# 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 year ended 31st March, 2003

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sector or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

**The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.**

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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.*

## HIGHLIGHTS

- Turnover for the year ended 31st March, 2003 was approximately HK$2,945 million, representing a decrease of approximately 15% as compare with previous year. The decrease is mainly attributable to the decrease in market price of mobile phones in China. A total of 2.1 million sets of mobile phones were sold during the year as compare with 2 million sets for previous year.

- Audited profit from operations for the year ended 31st March, 2003 was approximately HK$97.6 million, representing an increase of approximately 20% as compare with previous year.

- The gross profit margin for the year has improved to 5.1% as compare with 4.2% for the previous year.

- The earnings per share was HK20.2 cents for the year.

- The net asset value per share was HK$1.0 per share as at 31st March, 2003.

- The board of directors recommends the declaration of final dividend of HK5 cents per share.

## RESULTS

The board of directors (the "Board") of Fortune Telecom Holdings Limited (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31st March, 2003, together with the audited comparative figures for the corresponding period as follows:

| | Notes | Year ended 31st March, 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|---|
| Turnover | 2, 7 | **2,944,947** | 3,461,182 |
| Cost of sales | | **(2,795,875)** | (3,316,149) |
| Gross profit | | **149,072** | 145,033 |
| Other operating income | | **6,656** | 11,377 |
| Distribution costs | | **(21,890)** | (41,211) |
| Administrative expenses | | **(26,518)** | (27,401) |
| Other operating expenses | | **(9,667)** | (6,724) |
| Profit from operations | 7 | **97,653** | 81,074 |
| Finance costs | | **(20,698)** | (10,893) |
| Deficit on revaluation of an investment property | | **(1,500)** | (1,000) |
| Unrealised holding gain (loss) on other investments | | **1,988** | (8,292) |
| Impairment loss on goodwill arising on acquisition of an associate | | **–** | (704) |
| Impairment loss on other investment | | **(390)** | – |
| Gain on disposal of subsidiaries | | **–** | 1,187 |
| Share of results of associates | | **(38)** | (211) |
| Profit before taxation | | **77,015** | 61,161 |
| Taxation | 3 | **(16,018)** | (9,222) |
| Profit before minority interests | | **60,997** | 51,939 |
| Minority interests | | **(80)** | (1,624) |
| Profit for the year | | **60,917** | 50,315 |
| Dividends paid during the year | 4 | **15,105** | 3,021 |
| Earnings per share - Basic | 5 | **HK20.2 cents** | HK16.7 cents |

*Notes:*

**1. Basis of preparation and accounting policies**

The Company is an exempted company with limited liability incorporated in Bermuda under the Companies Act 1981 of Bermuda (as amended) with its shares listed on the Growth Enterprises Market of the Stock Exchange of Hong Kong Limited.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st March, 2003. 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.

All significant inter-company transactions and balances between group companies 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 financial statements for the year ended 31st March, 2002, except that the Group has adopted for the first time in the preparation of the current year's consolidated financial statements the following Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants which are effective for accounting period commencing on or after 1 January, 2002:

| | | |
|---|---|---|
| SSAP 1 | (Revised) | "Presentation of financial statements" |
| SSAP 11 | (Revised) | "Foreign currency translations" |
| SSAP 15 | (Revised) | "Cash flow statements" |
| SSAP 34 | | "Employee benefits" |

These SSAPs prescribe new accounting measurement and disclosure practices.

SSAP1(Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof.

SSAP11(Revised) prescribes the basis for the translation of foreign currency transactions in the financial statements.

SSAP15(Revised) prescribes the revised format for the consolidated cash flow statement.

SSAP34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previous adopted accounting treatments for employee benefits.

Certain comparative figures of distribution costs, administrative expenses and other operating expenses have been reclassified to conform with current year's presentation.

**2. Turnover**

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

## 3. Taxation

| | Year ended 31st March, 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| The charge (credit) comprises: | | |
| Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year | | |
| Current year | **64** | 147 |
| Overprovision in prior years | **–** | (1,707) |
| | **64** | (1,560) |
| Mainland China ("PRC") income tax | **15,954** | 10,839 |
| Deferred tax | **–** | (57) |
| | **16,018** | 9,222 |

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

## 4. Dividends paid

| | Year ended 31st March, 2003 HK$'000 | 2002 HK$'000 |
|---|---|---|
| 2002 final dividend of HK5 cents per share (2001: final dividend of HK1 cent per share) | **15,105** | 3,021 |

A final dividend of HK5 cents per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

## 5. Earnings per share

The calculation of the basic earnings per share is based on the profit for the year of HK$60,917,000 (2002: HK$50,315,000) and on the weighted average number of 302,100,000 shares (2002: 301,410,000 shares) in issue during the year.

## 6. Transfer to and from Reserves

During the year, the following reserve movements were booked:

| | Year ended 31st March, **2003** *HK$'000* | 2002 *HK$'000* |
|---|---|---|
| Transfer to translation reserve due to exchange differences arising on translation of the financial statements of operation in the PRC | **53** | 16 |
| Impairment loss in respect of goodwill arising on acquisition of an associate transferred to profit and loss account | **–** | 704 |
| Transfer to PRC statutory reserve from profit and loss account | **7,211** | 1,280 |
| Transfer to share premium account arising on issue of shares | **–** | 1,050 |

## 7. Segment Information

The Group's operations are located in the PRC and Hong Kong. No activity analysis is provided as substantially all of the Group's turnover and contribution to profit from operations were derived from the distribution and trading of mobile phones.

Segment information about these geographical markets for the year ended 31st March, 2003 is presented below:

| | Year ended 31st March, **2003** *HK$'000* | 2002 *HK$'000* |
|---|---|---|
| Turnover | | |
| The PRC | **2,820,081** | 3,317,473 |
| Hong Kong | **124,866** | 143,709 |
| Consolidated | **2,944,947** | 3,461,182 |
| Profit (Loss) from operations | | |
| The PRC | **112,000** | 106,442 |
| Hong Kong | **(14,347)** | (25,368) |
| Consolidated | **97,653** | 81,074 |

## FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board proposes the payment of final dividend of HK5 cents per share for the year ended 31st March, 2003 (2002: HK5 cents) to be paid to shareholders whose names are registered in the Register of Members as at 20th August, 2003. For the purpose of determining dividend entitlement, the Register of Members will be closed for transfer of shares during the period from 21st August, 2003 to 26th August, 2003 (both days inclusive).

## REVIEW AND OUTLOOK

### Financial Review

The Group recorded a turnover of HK$2,945 million representing a decrease of 15% as compare with last year. Gross profit increased by 3% to HK$149 million. Gross profit ratio increased to 5.1% from last year's 4.2%. Profit from operations amounts to HK$97.6 million which represents an increase of 20% as compare with last year. Net profit attributable to shareholders for the year amounted to HK$60.9 million as compare with HK$50.3 million for last year. The net asset value of the Group as at 31st March, 2003 amounts to HK$304.6 million or HK$1.0 per share. Earnings per share for the year is HK20.2 cents. The return on average capital employed for the year is 21.6%.

The number of mobile phones, mainly Nokia's model 8250 and 3610, sold during the year was approximately 2,140,000 sets, increased by approximately 7% as compare with last year. However, turnover of the Group decreased by 15% to approximately HK$2,945 million for the year. The main reason for the decrease is due to the entrance of the Group's main product, Nokia's model 8250, into its mature stage in the product life cycle with the average cost and selling price decreased over the year. The tax inclusive market retail selling price of model 8250 has decreased by over 25% from Renminbi 1,950 in March 2002 to Renminbi 1,480 in March 2003. Nevertheless, the Group's profit margin improved during the year to 5.1% which is attributable to the success of the Group's distribution strategy in stablizing the product's market price. This is of particular importance when the PRC mobile phone market becomes competitive upon the introduction of color display models and models from domestic brands. At the same time, the Group has introduced the new Nokia's models 3610, 7210 and 7250 which all have comparatively higher margins. As a result of improved margin and rebates from our suppliers, the gross profit margin has improved. The Group has also expanded its product range by distributing a number of domestic brand models like DBTel 2017C and 2051C, Kejian's K528 and K320 as well as Motorola's Code Division Multiple Access ("CDMA") mobile phones model V730 and V8060. As the market share of domestic brands shows very significant increase from previous year's 15% to currently 40%, it is an opportunity for the Group to make full use of its strong distribution capability in targeting profitable products. During the year, due to the consolidation of rebates by Nokia, cost of promotional gift items and batteries that are sold together with mobile phones was charged as cost of goods sold instead of distribution costs. These costs of gift items, which were previously shared between Nokia and the Group, is now incorporated as part of the volume rebate. The cost of such promotional gift items amounts to approximately HK$17 million for the year ended 31st March, 2003.

The turnover of Synergy Pacific (Holding) Limited ("Synergy") has reached HK$100 million for the year ended 31st March, 2003. Synergy remains as one of the leading distributors of products of Wireless Local Area Network ("Wireless LAN") and Personal Digital Assistants ("PDA") in Hong Kong.

As at 31st March, 2003, the Group's aggregate bank borrowings amounted to approximately HK$ 478 million, of which HK$136 million are non-current liabilities. The balance of HK$342 million, of which HK$308 million is denominated in Renminbi, consists mainly short term revolving working capital loans, providing flexibility to the Group in response to the changing monthly trading volume. The interest rates for all the loans are fixed on either monthly, quarterly or semi-annual basis. The gearing ratio of the Group, calculated as non-current liabilities to shareholders fund was approximately 45%. The increase in bank borrowings from HK$242 million as at 31st March, 2002 to HK$478 million is largely attributable to the increase in trading needs and working capital requirement and the draw down of HK$160 million syndicated loan during the year. As at 31st March, 2003 the total bank deposits and cash balances amounted to approximately HK$326 million, of which HK$ 199 million has been pledged to banks. As a result of the increase in bank borrowings, the finance cost for the year increased to HK$21 million from last year's HK$11 million. The interest cover is approximately 4.7 times. The Group shall commence to repay the syndicated loan in September 2003 by a quarterly payment of HK$8 million until the final maturity date on 18th September, 2004. The Group has adequate fund for the repayment and may arrange refinancing of the loan if appropriate.

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

The amount of inventory as at 31st March, 2003 was HK$335 million, which represents approximately 44 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 May Labor Day long holidays. However, due to the outbreak of the Severe Acute Respiratory Syndrome ("SARS") in Beijing and other PRC cities in April 2003, the Labor Day holiday has been shortened to 5 days instead of 7 days. The sales of some mobile phone models declined by 40% in April, partly attributable to the effect of SARS and partly due to the market situation. The Board believes that the impact of SARS is temporary, depending on how well the PRC government is able to control and restrict the infected areas. The situation in the southern region, which accounts for 45% of the Group's sales, is not so much affected by SARS as the northern and eastern regions. The Group is taking a cautious approach in inventory ordering and price negotiation with suppliers. Any drop in price of the product has no material impact on the financial position of the Group as it will be covered by pre-arranged price rebates from suppliers. Furthermore, substantially all of the inventories are current models of mobile phones and no provision for obsolescence is necessary.

The Group employs a very tight credit control policy whereby most of the sales would be on either cash basis or limited credit period of less than 30 days. The amount of trade receivables as at 31st March, 2003 was HK$104 million, which represents approximately 13 days debtors' turnover period as compare with 8 days for last financial year. Over 90% of the receivables aged less than 30 days. The Group has made a provision of doubtful debts of HK$6 million for the year, which represents approximately 0.2% of the Group's turnover. In February 2003, the Group has ceased trading with Guangzhou Fortune Telecom Development Co., Ltd., a major customer of the Group and a connected person as defined under the GEM Listing Rules. The Group has identified other customers in the southern region and there shall be no material impact on the Group's financial position.

During the year, the Group has further consolidated its operation in Hong Kong by closing the non-profit contributory retail business under the trade name of "Telecom-Port". The Group has recorded a gain of other investment of HK$2 million due to the increase in share price of the investment in PacificNet, Inc., which is listed on the Nasdaq Small Capital Market of the New York Stock Exchange. The Group holds 159,316 shares in PacificNet, Inc. which accounts for approximately 3% of its issued share capital. There is no acquisition or disposal of material investment, subsidiary, associates or affiliated company during the year. There is no plan for material investment or purchase of capital assets in the coming year. There is no significant contingent liability or capital commitment as of 31st March, 2003.

As at 31st March, 2003, the Group has a total number of 77 full time contracted employees and 341 non-contracted marketing representatives and promoters in various cities in the PRC. There is no material change in the number of staff based in Hong Kong but the number of non-contracted staff in the PRC has increased from 165 as at 30th September, 2002 to 341 because of development of distribution channels in various regions in the PRC. There is no material change in remuneration policy, bonus and share option scheme as compare with previous year.

**Market Overview**

*Telecommunications market*

In year 2002, China has approximately 12 million subscribers for Xiaolingtong service - a wireless local loop network that China Telecommunications Corp Group ("China Telecom") and China Network Communications Group engaged to compete for mobile users in various cities in the PRC. Under China's telecom regulation, Xiaolingtong is considered an extension of fixed line services. As Xiaolingtong users only pay about one eighth of the usual mobile phone tariff, and only the calling party is charged, it has caused significant declines in the market share of CDMA and postpaid Global System for Mobile Communications ("GSM") pricing.

It is anticipated that Xiaolingtong's low end basic voice services will continue to grow and may reach 100 million users by the year 2007, compare with nearly 300 million wireless users expected to be signed up by year 2007. China Telecom has also launched a "resting point" service allowing users to bypass mobile operators' network and deliver calls on fixed-line phones. China Mobile Communications Corporation ("China Mobile") responses by launching a service that allow users to divert calls from fixed-lines to their mobile phones. Apart from the challenge of Xialingtong, China Mobile is under pricing pressure following the Ministry of Information Industry approval of China United Telecommunications Corporation ("China Unicom") to undercut China Mobile's tariffs by up to 20%. Both China Mobile and China Unicom's roaming business and subscribers growth were further hit by the outbreak of SARS in April 2003. Simultaneously, China Mobile has built a nationwide fixed-line backbone network, including national Internet protocol backbone CMNet, while awaiting the granting of a full telecommunications licence.

China Unicom continues its handset subsidize plans in the first quarter of 2003 as a means to boost CDMA service subscriptions. Last year, 60% of CDMA users are on the handset subsidy plan. During 2003, China Unicom aims to sign up 11.4 million new CDMA users and 10.1 million new GSM users across 21 provinces.

*Mobile phone market*

The outbreak of SARS is expected to have a temporary negative impact on the demand and production of handsets in China till the end of the second quarter of 2003, depending on how well the situation is being controlled. According to research reports, handset inventories in China have risen to three months in the first quarter of 2003. It is believed that domestic brands, accounting for 30% of production in the PRC, make up half of the inventories. According to China Media Intelligence, Chinese national production capacity is 200 million units of handset per year, domestic sales are estimated at 80 million units for year 2003 with another 50 million units for export, indicating excessive capacity of at least 70 million units. Due to aggressive expansion in production, the intense competition among some 25 domestic handset vendors and declining demand due to SARS, the China handset market will face fierce downward pricing pressure in the near future. It is also observed that consumer behavior in certain cities, such as Beijing and Nanjing, has reached a state of panic while restrictions are imposed on the people's mobility around the city. According to our channels, handset retail sales in Beijing may have dropped by as much as 40% in the month of April and May. The situation in southern regions, which accounts for over 45% of the Group's sales, consumer behavior was back to normal, and the impact of SARS is minimal. On the other hand, consumers in the SARS affected areas may have pent-up demand that will drive a stronger than expected consumption rebound in the third quarter of year 2003, when many new color display handset models will be introduced to the market.

According to research reports, the top five markets share of handset sales in the PRC for the year 2002 is Motorola 27%, Nokia 21%, Bird 12%, TCL 11% and Eastcom 7%. The aggregate market share of domestic brands has reached 40%. It is believed that SARS could lead to a dramatic slowdown in the market share gained by domestic vendors and some stabilization in the market shares of foreign brands. The shakeout in the PRC handset market could benefit those with scale, better cost controls and resources.

While the overall mobile phone penetration rate in the PRC remains low at approximately 15%, the forecast sales of 80 million handsets in year 2003 represents approximately 18% of the world handset market. The PRC has been the largest handset market since the year 2001. The total number of subscribers for mobile phones services has reached over 206 million. In some big cities and provinces, the handset penetration rate is much higher, like Beijing 66%, Shanghai 56% and Guangdong 41%.

**Business Review**

*Mobile phone distribution in the PRC*

Mobile phone distribution in the PRC market continued to be the Group's core business for the year which accounts for over 90% of the Group's turnover. All mobile phones were purchased in the PRC and were sold in the domestic market. Nokia continues to be the Group's largest supplier which accounts for over 90% of the Group's purchases. The Nokia's GSM mobile phone models that the Group has distributed during the year are 8910i, 8250, 7250, 7210, 6610, 6510, 3610 and 3310. The Group has also distributed other domestic GSM mobile phones like Kejian and DBTel as well as Motorola's CDMA mobile phones model V730 and V8060. The main product remains Nokia's 8250 which accounts for approximately 80% of the Group's turnover. The Group has been very successful in the distribution and marketing of this product since December 2000. With a standalone country market share of 6%, it is currently still the top performer for Nokia's market share in the PRC. As a result, the life cycle of this product is prolonged and the Group is currently in discussion with Nokia for the distribution of other new models in the second half year of 2003. The Group is confident that the sales volume of Nokia's 8250 model can be maintained at a stable level when the pricing is correctly adjusted together with innovative promotional programs to compete with other similar products.

The Group was also appointed as the national distributor for the high-end Nokia model 8910i in February 2003. This advance model features a titanium outer casting and auto-opening grip mechanism. It is equipped with a color display screen, Wireless Application Protocol, 2.5G General Packet Radio Services, bluetooth wireless technology plus Multimedia Messaging Service ("MMS") and Java capabilities. Nokia's 8910i is currently selling at a retail price of Renminbi 6,680. The sales is encouraging in big cities like Shanghai and Beijing and other regions in the Northern and Eastern China. The Group was also appointed as distributor for Nokia's 7250 model in the province of Yunnan from March 2003. Nokia's 7250 features an integrated camera, built-in radio and color display and is currently selling at retail price of Renminbi 4,100.

The Group has doubled its sales force during the year and deepened its market penetration to the western region of the PRC. The Group currently has over 1,000 customers and access to over 3,000 retail points all over the PRC. During the year, the Group has also strengthened its management team and shall continue to improve on its information system and internal control to handle the increasing business volume. The Group will continue to build on its already well established distribution infrastructure and expand further into other third and fourth tier PRC cities.

*Wireless LAN and PDA distribution in Hong Kong*

(i) Wireless LAN

With the opening up of the 5G Hz frequency spectrum market in Hong Kong and the launch of the new 2.4G 802.11g standard, the Group, through its subsidiary, Synergy, introduced the ORiNOCO AP-2000 access point combo PC card which support both 2.4G Hz and 5G Hz simultaneously and compatible with 802.11a, 802.11b and 802.11g standards. Synergy also supplies Wireless LAN cards to Netvigator and notebook users at Starbuck Coffee Shops in Hong Kong. During the year, Synergy was again appointed as the official wireless internet infrastructure sponsor of the Hong Kong Information Infrastructure Expo and Conference 2003. Synergy leads the wireless technology industries in the development and distribution of advance products.

(ii) PDA and Smartphone distribution

The Group continues to be the main supplier of PDA in the Hong Kong market. Following the success of the innovative $O_2$xda and $O_2$xda Plus, it also distributes various new color display Palm products including, Tungsten T and Tungsten W as well as the new Zire 71 and the Tungsten C. The Palm Zire 71 is an affordable multi-media 16MB memory handheld device with a built in digital camera. Users can also download MP3, video clips and audio books from desktop computers. The Tungsten C is Palm's first handheld device with integrated Wi-Fi, or 802.11b standard, for wireless campus connectivity and a 400 M Hz Intel processor. It is equipped with a built in keyboard, web browser and auto-push email software. With its 64MB memory and ultra sharp color display, users are able to use Microsoft applications like Word, Excel, Powerpoint etc.

The Group was appointed as the sole distributor in Hong Kong for the first Chinese language Windows powered Smartphone, the Qtek 7070. This is another milestone for the product development of Synergy in the Hong Kong technology market since its introduction of modem in year 1994, PDA in year 1997 and Wireless LAN in year 1999. Qtek 7070 was launched in May 2003 and marked the new standard for mobile communications. Smartphones allow users to choose their preferred means of communications, whether voice, email, short message services, MMS or via MSN messenger, with a compact high resolution color display mobile phone. The Group is confident that this new advance product will be well received in the Hong Kong market.

**Prospect and Outlook**

The Group is cautiously evaluating the effect of SARS on the handset distribution market and is in close discussion with its major suppliers on the situation. It is not yet able to assess the overall impact on the results of the coming year but it is perceived that the impact would be temporary as the consumer behavior in the southern region has already been back to normal.

The mobile phone market in the PRC remains competitive with large number of domestic brand handsets suppliers. The Group sees this as a challenge as well as an opportunity in diversifying its mobile phone distribution. The Board of directors believes that the role of handset distribution specialist becomes more and more important to the handset manufacturers in such a competitive environment. Through the well established distribution infrastructure and adequate working capital backing, the Group is well positioned to take advantage of the business opportunities with other brands.

The Group has applied for listing on the Main Board of the Stock Exchange of Hong Kong Limited on 9th December, 2002 and the application is still processed by the Listing Division. The Board believes that successful listing on the Main Board will enhance the Group's profile, leading to more research coverage from leading industry analysts that will lead to more trading liquidity of the Company's shares. The Group will then have better access to equity capital market that will benefit the Group's future expanse plan. The Group will continue to pursue and focus on its current core business of being a distributor and service provider of mobile phone and wireless telecommunications equipment in the PRC and Hong Kong.

## DIRECTORS' INTERESTS IN SECURITIES

At 31st March, 2003, 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 |

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 31st March, 2003.

## 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 year 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 year.

## SUBSTANTIAL SHAREHOLDERS

At 31st March, 2003, 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) have any interest in any business, which may compete with the business of the Group.

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

During the year from 1st April, 2002 to 31st March, 2003, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practice and procedures as set out in rules 5.28 to 5.39 of the GEM Listing Rules during the year.

## AUDIT COMMITTEE

The audit committee comprises of 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. During the year and up to the date of this announcement, five meetings were held for reviewing the Group's annual report, quarterly reports, connected transactions. and results announcements. The audit committee has reviewed and approved this announcement.

By Order of the Board
**Lau Siu Ying, Steve**
*Chairman*

Hong Kong, 2nd June, 2003

* *For identification purpose only*

*This announcement will remain on the website of the Growth Enterprise Market of the Stock Exchange with the domain name of "www.hkgem.com" on the "Latest Company Announcement" page for not less than seven days from the day of its posting and on the Company's website "www.fortunetele.com".*