. According to a tenancy agreement dated 1 August 2007 and made between 珠海市鎮海有限公司 (translated as Zhuhai City Zhenhai Limited) and 珠海市雷鳴達通訊設備有限公司 (translated as Zhuhai Reminda Communication Equipments Limited), a subsidiary of the Company, an office unit was rented to Zhuhai Reminda Communication Equipments Limited for a term commencing from 1 August 2007 and expiring on 31 January 2020 at an annual rental of RMB 16,493, with rental increase of 5% on each year. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for office purpose.	No Commercial Value

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
8. A retail Unit No.44 on the Lower Ground Huayuanxincun Type C2 Yingbindadao Gongbei Xiangzhou District Zhuhai City Guangdong Province	The property comprises a retail unit on the Lower Ground of a 14-storeyed building which was completed in 1994. The property has a gross floor area of approximately 68.73 sq.m. According to a tenancy agreement dated 1 July 2007 and made between 鄺懷概 (translated as Kuang Huai Gai) and Zhuhai Reminda Communication Equipments Limited, a subsidiary of the Company, a retail unit was rented to Zhuhai Reminda Communication Equipments Limited for a term of 1 year commencing from 1 July 2008 and expiring on 30 June 2009 at a monthly rental of RMB 25,000. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for retail purpose.	No Commercial Value

APPENDIX VII**PROPERTY VALUATION OF THE ENLARGED GROUP**

		Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
Property	Description and occupancy	
9. Portion of China Resource Vanguard Department Store on the Level 2 of Zhuhai International Building Yingbinnanlu Gongbei Xiangzhou District Zhuhai City Guangdong Province	The property comprises a portion within Vanguard Department Store on the 2nd Floor of a 4-storeyed commercial building which was completed in 2001. The property has a gross floor area of approximately 43.00 sq.m. According to a tenancy agreement dated 6 November 2007 and made between 華潤萬家有限公司 (translated as China Resources Vanguard Limited) and Zhuhai Reminda Communication Equipments Limited, a subsidiary of the Company, a retail portion was rented to Zhuhai Reminda Communication Equipments Limited for a term of 2 years commencing from 9 September 2007 and expiring on 8 September 2009 at a monthly rental of RMB35,241. We have inspected and confirmed by the Group that the property as at the date of valuation was occupied by the Group for retail purpose.	No Commercial Value

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

	Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
10.	A retail unit on the Level 2 Zhuhai Special Economic Zone State-owned Foreign Currency Duty Free Emporium (currently known as Zhuhai Duty-Free Shop) No.220 Jidajingshanlu Zhuhai City Guangdong Province	The property comprises a retail unit on the 2nd Floor of a 6-storeyed commercial building which was completed in 1985. The property has a gross floor area of approximately 121.31 sq.m. According to a tenancy agreement dated 6 November 2007 and made between 珠海經濟特區國營外幣免稅商場 (translated as Zhuhai Special Economic Zone State-owned Foreign Currency Duty Free Emporium) and Zhuhai Reminda Communication Equipments Limited, a subsidiary of the Company, a retail shop was rented to Zhuhai Reminda Communication Equipments Limited for a term of 1 year commencing from 1 January 2008 and expiring on 31 December 2008 at a monthly rental of RMB 44,884.70, inclusive of management fee and lighting fee. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for retail purpose.	No Commercial Value

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
11. A retail unit No.164 of Block No.5, Jinjing Garden Jida District Zhuhai City Guangdong Province	The property comprises a retail unit on the 1st Floor of a 9-storeyed composite building which was completed in 1999. The property has a gross floor area of approximately 536.40 sq.m. According to a tenancy agreement dated 25 September 2006 and made between 何運轉/韋華/曹耀坤 (translated as He Yun Zhuan/Wei Hua/Cao Yao Kun) and Zhuhai Reminda Communication Equipments Limited, a subsidiary of the Company, a retail shop was rented to Zhuhai Reminda Communication Equipments Limited for a term commencing from 25 September 2006 and expiring on 30 April 2009 at a monthly rental of RMB 62,238. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for retail purpose.	No Commercial Value

Note:

According to another tenancy agreement dated 10 September 2008 and made between Zhuhai Reminda Communication Equipments Limited and 曾慶余 (translated as Zeng Qing Yu), part of the property of approximately 170 sq.m. was sub-let to Zeng Qing Za for a term commencing from 1 October 2008 to 30 April 2009 at a monthly rental of RMB 28,000.

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
12. Retail units G23-G24 Tongluowan Shopping Mall No.220 Jidajingshanlu Xiangzhou District Zhuhai City Guangdong Province	The property comprises two adjoining retail units on the 1st Floor of a 6-storeyed composite building which was completed in 1985. The property has a gross floor area of approximately 166.00 sq.m. According to a tenancy agreement dated 1 November 2006 and made between 珠海市盖奇商贸有限公司 (translated as Gai Qi Trading Company Limited) and Zhuhai Reminda Communication Equipments Limited, a subsidiary of the Company, a retail shop was rented to Zhuhai Reminda Communication Equipments Limited for a term commencing from 1 November 2006 and expiring on 31 December 2008 at a monthly rental of RMB 45,000, inclusive of management fee. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for retail purpose.	No Commercial Value

APPENDIX VII**PROPERTY VALUATION OF THE ENLARGED GROUP**

		Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
Property	Description and occupancy	
13. A retail unit No.12 on the 1st Floor of Huaye Building No.2168 Qianshan Mingzhu Nanlu Xiangzhou District Zhuhai City Guangdong Province	The property comprises a retail unit on the 1st Floor of a 3-storeyed commercial building which was completed in 2005. The property has a gross floor area of approximately 180.00 sq.m. According to a tenancy agreement dated 2 June 2008 and made between 吳金紅 (translated as Wu Jin Hong) and Zhuhai Reminda Communication Equipments Limited, a subsidiary of the Company, a retail shop was rented to Zhuhai Reminda Communication Equipments Limited for a term of 3 years commencing from 1 July 2008 and expiring on 30 June 2011 at a monthly rental of RMB 12,500. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for retail purpose.	No Commercial Value

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
14. A retail unit No.2 No.3048 Mingzhu Nanlu Xiangzhou District Zhuhai City Guangdong Province	The property comprises a retail unit on the 1st Floor of an 8-storeyed composite building which was completed in 1996. The property has a gross floor area of approximately 130.00 sq.m. According to a tenancy agreement dated 1 November 2006 and made between 珠海市金山埠房地產開發有限公司 (translated as Zhuhai Jin Shan Bu Real Estate Development Company Limited) and Zhuhai Reminda Communication Equipments Limited, a subsidiary of the Company, a retail shop was rented to Zhuhai Reminda Communication Equipments Limited for a term commencing from 1 November 2006 and expiring on 30 August 2009 at a monthly rental of RMB 16,000. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for retail purpose.	No Commercial Value

APPENDIX VII**PROPERTY VALUATION OF THE ENLARGED GROUP**

		Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
Property	Description and occupancy	
15. A retail unit No.2 on the 1st Floor of Zhuhai Mingzhu Commercial Plaza (currently known as Qianshan Xinmei Department Stores) No.1389 Mingzhu Nanlu Zhuhai City Guangdong Province	The property comprises a retail unit on the 1st Floor of a 4-storeyed commercial building which was completed in 2006. The property has a gross floor area of approximately 190.10 sq.m. According to a tenancy agreement dated 20 December 2006 and made between 珠海新美百貨有限公司 (translated as Zhuhai Xinmei Department Stores Company Limited) and Zhuhai Reminda Communication Equipments Limited, a subsidiary of the Company, a retail shop was rented to Zhuhai Reminda Communication Equipments Limited for a term commencing from 20 December 2006 and expiring on 19 December 2009 at a monthly rental of RMB 22,812, with rental increase of 5% on each year. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for retail purpose.	No Commercial Value

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
16. Portion below the staircase which next to the east of sales room on the 1st Floor of Telecommunication Composite Building No.3 Chuxiang Mingzhu Nanlu Xiangzhou District Zhuhai City Guangdong Province	The property comprises a portion of retail space on the 1st Floor of a 7-storeyed commercial building which was completed in 1994. The property has a gross floor area of approximately 25.00 sq.m. According to a tenancy agreement dated 24 March 2006 and made between 廣東省電信有限公司珠海市分公司 (translated as Guangdong Telecommunications Company Limited — Zhuhai Branch) and Zhuhai Reminda Communication Equipments Limited, a subsidiary of the Company, a retail portion was rented to Zhuhai Reminda Communication Equipments Limited for a term of 3 years commencing from 1 April 2006 and expiring on 31 March 2009 at a monthly rental of RMB 950.00. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for retail purpose.	No Commercial Value

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
17. A retail unit No.135 Zijing Road Xiangzhou District Zhuhai City Guangdong Province	The property comprises a portion on the 1st Floor of a 4-storeyed composite building which was completed in 1994. The property has a gross floor area of approximately 32.00 sq.m. According to a tenancy agreement dated 18 September 2007 and made between 香洲海城宏峰股份合作公司 (translated as Xiangzhou Haicheng Hongfeng Holdings Cooperation Company) and Zhuhai Reminda Communication Equipments Limited, a subsidiary of the Company, a retail portion was rented to Zhuhai Reminda Communication Equipments Limited for a term of 2 years commencing from 1 October 2007 and expiring on 30 September 2009 at a monthly rental of RMB 3,712.00. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for retail purpose.	No Commercial Value

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 <i>HK\$</i>
18. A retail unit on the 4th Floor Jinbaolu Commercial Plaza No.189 Zijing Road Xiangzhou District Zhuhai City Guangdong Province	The property comprises a retail unit on the 4th Floor of a 6-storeyed commercial building which was completed in 1999. The property has a gross floor area of approximately 666.00 sq.m. According to a tenancy agreement dated 1 August 2007 and made between Zhuhai City Zhenhai Limited and Zhuhai Reminda Communication Equipments Limited, a subsidiary of the Company, a retail unit was rented to Zhuhai Reminda Communication Equipments Limited for a term of 8 years commencing from 1 August 2007 and expiring on 31 July 2015 at a monthly rental of RMB16,650, with rental increase of 5% on each year. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for retail purpose.	No Commercial Value

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
19. A retail unit on the 1st Floor No.2 Huanping First Street Nanping Town Zhuhai City Guangdong Province	The property comprises a retail unit on the 1st Floor of a 6-storeyed composite building which was completed in 2008. The property has a gross floor area of approximately 95.00 sq.m. According to a tenancy agreement dated 30 July 2008 and made between 鄭錫源 (translated as Zheng Xi Yuan) and 鄺位文 (translated as Kuang Wei Wen), a retail unit was rented to Kuang Wei Wen for a term of 60 months commencing from 1 September 2008 and expiring on 31 August 2013 at a monthly rental of RMB22,000, with rental increase of 10% starting from the 37th month of the term, and the monthly rent will increase to RMB 24,200. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for retail purpose.	No Commercial Value

Note:

As advised, Kuang Wei Wen is a representative of Zhuhai Reminda Communication Equipments Limited.

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

	Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
20.	A retail unit No.B52 on the 4th Floor of Jiabaohua Digital Computer 1st Street Jinbaolu Commercial Plaza No.189 Zijing Road Xiangzhou District Zhuhai City Guangdong Province	The property comprises a retail unit on the 4th Floor of a 6-storeyed commercial building which was completed in 1999. The property has a gross floor area of approximately 15.00 sq.m. According to a tenancy agreement dated 29 August 2007 and made between Zhuhai City Zhenhai Limited and Kuang Wei Wen, a retail unit was rented to Kuang Wei Wen for a term commencing from 29 August 2007 and expiring on 29 December 2008 at a monthly rental of RMB500, inclusive of management fee. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the Group for warehouse purpose.	No Commercial Value

Notes:

1. As advised, Kuang Wei Wen is a representative of Zhuhai Reminda Communication Equipments Limited.
2. As advised, the tenancy agreement has been renewed.

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Property	Description and occupancy	Amount of valuations in existing state attributable to the Enlarged Group as at 31 October 2008 HK\$
21. A parcel of land located at Xia Lu District Gui Lin North Road Huangshi City Hubei Province	The property comprises a parcel of vacant land having a site area of approximately 1,000 sq. m. According to a tenancy agreement dated 19 April 2007 and made between Yuan Men Processing Plant (園明選礦廠) and Huangshi Sifa Mining Company Limited (hereinafter referred as “PRC Mining Company”), a parcel of land having a site area of approximately 1,000 sq.m. was rented to the PRC Mining Company for a term of 2 year commencing from 1 May 2007 at an annual rental of RMB 80,000. We have inspected and confirmed by the management of the Group that the property as at the Date of Valuation was vacant and to be occupied by the PRC Mining company as a processing plant.	No Commercial Value

Note:

According to the legal opinion as prepared by the Group’s PRC legal adviser, GuanTao Law Firm, the following opinions are noted:

- (i) the PRC Mining Company may be subject to prohibition of land use and penalty if the company use the collectively-owned land for processing purpose.

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

Group III — Property occupied by the Enlarged Group without long-term title certificate in the PRC and valued on market value basis

Property	Description and occupancy	Amount of valuations in its existing state attributable to the Enlarged Group as at 31 October 2008
		HK\$
22. Two parcels of land together with office buildings erected thereon Huang Gu Ling Village Gui Lin North Road Huangshi City Hubei Province	The property comprises two adjoining parcels of land together with 27 various buildings erected thereon. The various buildings and structures are of single to 2-storeys in height, which were completed in 1990's. The property has a total gross floor area of approximately 2,599.11 sq.m. We have inspected and confirmed by the Group that the property as at the Date of Valuation was occupied by the PRC Mining Company and used for office, production, storage, dormitory and other ancillary supporting facilities purposes.	No Commercial Value

Notes:

- According to the information made available to us, 27 various buildings and structures without Realty Title Certificate and having a total gross floor area of approximately 2,599.10 sq.m. were erected on the land. They are listed as follow:

	Gross Floor Area (sq.m.)
(i) A single-storey dormitory No.1	151.30
(ii) A 2-storey dormitory No.2	49.26
(iii) A single-storey dormitory No.3	111.79
(iv) A single-storey switch room No.1	15.57
(v) A single-storey dormitory No.4	87.93
(vi) A single-storey pithead machine room	44.03
(vii) A single-storey machine room	48.33
(viii) A single-storey switch room No.2	22.66
(ix) A single-storey dormitory No.5	75.77
(x) A single-storey toilet	8.75
(xi) A single-storey toilet	22.79
(xii) A 2-storey dormitory No.6	418.58
(xiii) A single-storey canteen	259.26
(xiv) A 2-storey office block	489.06
(xv) A single-storey explosive store	15.66
(xvi) A single-storey processing room	40.80
(xvii) A single-storey canteen No.2	14.35

APPENDIX VII PROPERTY VALUATION OF THE ENLARGED GROUP

	Gross Floor Area (sq.m.)
(xviii) A single-storey electricity room	72.23
(xix) A single-storey switch room No.3	57.48
(xx) A single-storey winch room	31.69
(xxi) A single-storey air compressor room	75.90
(xxii) A single-storey dormitory No.7	86.09
(xxiii) A single-storey dormitory No.8	108.14
(xxiv) A single-storey old explosive store	24.53
(xxv) A single-storey dormitory No.9	130.56
(xxvi) A single-storey dormitory No.10	92.91
(xxvii) A single-storey water pump room	43.69
	<u>2,599.11</u>

2. According to the legal opinion as prepared by the Group's PRC legal adviser, GuanTao Law Firm, the following opinions are noted:

- (i) the PRC Mining Company has not obtained the relevant state-owned Land Use Right Certificate;
- (ii) the illegal use of land by the PRC Mining Company may be subject to re-entry of land by the Bureau of Land and Resources and Housing with additional penalty;
- (iii) the PRC Mining Company is able to apply appropriate title certificate without any legal impediment.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date was as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>1,000,000,000</u> Shares of HK\$0.1 each	<u>100,000,000</u>
<i>Issued and fully paid:</i>	<i>HK\$</i>
<u>372,790,000</u> Shares of HK\$0.1 each	<u>37,279,000</u>

3. DISCLOSURE OF DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests and short positions held by the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein (the "Register"); or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange, were as follows:

Interest in the Shares

Name of Director	Number of Shares interested	Capacity	Approximate % of total issued Shares of the Company
Mr. Lau	579,250,195 (L) (Note 1)		155.38%
	389,950,182	Beneficial owner	
	188,300,013	Interest of controlled corporation	
	1,000,000	Interest of spouse	
Chang Wing Seng, Victor	200,000 (L)	Beneficial owner	0.05%
Chen Yi Gang	100,000 (L)	Beneficial owner	0.03%
Fung Oi Ip, Alfonso	150,000 (L)	Beneficial owner	0.04%
Lo Wing Yat	100,000 (L)	Beneficial owner	0.03%
Luo Xi Zhi	100,000 (L)	Beneficial owner	0.03%
Wong Lit Chor, Alexis	100,000 (L)	Beneficial owner	0.03%

(L) denotes long position

Note 1: Of these 579,250,195 Shares:

- i. 389,950,182 Shares were beneficially owned by Mr. Lau, in which 2,000,000 Shares were options granted to Mr. Lau, 244,813,040 Shares were the Consideration Shares to be issued to Mr. Lau at Completion and 142,857,142 Shares were the Conversion Shares to be issued to Mr. Lau upon exercise in full of the conversion rights attaching to the Convertible Bonds.
- ii. 188,300,013 Shares were held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn were held by a discretionary trust. The beneficiaries of the discretionary trust included Mr. Lau Siu Ying, his spouse and his children.
- iii. 1,000,000 Shares were options granted to Mr. Lau's spouse and therefore Mr. Lau Siu Ying was deemed to be interested pursuant to the SFO.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules, to be notified to the Company and the Stock Exchange.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, the parties (other than Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Interest in the Shares

Name of substantial Shareholders	Capacity	Number of Shares held	Approximate % of total issued Shares of the Company
Future 2000 Limited (Note 1)	Beneficial owner	188,300,013 (L) (Note 2)	50.51%
Lee Wai, Timothy (Note 1)	Interests of controlled corporation	188,300,013 (L) (Note 2)	50.51%
Lau Hung Bing	Beneficial owner	31,901,630 (L) (Note 3)	8.56%
Lau Kin Ying	Beneficial owner	30,601,630 (L) (Note 4)	8.21%

(L) denotes long position

Note 1: Future 2000 Limited was wholly-owned by Mr. Lee Wai, Timothy as trustee of The Lau's Family Trust (being a discretionary trust) of which Mr. Lau Siu Ying, his spouse and their children were the current eligible beneficiaries but who did not have a fixed interests in the assets of the Lau's Family Trust.

Note 2: Mr. Lee Wai, Timothy owned the entire issued share capital in Future 2000 Limited and therefore was deemed to be interested in the Shares held by Future 2000 Limited pursuant to the SFO.

Note 3: Of these 31,901,630 Shares, 1,000,000 Shares were options granted to Mr. Lau Hung Bing and 30,601,630 Shares were the Consideration Shares to be issued to Mr. Lau Hung Bing at Completion.

Note 4: These 30,601,630 Shares were the Consideration Shares to be issued to Mr. Lau Kin Ying at Completion.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company were aware of any person (other than a Director or the chief executive of the Company or a member of the Group) who had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Enlarged Group or had any options in respect of such capital as at the Latest Practicable Date.

5. DIRECTORS' SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Enlarged Group which does not expire or is not determinable by the relevant member of the Enlarged Group within one year without payment of compensation (other than statutory compensation).

6. DIRECTORS' INTEREST IN ASSETS, CONTRACT OR ARRANGEMENT

Save and except Mr. Lau being one of the Vendors in the Supplemental Agreement IV — Acquisition and being the purchaser in the agreement dated 17 October 2007, the first supplemental agreement dated 8 January 2008, the second supplemental agreement dated 13 May 2008 and the third supplemental agreement dated 13 August 2008, all made with the Company's wholly-owned subsidiary, namely Fortune Telecom Limited, in relation to the sale and purchase of 49% equity interest in Fortune Telecom (China) Distribution Limited, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2007 (being the date to which the latest published audited consolidated financial statements of the Group were made up) and up to the Latest Practicable Date, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group and none of the Directors was materially interested in any contract or arrangement entered into by any member of the Enlarged Group and subsisting at the Latest Practicable Date which was significant in relation to the business of the Enlarged Group.

7. LITIGATION

On 22 August 2007, Synergy Technologies (Asia) Limited ("Synergy Technologies"), an indirect wholly owned subsidiary of the Company, has issued a Writ of Summons with general endorsement to claim for damages exceeding HK\$1 million against a Taiwanese company called Gigabyte Communications Inc ("GCI") for breaches of distribution agreement and after-sale service agreement.

On 21 December 2007, Synergy Technologies received a claim for US\$216,560 for goods sold and delivered instituted by GCI in Taiwanese Court. Lawyers had been engaged to deal with this proceeding.

Save as disclosed above and as at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claims of material importance were pending or threatened against any member of the Enlarged Group.

8. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors were aware, none of the Directors or their respective associates were considered to have interest in any business which competes or may compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

9. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have given opinion and advice, which is contained in this circular:

Name	Qualifications
Deloitte Touche Tohmatsu	Certified Public Accountants
Guangdong Securities	A licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activity as defined under the SFO
Guantao Law Firm	Legal advisors to the PRC Laws
LCH (Asia-Pacific) Surveyors Limited ("LCH")	Chartered Surveyors
Wallbanck Brothers Securities (Hong Kong) Limited	A licensed corporation permitted to carry on business in types 4, 6 and 9 regulated activity (advising on securities, advising on corporate finance and asset management) under the SFO

Deloitte Touche Tohmatsu, Guangdong Securities, Guantao Law Firm, LCH and Wallbanck Brothers Securities (Hong Kong) Limited have given and have not withdrawn their written consent to the issue of this circular with the inclusions of their respective letters and references to their names in the form and context in which they appear.

10. EXPERT'S INTEREST IN ASSETS

As at the Latest Practicable Date, Deloitte Touche Tohmatsu, Guangdong Securities, Guantao Law Firm, LCH and Wallbanck Brothers Securities (Hong Kong) Limited:

- (a) were not interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to an member of the Enlarged Group or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up; and

- (b) did not have any shareholding interest in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

11. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by the members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date:

- (a) the Termination Deed;
- (b) the Supplemental Agreement IV — Acquisition;
- (c) the confirmation letter dated 2 September 2008 made among the First Vendor and the Company in respect of the adjustment to the Compensation;
- (d) the Supplemental Agreement III — Acquisition;
- (e) the Supplemental Agreement I — Further Acquisition;
- (f) the sales and purchase agreement dated 30 June 2008 relating to the disposal of DW Mobile Technology Limited;
- (g) the agreement dated 1 November 2007 entered into between the Purchaser and the Vendors to adjust down the consideration for the acquisition of 40.8% interest in the BVI Company from HK\$408 million to HK\$367.2 million and provide a profit guarantee of not less than RMB80 million profit before tax for the fiscal year ending 31 December 2008 for the sino-foreign equity joint venture (i.e. the PRC Mining Company upon completion of the restructuring) (the “Supplemental Agreement II”);
- (h) the confirmation letter signed by the Purchaser and the Vendors on 21 December 2007 in relation to the removal of adjustment mechanism for the profit guarantee as stated in the Supplemental Agreement II and the extension of completion date for the acquisition of 40.8% interest in the BVI Company as stated in the acquisition agreement dated 24 July 2007 entered into between the Purchase and the Vendors;
- (i) the Further Acquisition Agreement;
- (j) the confirmation letter signed by the Purchaser, Foshan Goldsonic and the Covenanter on 21 December 2007 in relation to the removal of adjustment mechanism for the profit guarantee as stated in the Further Acquisition Agreement;
- (k) the agreement dated 27 July 2007 entered into between the Purchaser and the Vendors relating to the consideration adjustment mechanism set forth in the Previous Circular and the changes in the shareholding structure of the BVI Company

- (l) the agreement dated 17 October 2007 made among the Company and Mr. Lau Siu Ying in respect of disposal of 49% interest in Fortune Telecom (China) Distribution Limited engaged in handset distribution business;
- (m) the agreement dated 14 August 2007 made among the Company, Mr. Lam Bing Sum and Intelligence Tech Limited in respect of the acquisition of 2,750,000 shares in Intelligence Tech Limited;
- (n) the Acquisition Agreement;
- (o) the agreement dated 5 June 2007 and the supplemental agreements dated 4 September 2007 made between the Company and TeleChoice International Limited in respect of establishment of a joint venture company and the put option agreement dated 4 September 2007 in respect of the sales back of the equity interest in the joint venture company from TeleChoice International Limited to the Company;
- (p) the agreement dated 25 May 2007 made between the Company and Galaxy China Opportunities Fund in respect of the subscription of 40,000,000 new Shares;
- (q) the agreement dated 2 April 2007 made among the Company, Carefree Times International Limited, DW Mobile Technology Limited and Pang Chor Fu in respect of the acquisition of 53,500 shares in DW Mobile Technology Limited; and
- (r) the agreement dated 15 February 2007 made among the Company, 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), Kuang Huai Biu, Kuang Bing Jiu and Zhuhai Lei Ming Da Telecom Equipment Company Limited (珠海市雷鳴達通訊設備有限公司) (“JV Company”) in respect of the acquisition and subscription of totally 51% equity interest in the JV Company.

12. GENERAL

- (a) The secretary and qualified accountant of the Company is Mr. Cheng Ka Chung. Mr. Cheng is a full member of the Hong Kong Institute of Certified Public Accountants.
- (b) The auditor of the Company is Messrs. Deloitte Touche Tohmatsu.
- (c) The registered office of the Company is located at Clarendon House, 2 Church Street Hamilton HM 11, Bermuda.
- (d) The principal office and head office of the Company is located at Room 1505-7, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong.
- (e) The share registrar of the Company in Hong Kong is Tricor Abacus Limited at 26/F Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong.

- (f) The English language text of this circular shall prevail over the Chinese language text in case of inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the place of business of the Company at Room 1505-7, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong during office hours from the date of this circular up to the date of the special general meeting of the Company to be held on 18 February 2009 to consider and approve the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder:

- (a) the bye-laws of the Company;
- (b) the letter of recommendation from the Independent Board Committee containing its recommendation to the Independent Shareholders, the text of which is set out in the section headed “Letter from the Independent Board Committee” in this circular;
- (c) the letter from Guangdong Securities containing its advice to the Independent Board Committee and the Independent Shareholders, the text of which is set out in the section headed “Letter from Guangdong Securities” in this circular;
- (d) the material contracts referred to in the paragraph headed “Material Contracts” to this Appendix;
- (e) the annual reports of the Group for the two years ended 31 December 2007 and the interim report for the six months ended 30 June 2008;
- (f) the accountants’ report on the PRC Mining Company from Deloitte Touche Tohmatsu, the text of which is set out in Appendix II to this circular;
- (g) the reports from Deloitte Touche Tohmatsu and Wallbanck Brothers Securities (Hong Kong) Limited in connection with the valuation of the mining right of the Mining Site, the texts of which are set out in Appendix IV to this circular;
- (h) the letter from Deloitte Touche Tohmatsu regarding the unaudited pro forma financial information of the Enlarged Group as set out in Appendix V to this circular;
- (i) the valuation report on the exclusive mining rights owned by the PRC Mining Company as at 30 September 2008 prepared by LCH, the text of which is set out in Appendix VI to this circular;
- (j) the valuation report on property interests of the Enlarged Group as at 31 October 2008 prepared by LCH, the text of which is set out in Appendix VII to this circular;
- (k) the written consents referred to in paragraph headed “Experts and Consents” to this Appendix; and
- (l) the copy of each circular issued pursuant to the requirements set out in Chapters 14 and/or 14A which has been issued since 31 December 2007.

NOTICE OF SGM



China Fortune Holdings Limited

中國長遠控股有限公司*

(Incorporated in Bermuda with limited liability, carrying on business in H.K. as CFH Limited)

(Stock Code: 110)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting (the “SGM”) of China Fortune Holdings Limited (the “Company”) will be held at Room 1505-7, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, Hong Kong at 11:00 a.m. on Wednesday, 18 February 2009 for the purpose of considering and, if thought fit, passing with or without modifications, the following resolutions which will be proposed as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

“**THAT:**

- 1 the fourth supplemental agreement (the “Supplemental Agreement IV — Acquisition”) (a copy of which has been produced at the SGM and initialled by the chairman of the SGM for identification purpose) entered into between the Company’s wholly-owned subsidiary, namely Express Fortune Holdings Limited, as the purchaser and Messrs. Lau Siu Ying, Lau Hung Bing and Lau Kin Ying as the vendors (the “Vendors”) on 6 January 2009 regarding the acquisition of the entire equity interest in Richly Giant International Limited be and is hereby approved, ratified and confirmed and any one or more of the directors of the Company be and is/are hereby authorised to implement all transactions contemplated thereunder including but not limited to the issue and allotment of 306,016,300 consideration shares at HK\$0.55 each to the Vendors or their respective nominee(s) and the issue and allotment of 142,857,142 conversion shares at HK\$0.70 each (subject to adjustments) which may fall to be issued and allotted upon exercise of the conversion rights attaching to the convertible bonds in the principal amount of HK\$100,000,000 to be issued to Mr. Lau Siu Ying or his nominee(s) as part of the consideration payable under the Supplemental Agreement IV — Acquisition; and

* *For identification purpose only*

NOTICE OF SGM

- 2 any one or more of the directors of the Company be and is/are hereby authorised to do all such acts and things and execute all such documents which he/they consider(s) necessary or expedient for the implementation of and giving effect to the Supplemental Agreement IV — Acquisition and the transactions contemplated thereunder for and on behalf of the Company.”

By order of the Board
China Fortune Holdings Limited
Lau Siu Ying
Chairman and Chief Executive Officer

Hong Kong, 29 January 2009

Notes:

- (1) Any member entitled to attend and vote at the SGM shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member.
- (2) Where there are joint holders of any share any one of such joint holder may vote, either in person or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the SGM the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the principal register and where applicable, any branch register of members to be kept pursuant to the provisions of the Companies Act 1981 of Bermuda in respect of the joint holding.
- (3) The form of proxy and (if required by the Board) the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, shall be delivered to the Company's branch share registrar in Hong Kong, namely Tricor Abacus Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the SGM or adjourned meeting at which the person named in the form of proxy proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 24 hours before the time appointed for the taking of the poll and in default the form of proxy shall not be treated as valid.
- (4) The form of proxy for use at the SGM is enclosed herewith.