



FORTUNE TELECOM HOLDINGS LIMITED

長遠電信網絡集團有限公司*

(Incorporated in Bermuda with limited liability)

Results announcement for the three months ended 30th June, 2002

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This announcement, for which the directors (the “Directors”) of Fortune Telecom Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM Listing Rules”) for the purpose of giving information with regard to Fortune Telecom Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification only

HIGHLIGHTS

- Turnover for the three months ended 30th June, 2002 was approximately HK\$767 million, representing an increase of approximately 14% as compared with the corresponding period in the previous year.
- Unaudited profit from operations for the three months ended 30th June, 2002 was approximately HK\$39 million, representing an increase of approximately 131% as compared with the corresponding period in the previous year.
- The earnings per share was 9.3 cents for the three months period.

RESULTS

The board of directors (the “Board”) of Fortune Telecom Holdings Limited (the “Company”) is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 30th June, 2002, together with the unaudited comparative figures for the corresponding period in 2001 as follows:

		Three months ended 30th June,	
		2002	2001
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	767,342	673,345
Cost of sales		(711,209)	(652,974)
Gross profit		56,133	20,371
Other revenue		1,137	2,521
Distribution costs		(9,287)	(2,894)
Administrative expenses		(8,936)	(3,224)
Other operating expenses		(295)	–
Profit from operations	3	38,752	16,774
Finance costs		(4,055)	(4,304)
Unrealised holding gain (loss) on other investments		(746)	4,196
Share of results of associates		(39)	(59)
Profit before taxation		33,912	16,607
Taxation	4	(6,162)	(1,500)
Profit before minority interests		27,750	15,107
Minority interests		484	–
Profit for the period		28,234	15,107
Earnings per share – basic	5	9.3 cents	5.0 cents

Notes:

1. Basis of preparation and accounting policies

The Company was incorporated in Bermuda as an exempted company with limited liability on 22nd October, 1999.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the three months ending 30th June 2002.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The accounting policies and methods of computation used in the preparation of the financial statements are consistent with those used in the annual audited financial statements for the year ended 31st March, 2002.

2. Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the period. Substantially all of the Group's turnover and contribution to profit from operations were derived from the distribution and trading of mobile phones in the People's Republic of China.

3. Profit from operations

The Group's profit from operations is arrived at after charging:

	Three months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
Amortization of goodwill	<u>248</u>	<u>–</u>
Depreciation and amortization	<u>305</u>	<u>470</u>

4. Taxation

	Three months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
The charge comprises:		
The People's Republic of China ("PRC") income tax	<u>6,162</u>	<u>1,500</u>

PRC income tax represents taxation charges on the assessable profits of the Company's wholly owned subsidiary, Fortune (Shanghai) International Trading Co., Ltd. ("Fortune Shanghai") established in the PRC at a rate of 15% for the three months ended 30th June, 2002 (2001: 15%). Pursuant to the Income Tax Law of the PRC, Fortune Shanghai is subject to PRC income tax at a rate of 33%. However, Fortune Shanghai is entitled to a preferential PRC income tax rate of 15% which is granted to companies established in Shanghai Waigaoqiao Free Trade Zone.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profits for the period.

5. Earnings per share

The calculation of the basic earnings per share is based on the profit for the period of HK\$28,234,000 (2001: HK\$15,107,000) and on the weighted average number of 302,100,000 shares (2001: 300,000,000 shares) in issue during the period.

6. Transfer to reserves

During the period, the following reserve movements were booked:

	Three months ended	
	30th June,	
	2002	2001
	HK\$'000	HK\$'000
Transfer to translation reserve due to exchange differences arising on translation of the financial statements of operation in the PRC	49	–
Transfer to the PRC statutory reserve from income statement	7,211	–

INTERIM DIVIDEND

The Board does not propose the payment of an interim dividend for the three months ended 30th June, 2002 (2001: Nil).

REVIEW AND OUTLOOK

Financial review

The turnover of the Group increased significantly to approximately HK\$767 million for the three months ended 30th June, 2002, representing an increase of approximately 14% as compared with the corresponding period in 2001. The Group's operating profit for the three months ended 30th June, 2002 increased by 131% to approximately HK\$39 million. The gross profit margin has significantly improved to 7% for the period as compare to 3% for the corresponding period in 2001.

The encouraging result for the three months ended 30th June, 2002 was largely attributable to the Group's success in the distribution of Nokia's mobile phones. For the three months period ending 30th June, 2002, the number of units of mobile phones sold was approximately 500,000. Other than model 8250, the Group currently also distributes Nokia's model 6510, 3310 and the new 3610.

During the three months ended 30th June, 2002, the Group has successfully obtained new renminbi financing to meet the increasing need for working capital, as a result of continued expansion in the Group's sales volume. At the same time, the Group continues to enforce its

strict policy on accounts receivables and inventory levels to minimize the turnover periods. As at 30th June, 2002, the Group's bank borrowings amounted to approximately HK\$312 million and the Group's bank deposits and balances amount to approximately HK\$185 million. The Group is now arranging a syndication loan to refinance its existing syndication loan which is expected to finalize in the second quarter. This will provide further funding for the future development of the Group in securing the distribution of more models and brands of mobile phones.

The Board believes that the Group will continue to have sufficient financial resources and funding for its operational requirements. The Board is also confident that it has the necessary management calibre and appropriate corporate and marketing strategies in place to add value for shareholders.

Operational review

Market overview

The PRC mobile phone and telecommunications market

The number of mobile phone subscribers in the PRC grew 21.6% to approximately 176 million in the first half of the year 2002, according to statistics from the Ministry of Information Industry. During the month of June 2002, the number of mobile phone users increased by 4.78 million and boosting the market penetration rate to approximately 14%. One of the key growth area was short message services (SMS). It is reported that there was a total of approximately 28.2 billion SMS messages sent on the China Mobile's network in the first half year. The SMS, which cost only 10 fen per message, could help to stabilise average revenue per user for the PRC's leading mobile operator. Meanwhile, according to the PRC government statistics, revenue from all telecommunications services, including mobile, fixed line and other value-added services, for the first six months was approximately 184 billion yuan, representing a growth of 16% from the corresponding period last year. The number of fixed line users stood at approximately 199 million, up 11% from the beginning of the year.

China Mobile has launched its general packet radio service ("GPRS") on 17th May, 2002 and has signed up approximately 1.3 million subscribers in two months, outpacing rival China Unicom in picking up wireless data subscribers. China Mobile projected that GPRS subscriber numbers would grow to 112 million, with data related revenues topping US\$5.68 billion by the year 2005. China Mobile also plans to launch its multimedia messaging service ("MMS") and mobile virtual network before the end of year 2002. The number of GPRS users in Hong Kong are estimated to be approximately 570,000 or approximately 10% of the 5.7 million mobile users.

According to industry estimates, each MMS could cost at least three times more than a simple SMS text note. Markets like Japan and Korea have seen rapid uptake of colour phones are unique from the rest of Asia as their content and gaming services are more developed, making it more compelling to use high speed data connections and MMS on such phones. The growth of MMS is likely to stay muted elsewhere in Asia due to uncertainty over pricing and billing, as well as whether messages can be sent across different networks.

Since the official launch of code division multiple access (CDMA) mobile phone network on 8th January 2002, China Unicom reported that it has achieved one million CDMA subscribers in July 2002. China Unicom also plans to change its network from existing IS-95A (2G) to CDMA2000-1X (2.5G) before the end of year 2002. By then, it will also enable CDMA users to receive and send varied multimedia information including data and dynamic images freely.

An average of 4.5 million mobile phones are sold every month in the PRC, where approximately 240 models are available from more than 30 vendors, mostly domestic brands. Many such domestic brands suppliers use technology licensed to them by larger foreign companies. The domestic mobile phones suppliers, like TCL, Kejian, Bird, Amoisonic etc. continued to expand their market shares. The aggregate market share of domestic brand mobile phones has reached 17.7% and expected to increase to 20% by the end of year 2002. While Nokia and Motorola remain as the two largest suppliers of mobile phones, TCL has become the largest domestic mobile phone supplier in the PRC. With such fast moving development of the PRC telecommunications industry, it is anticipated that mobile phone market will encounter more changes, competition and challenges as well as opportunities.

Business review

Mobile phone distribution

Mobile phone distribution continued to be the Group's major core business for the three months ended 30th June, 2002, accounting for over 90% of the Group's turnover during the period. The current retail market price (tax included) of Nokia's model 8250 is stabilized at approximately Rmb1,880. The price range of Rmb1,000 to Rmb2,500 captured more than 57% of the entire mobile phone market in the PRC. Due to high quality and attractive features of model 8250, the sales were accelerated upon the price reduction. The success is also attributable to the marketing strategy of offering promotional gifts like battery, fashionable mobile phone set cover, handsfree device etc. According to the latest market research, Nokia's model 8250 mobile phone is the best selling mobile phone model in the PRC. In certain cities in the PRC, such as Guangzhou and Dongguan, Nokia's model 8250 mobile phone has set a record of market share over 13%.

The Group has successfully obtained the distribution right for new Nokia's model 3610 in July 2002. Unlike other "3" series Nokia phones, model 3610 is light weighted and come with flashing light when rings. The phone cover is also well designed with patterns. It is also well priced less than Rmb1,600, making it an attractive choice for consumers. The Group is confident that this new model will be well received by the PRC market.

Wireless Local Area Network (WLAN) and Personal Digital Assistant (PDA) Distribution

During the reported period, the Group successfully obtained the sole distribution right of O₂ xda phone in Hong Kong and Macau. It is the first perfect all-in-one colour PDA-mobile phone combination with GPRS in the market. The O₂ xda runs Microsoft Pocket PC 2002 Phone edition and comes with an Intel StrongArm 206 MHz CPU, and 32 megabytes (MB) of ROM, 32MB of RAM and a SD slot for extra memory. The xda is even smaller than a Pocket PC and weighs only 200 grams. The reception is good and the built-in microphone and speaker provide excellent quality sound. Now the xda is available in most of the phone and PDA channels and retail shops. The Group is confident that this new model will be well received by the enterprise market in Hong Kong.

With the joint promotion of several famous local broadband providers including the i-Cable and PCCW, Orinoco RG series Wireless Residential Gateway thus continues to be the best selling model of Wireless Home Access Point in residential and small office and home office market. For the enterprise market, the 5GHz upgradeable AP2000 replaces the AP1000 to be the most popular model. With the introduction of the above Orinoco products and other leading enterprise/carrier level security and billing solution, the Group's subsidiary, Synergy Pacific (Holding) Limited remains as one of the major market leaders in the WLAN market in Hong Kong and the PRC.

Outlook and prospects

With the well-established distribution infrastructure and its marketing expertise, the Group is optimistic that it will benefit from the growth of mobile phone market in China. The Nokia's mobile phones shall continue to be the main product in the year 2002 and the Group's profit margin shall be enhanced as a result of the distribution of new models.

The Group is determined to increase further its distribution coverage to over 200 cities and counties all over China. Due to total coverage of over 6,000 retail shops in China and its good relationship with our business partners the Group shall continue to position itself as the main distribution partner of Nokia's mobile phones in the PRC. The Group is alert of the keen competition of the mobile phone market and the emerging of the expanding domestic brand handsets. The Group sees this as a challenge as well as opportunity in diversifying its mobile phone distribution. With the full support from our bankers and the Group's dedicated workforce, the Group is heading for another record year and shall deliver good results to our shareholders.

DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 2002, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Number of ordinary shares held as other interest

Lau Siu Ying, Steve	211,500,013
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These shares are held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn is held by a trustee. The beneficiaries of the discretionary trust include Mr. Lau Siu Ying, Steve, his spouse and his children.

Save as disclosed above and other than certain nominee shares in the subsidiaries held by certain directors in trust for the Company, none of the directors or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance at 30th June, 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the share option scheme of the Company adopted on 2nd February, 2000 and subject to the amendments made to Chapter 23 of the GEM Listing Rules effective on 1st October, 2001, the directors of the Company may grant to any executive directors or full time employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at any price but not less than the higher of (i) the 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 the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time. No options under the scheme were granted or exercised since its adoption.

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

SUBSTANTIAL SHAREHOLDERS

At 30th June, 2002, other than the interests disclosed in the section headed “Directors’ interests in securities” above, the Company has not been notified of any other interests representing 10% or more of the Company’s issued share capital.

COMPETING INTEREST

None of the directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

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

During the period from 1st April, 2002 to 30th June, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The audit committee comprises the independent non-executive directors, Messrs. Chang Wing Seng, Victor and Liu Kwok Fai, Alvan. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. The audit committee has reviewed and approved this announcement.

BOARD PRACTICES AND PROCEDURES

The Company has complied through out the period from 1st April, 2002 to 30th June, 2002 with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

By Order of the Board
Fortune Telecom Holdings Limited
Lau Siu Ying, Steve
Chairman

Hong Kong, 8th August, 2002

This announcement will remain on the Company’s website with the domain name of www.fortunetele.com and on the GEM website with the domain name of www.hkgem.com on the “Latest Company Announcements” page for at least 7 days from the date of its posting.