



# 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 six months ended 30th September, 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 purpose only

## HIGHLIGHTS

- Turnover for the six months ended 30th September, 2002 was approximately HK\$1,683 million, representing an increase of approximately 4% as compare with the corresponding period in the previous year.
- Unaudited profit from operations for the six months ended 30th September, 2002 was approximately HK\$54 million, representing an increase of approximately 80% as compare with the corresponding period in the previous year.
- The earnings per share was 11.4 cents for the six months period.
- The Board does not recommend the payment of interim dividend for the period (2001: Nil).

## 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 six months ended 30th September, 2002, together with the unaudited comparative figures for the corresponding periods in 2001 as follows:

	<i>Notes</i>	Three months ended 30th September,		Six months ended 30th September,	
		2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	2	<b>916,202</b>	943,503	<b>1,683,544</b>	1,616,848
Cost of sales		<b>(885,990)</b>	(918,665)	<b>(1,597,199)</b>	(1,571,639)
Gross profit		<b>30,212</b>	24,838	<b>86,345</b>	45,209
Other revenue		<b>951</b>	2,063	<b>2,088</b>	4,584
Distribution costs		<b>(3,506)</b>	(4,836)	<b>(12,793)</b>	(7,730)
Administrative expenses		<b>(5,577)</b>	(7,128)	<b>(14,513)</b>	(11,325)
Other operating expenses		<b>(6,880)</b>	(526)	<b>(7,175)</b>	(741)
Profit from operations	3	<b>15,200</b>	14,411	<b>53,952</b>	29,997
Finance costs		<b>(4,172)</b>	(3,326)	<b>(8,227)</b>	(6,442)
Deficit on revaluation of an investment property		<b>(1,250)</b>	–	<b>(1,250)</b>	–
Unrealised holding loss on other investments		<b>(62)</b>	(8,947)	<b>(808)</b>	(4,751)
Share of results of associates		<b>1</b>	(42)	<b>(38)</b>	(101)
Profit before taxation		<b>9,717</b>	2,096	<b>43,629</b>	18,703
Taxation	4	<b>(3,433)</b>	3,632	<b>(9,595)</b>	2,132
Profit before minority interests		<b>6,284</b>	5,728	<b>34,034</b>	20,835
Minority interests		<b>(143)</b>	(663)	<b>341</b>	(663)
Profit for the period		<b>6,141</b>	5,065	<b>34,375</b>	20,172
Dividends paid during the period		<b>15,105</b>	3,021	<b>15,105</b>	3,021
Earnings per share – Basic	5	<b>2.0 cents</b>	1.7 cents	<b>11.4 cents</b>	6.7 cents

### 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 six months ending 30th September 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 consolidated financial statements are consistent with those used in the annual audited consolidated financial statements for the year ended 31st March 2002.

Certain comparatives figures of the condensed consolidated income statement for the three months and six months ended 30th September, 2001 have been reclassified to conform with current year presentation.

### 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 September		Six months ended 30th September	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amortization of goodwill	<u>72</u>	<u>41</u>	<u>320</u>	<u>41</u>
Depreciation and amortization	<u>280</u>	<u>561</u>	<u>585</u>	<u>1,031</u>
And after crediting :				
Interest Income	<u>820</u>	<u>2,077</u>	<u>1,614</u>	<u>4,373</u>

#### 4. Taxation

Three months ended 30th September		Six months ended 30th September	
2002	2001	2002	2001
HK\$'000	HK\$'000	HK\$'000	HK\$'000

The credit (charge) comprises:

Hong Kong Profits Tax calculated at  
16% of the estimated assessable profits

(30)	–	(30)	–
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The People's Republic of China ("PRC")  
income tax:

Current period	(3,403)	(221)	(9,565)	(1,721)
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Overprovision in prior year	–	4,200	–	4,200
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Share of taxation of associates:

Hong Kong	–	(347)	–	(347)
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<u>(3,433)</u>	<u>3,632</u>	<u>(9,595)</u>	<u>2,132</u>
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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 six months ending 30th September, 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.

#### 5. Earnings per share

The calculation of the basic earnings per share is based on the profit for the three months and six months ending 30th September, 2002 of HK\$6,141,000 and HK\$34,375,000 respectively (2001: HK\$5,065,000 and HK\$20,172,000 respectively) and on the weighted average number of 302,100,000 shares (2001: 301,400,000 shares and 300,700,000 shares for the three months and six months period respectively) in issue during the period.

## 6. Transfer to Reserves

During the period, the following reserve movements were booked :

	Three months ended		Six months ended	
	30th September		30th September	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Transfer to translation reserve due to exchange differences arising on translation of the financial statements of operation in the PRC	<u>3</u>	<u>–</u>	<u>52</u>	<u>–</u>
Transfer to the PRC statutory reserve from income statements	<u>–</u>	<u>–</u>	<u>7,211</u>	<u>–</u>

## INTERIM DIVIDEND

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

## REVIEW AND OUTLOOK

### Financial Review

The number of mobile phones, mainly Nokia's model 8250 and 3610, sold in the PRC during the second quarter is approximately 639,000 units, increased significantly as compare to 483,000 units for the same period last year. However, the turnover of the Group was slightly decreased by 2.9% to approximately HK\$916 million for the three months ended 30th September 2002 as compare with the corresponding period in 2001. This is because of the drop in retail price of model 8250 from over Rmb 2,000 last year to Rmb 1,780 in the second quarter. For the six months ended 30th September, 2002, the number of handsets sold in the PRC is 1,128,000 units and the consolidated turnover is HK\$1,683 million. Due to improved margin and rebates from our supplier, the gross profit margin has improved to 3.3% for the second quarter and 5.1% for the first half year. As a result, the gross profit for the first half year has increased significantly by 91% to HK\$86 million.. The Group's operating profit for the six months ended 30th September, 2002 increased by 80% to approximately HK\$54 million. The net profit for the six months ended 30th September, 2002 has increased significantly by 70% to HK\$34 million as the negative impact of provision for investment in PacificNet, Inc., has largely reduced in the current period.

On 18th September, 2002, the Company has entered into a HK\$160,000,000 2-years transferable term loan facility agreement with a syndicate of banks and financial institutions arranged by Bank of China (Hong Kong) Limited and Citic Ka Wah Bank in Hong Kong. Proceeds of the loan facility were applied to repay outstanding former syndicated loans of the Company and for development of distribution network and for additional working capital to finance the Group's existing mobile phone trading business. As at 30th September 2002, an amount of HK\$110,000,000 has been drawn from the syndicated facilities and the remaining HK\$50,000,000 will be drawn in the third quarter. As at 30th September, 2002, the Group's

aggregate bank borrowings amounted to approximately HK\$ 440 million, of which HK\$104 million are non-current liabilities. The gearing ratio of the Group, calculated as non-current liabilities to shareholders fund was approximately 38%. Approximately HK\$319 million of the Group's aggregate bank borrowings are denominated in Renminbi with the balance denominated in Hong Kong dollars. As at 30th September, 2002 the total bank deposits and cash balances amounted to approximately HK\$ 274 million.

The amount of inventory as at 30th September, 2002 was HK\$373 million, which represents approximately 42 days stock turnover, as compare to 27 days stock turnover based on the inventory level of HK\$244 million as at 31st March, 2002. The increase is mainly due to the necessity to replenish stock to meet the demand for the long National Day holidays in the PRC. Substantially all of the inventory is current models of mobile phones and no provision for obsolescence is necessary. The amount of trade receivables as at 30th September, 2002 was HK\$118 million, which represents approximately 13 days debtors' turnover period as compare to 8 days debtors' turnover based on the amount of trade receivables of HK\$72 million as at 31st March, 2002. The increase is part of the marketing strategy along side with other incentives and promotional campaign but the receivables level is still considered comfortable.

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*

According to statistics from the Ministry of Information Industry ("MII"), the number of mobile phone subscribers in the PRC grew to approximately 190 million in the first nine months of the year 2002 and during the period from January to May, approximately 38.92 million handsets were produced in the PRC by 30 licensed manufacturers. The penetration rate has increased to approximately 16%. The MII has also forecast that 95 million handset units to be produced in the year 2002, of which 45 million units will be exported. Approximately 20% of the total production were made by 12 domestic producers as compare to 12% last year. This would mean local handset producers were expected to double production this year in terms of actual units and snatch a greater market share from foreign rivals. According to statistics from the MII, the increase in the number of mobile phone users for July, August and September was 4.1 million, 4.5 million and 5.53 million respectively. The growth in mobile handset sales and production would outpace mobile user growth in the PRC and more competition would be foreseeable both between foreign brands and local brands as well as among local brands. Both the quality and design of the handsets made by domestic manufacturers had shown significant improvement. However, most of the domestic manufacturers' production scales and technology were still far behind foreign players.

China United Telecommunications Corporation ("China Unicom"), PRC's second largest mobile phone carrier, has seen growth in subscribers for its code division multiple access (CDMA) network accelerate as aggressive promotion start to pay off. The number of CDMA subscribers



has boosted from approximately 1 million at the end of June to approximately 4 million by the end of October. China Unicom has also signed contracts with major equipment suppliers to upgrade its 15.15 million lines network to high-speed CDMA 1x standard (2.5G) and add capacity for an extra 15 million users.

It is also reported that China Mobile will also follow the lead of China Unicom by offering GPRS handset-subsidy promotional plans in the fourth quarter of year 2002 when it launches its multimedia messaging service (“MMS”). It is predicted that there will be keen competition between global system for mobile communication (“GSM”) and CDMA network for mature 2.5G mobile service subscribers. Backed by the MII, time division synchronous code division multiple access (“TD-SCDMA”) is a 3G standard developed by Datang Telecom and Technology in the hope of challenging dominant 3G standards – the CDMA2000 standard developed by San-Diego-based Qualcomm for CDMA networks and the European-backed wideband CDMA (WCDMA) for GSM networks. The PRC government hopes that the country can build its own 3G mobile standard that would redirect the hefty fees that domestic equipment suppliers pay to companies such as Qualcomm to the domestic industry. However, the popularity of such a new network is uncertain.

## ***Business Review***

### ***Mobile Phone Distribution***

Mobile phone distribution continues to be the Group’s major core business for the three months ended 30th September, 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 has stabilized at approximately Rmb1,780. While Nokia model 8250 is a mature model, but it is still a popular choice to consumers in the PRC when the pricing strategy is correctly set. In November, a country wide promotional campaign through newspaper coverage will be organized jointly with Nokia to boost the sales of model 8250 with the aim to support various distribution channel sales and re-generate awareness of the product and brand. Besides the distribution right for Nokia’s 3610 model, the Group has also successfully obtained the distribution right for new Nokia’s 7210 model in November 2002. This advance GPRS model is characterized by its colorful cover, full color display, built-in radio, MMS and WAP capabilities using JAVA technology and polyphonic ringing tones. The Group is confident that this new model will be well received by the PRC top tier consumer market.

Although the PRC mobile phone market is now dominated by Nokia and Motorola, it is still a highly competitive market for the handset manufacturers, both foreign and local. The market share of local brands are increasing, mainly TCL, and is estimated to have reached over 25%. Other foreign brands, like Samsung, Sony Ericsson and Siemens are expanding their PRC distribution as well. NEC also begins its shipment of GPRS handsets to the PRC market in November.

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

The new color GPRS PDA mobile phone, O<sub>2</sub> xda, was successfully launched and was well received by the Hong Kong enterprise market. In October, a new enhanced version with 64MB RAM, XDA Plus, was introduced and the Group is optimistic that it will also be well received by the enterprises users.

In August, Synergy and Cheung Kong Property Development Limited (“Cheung Kong”) jointly announced the “Magic Home” Project – Wireless Internet Home Access service in Hampton Place located in the waterfront area of West Kowloon. With its experience and superb know-how in wireless technology, Synergy was appointed to supply Proxim Orinoco Wireless Networking equipment, infrastructure design, providing technical advice and support to the whole “Magic Home” project.

### ***Outlook and Prospects***

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. The Board of directors believes that the role of handset distribution specialist becomes more important to the handset manufacturers in such a competitive handset market. Through the well established distribution infrastructure and adequate working capital back up, the Group is well positioned to take advantage of the business opportunity with other brands.

### **DIRECTORS’ INTERESTS IN SECURITIES**

At 30th September, 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:

	<b>Number of ordinary shares held as other interest</b>
Lau Siu Ying, Steve	211,500,013

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 September, 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 September, 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 September, 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 September, 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, 12th November, 2002

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