



# 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, 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.

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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

- The first quarter performance was adversely affected by the impact of Severe Acute Respiratory Syndrome (“SARS”) in major cities in the mainland China. Turnover for the three months ended 30th June, 2003 was approximately HK\$328 million, representing a decrease of approximately 57% as compared with the corresponding period in the previous year.
- Unaudited profit from operations for the three months ended 30th June, 2003 was approximately HK\$6 million, representing a decrease of approximately 83% as compared with the corresponding period in the previous year.
- Amount of inventory was reduced to HK\$216 million or approximately two months turnover as compared to HK\$334 million as at 31st March, 2003.
- Amount of bank borrowing was lowered to HK\$316 million as compared to HK\$478 million at 31st March, 2003.
- The earnings per share was 0.3 cent for the three months period.

## RESULTS

The board of directors (the “Board”) of Fortune Telecom Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 30th June, 2003, together with the unaudited comparative figures for the corresponding period in year 2002 as follows:–

		<b>Three months ended</b>	
		<b>30th June,</b>	
	<i>Notes</i>	<b>2003</b>	2002
		<b>HK\$'000</b>	<b>HK\$'000</b>
Turnover	2	<b>327,655</b>	767,342
Cost of sales		<b>(312,756)</b>	(711,209)
Gross profit		<b>14,899</b>	56,133
Other operating income		<b>1,137</b>	1,137
Distribution costs		<b>(3,817)</b>	(9,287)
Administrative expenses		<b>(5,166)</b>	(6,450)
Other operating expenses		<b>(678)</b>	(2,996)
Profit from operations	3	<b>6,375</b>	38,537
Finance costs		<b>(4,676)</b>	(3,840)
Unrealised holding loss on other investments		<b>(808)</b>	(746)
Share of results of associates		–	(39)
Profit before taxation		<b>891</b>	33,912
Taxation	4	<b>(266)</b>	(6,162)
Profit before minority interests		<b>625</b>	27,750
Minority interests		<b>321</b>	484
Net profit for the period		<b>946</b>	28,234
Earnings per share – basic	5	<b>0.3 cent</b>	9.3 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 Company is an investment holding company. The principal activities of the subsidiaries are the distribution and trading of mobile phones and related accessories and the development of marketing and after-sales service network.

The unaudited consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the three months ending 30th June, 2003.

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 unaudited consolidated financial statements are consistent with those used in the annual audited consolidated financial statements for the year ended 31st March, 2003. Certain comparative figures for the corresponding period in year 2002 has 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 period. Substantially all of the Group's turnover was derived from the distribution and trading of mobile phones in the People's Republic of China ("PRC").

## 3. Profit from operations

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

	Three months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
Amortization of goodwill	<u>160</u>	<u>248</u>
Depreciation and amortization	<u>232</u>	<u>305</u>

## 4. Taxation

	Three months ended 30th June	
	2003	2002
	HK\$'000	HK\$'000
The charge comprises:		
The PRC income tax	<u>266</u>	<u>6,162</u>

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 ("上海遠嘉"), established in Shanghai Waigaoqiao Free Trade Zone, the PRC. Fortune Shanghai and 上海遠嘉 are 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. The Group has no significant unprovided deferred tax liabilities 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\$946,000 (2002: HK\$28,234,000) and on the weighted average number of 302,100,000 shares (2002: 302,100,000 shares) in issue during the period.

## 6. Consolidated reserves

	Share premium HK\$'000	Special reserve HK\$'000	Goodwill HK\$'000	Translation reserve HK\$'000	PRC statutory funds HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
As at 1st April 2003	103,275	2,481	(1,277)	348	8,491	161,039	274,357
Profit for the period	-	-	-	-	-	946	946
As at 30th June 2003	<u>103,275</u>	<u>2,481</u>	<u>(1,277)</u>	<u>348</u>	<u>8,491</u>	<u>161,985</u>	<u>275,303</u>
As at 1st April, 2002	103,275	2,481	(1,277)	295	1,280	122,438	228,492
Exchange differences arising on translation of the financial statements of operations in the PRC	-	-	-	49	-	-	49
Transfer to PRC statutory funds	-	-	-	-	7,211	(7,211)	-
Profit for the period	-	-	-	-	-	28,234	28,234
As at 30th June 2002	<u>103,275</u>	<u>2,481</u>	<u>(1,277)</u>	<u>344</u>	<u>8,491</u>	<u>143,461</u>	<u>256,775</u>

## INTERIM DIVIDEND

The Board does not propose the payment of an interim dividend for the three months ended 30th June, 2003 (2002: Nil).

## REVIEW AND OUTLOOK

### Financial Review

The turnover of the Group decreased to approximately HK\$328 million for the three months ended 30th June 2003, representing a decline of approximately 57% as compared with the corresponding period in year 2002. The Group's operating profit for the three months ended 30th June, 2003 decreased by 83% to approximately HK\$6 million. The gross profit margin was 4.5% for the period as compared to 5.0% for the year ended 31st March 2003.

The quarterly result for the three months ended 30th June, 2003 was adversely affected due to the impact of SARS in certain major cities in the mainland China. During the period from mid April to mid June, the SARS outbreak in major cities like Beijing and Shanghai has deterred shoppers and promotional activities in the PRC. The handset market was no exception and the handset sales during the May Labor Day long holidays has dropped by more than 50% as compared to same period in last year. The SARS outbreak kept people away from mobile phones shops and therefore dented the demand. In view of the adverse situation and uncertainty as to the recovery, the Group has responded by strict control of inventory level and reduced purchases during the period. As a result of the timely decision, the Group is able to confine its inventory level within 2 months' turnover which largely reduced the risk associated with excessive handset inventories. Consequently, the Group reduced its bank borrowings to HK\$316 million as compared to HK\$478 million as at 31st March, 2003. For the three months period ending 30th June, 2003, the number of units of mobile phones sold was approximately 280,000 sets, representing a drop of 43% as compared to 490,000 sets sold during the same period in year 2002. The Group's turnover was decreased by 57% during the period due to lesser handsets sold as well as the lowering of retail price of the Group's main product, Nokia's model 8250, from Renminbi 1,800 during the first quarter in year 2002 to recently Renminbi 1,200. Other than model 8250, the Group also distributes Nokia's model 2100, 3610, 6610, 7210, 7250 and 8910i during the period as well as other brands like OKWAP, Kejian, DBTel etc.

During the period under review, Synergy Pacific (Holding) Limited ("Synergy") has obtained sole distribution right for a Chinese Language Windows Powered Smartphone – the Qtek 7070 and operates its mobile Web Portal Service ([www.smartphone.com.hk](http://www.smartphone.com.hk)) in Hong Kong. The product was introduced in May 2003 and was well received by advance mobile users in Hong Kong and bring profit contribution to the Group. Synergy will continue to explore more high end mobile products to further complement its personal digital assistance ("PDA") and wireless local area network ("WLAN") products.

As at 30th June, 2003, the Group's total bank deposits and cash balances amount to approximately HK\$317 million, of which HK\$199 million has been pledged to banks. As at 30th June, 2003, out of the amount of HK\$316 million bank loan outstanding, HK\$128 million is classified as non-current liabilities. The balance of HK\$188 million, of which HK\$145 million is denominated in Renminbi, consists mainly short term revolving working capital loans and trade facilities. The gearing ratio of the Group, calculated as non-current liabilities to shareholders fund was approximately 42%. As at 30th June, 2003, the trade receivables amount to HK\$66 million, representing approximately 18 debtors' turnover period. Over 80% of the trade receivables aged less than 30 days.

## **Market Review**

### *The Telecommunications and Mobile Phone Market*

In June 2003, China Netcom Group, the mainland's third-largest telecommunications carrier, has taken a big step forward in its integration plans by acquiring Jitong Network Communications. The purchase marks a key breakthrough in a long-delayed plan to integrate China Netcom Group, Jitong and China Netcom Corporation (also known as Little Netcom) laid down by the State Council more than a year ago. It is believed that Jitong's assets within the 10 northern provinces will be merged with China Netcom's operations, while those in Fujian, Anhui, Jiangxi, Hunan, Hubei and Shanghai will be taken over by Little Netcom.

According to the Ministry of Information Industry's ("MII") latest figure, the number of mainland fixed line users reaches 237 million by the end of June 2003. China's wireless market had long been growing at a faster pace than the fixed line market, but in May 2003, the fixed line carriers began a nationwide rollout of Xiaolingtong services to poach cellular business from the mobile operators. Users of Xiaolingtong reach nearly 20 million by the end of May 2003 and accounted for 8% of the mainland's fixed line subscribers. It is forecasted that Xiaolingtong users may reach 25 to 30 million by the end of year 2003.

China Unicom is taking aggressive steps to boost code division multiple access ("CDMA") subscriber growth by stocking up with low priced handsets and preparing to launch nationwide pre-paid services in August 2003. The launching of pre-paid packages is aimed to attract low-budget mobile phone users and shift away from offering the large handset subsidies involved in post-paid CDMA packages. Post paid plans targets mid to high end users, but more than 80% of China's mobile users are lower end pre-paid.

Mobile handset output and sales in China dropped during the quarter under review and according to research, there is approximately 20 million handset inventory in the channel. With this level of inventory, the biggest threat to China's handset market is pricing pressure. However, with the SARS being under control and the removal of all cities in China from SARS infected area list of the World Health Organisation, the situation has sight of being stablized in July 2003. According to data from the MII, the total number of mobile phone users in China has reached 234 million at the end of June 2003. It is expected to hit 258 million by the end of year 2003 and rise to 405 million by the end of year 2007. The PRC government hopes to fuel the growth with measures aimed at boosting consumer demand and promoting new technology.



## **Business Review**

### *Mobile Phone Distribution*

The Group's business was adversely affected by the SARS during the quarter under review, both in Hong Kong and PRC. Mobile phone distribution continued to be the Group's major core business for the three months ended 30th June, 2003, 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 declined to approximately Renminbi 1,200. While approximately 70% of the Group's turnover is derived from Nokia's model 8250, the Group believe that the product is now approaching its final stage of life cycle. The Group is very cautious in controlling the inventory level and assessing the product's profitability. The Group is now under negotiation with Nokia for the distribution of new color display models and is optimistic that new products will be forthcoming. At the same time, the Group has currently successfully obtained the national distribution right for the latest Siemens' color display GPRS handset model M55 in mainland China. This has proven the recognition by handset manufacturers of the Group's distribution capability.

### *WLAN and PDA Distribution*

Following the success in the distribution of Palm Tungsten W PDA in March 2003, Synergy launched Palm Zire 71 and Tungsten C models by the end of April 2003. The Palm Zire 71, with an affordable price, hits the market and records a successful sales during June 2003. The Palm Zire 71 is a multi-media handheld with a built-in digital camera. Users are able to take photos anywhere and anytime.

In May 2003, Synergy again leads the market by launching the first Chinese Language Windows Powered Smartphone – the Qtek 7070 and its mobile Web Portal Service ([www.smartphone.com.hk](http://www.smartphone.com.hk)) in Hong Kong. The successful launch of the Qtek 7070 is the joint effort by Synergy and its business partners including Microsoft and the Group's mobile products manufacturer – High Tech Corporation, the Group's partner operator – CSL and premium content partners including MSN Hong Kong, PCCW Directories Limited and Next Media, etc.

It is expected that more Smart Mobile products will be launched by Synergy in Hong Kong in the following quarter.

With the opening up of the 5GHz frequency market in Hong Kong and the arrival of the new 2.4G 802.11g standard, Synergy immediately introduced Proxim's new dual mode 802.11a/b/g PC card and the ORiNOCO 5 GHz 801.22a and the 2.4GHz 802.11g upgrade Kit for the dual slot ORiNOCO AP-2000. The ORiNOCO 802.11a/b/g ComboCard delivers the utmost in mobile convenience, allowing secure connections to both 2.4GHz 802.11b and 802.11g plus the 5GHz 802.11a networks from a single card. The ORiNOCO AP-2000 is the first enterprise access point available that support both 2.4GHz and 5GHz simultaneously and work with 802.11a, 802.11b and 802.11g clients.



## 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 handset market in China continues to be competitive and pricing and channel profit margin continue to be dominant factors for the success of sales of handsets. Following the success of obtaining national distribution right for Siemens' model M55, the Group is confident that the sales of the phone will start to have profit contribution in the second quarter. The Group will continue to explore distribution right from other foreign and domestic brands. Nokia's mobile phones shall continue to be the main products and the Group is optimistic that overall profit margin can be maintained as a result of the distribution of new models and new brands.

## INTERESTS OF THE DIRECTORS IN THE COMPANY

As at 30th June, 2003, the interests of the Directors and their associates in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities & Futures Ordinance ("SFO")) which require notification to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO), or which were required, pursuant to Sections 352 or 345 of Part XV of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:—

### *Long Positions in Shares*

<b>Name of Director</b>	<i>Note</i>	<b>Nature of Interest</b>	<b>Number of Shares Held</b>	<b>Approximate percentage of interest</b>
Lau Siu Ying, Steve	<i>1</i>	Corporate	211,500,013	70.01%

### *Note:*

1. 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, as at 30th June, 2003, none of the directors or their associates, had any interests in the securities of the Company or its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of SFO (including interests and short positions which they were taken or deemed to have under such provisions of SFO), or which were required, pursuant to Sections 352 or 345 of Part XV of the SFO, to be entered in the register referred to therein, or which were required, pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS IN THE COMPANY

So far as known to any Director or chief executive of the Company, as at 30th June, 2003, the person or company (not being a Director or chief executive of the Company) who had interests or short positions in the shares of the Company which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company is as follows:

### *Long Positions in Shares*

<b>Name of Shareholder</b>	<b>Note</b>	<b>Nature of Interest</b>	<b>Number of Shares Held</b>	<b>Approximate percentage of interest</b>
Future 2000 Limited	<i>1</i>	Beneficial owner	211,500,013	70.01%

### *Note:*

1. The entire share capital of Future 2000 Limited, a company incorporated in the British Virgin Islands, is held by a trustee of a discretionary trust. The beneficiaries of the discretionary trust include Mr. Lau Siu Ying, Steve (a director of the Company), his spouse and his children.

Save for the shareholder as disclosed herein, the Directors are not aware of any persons who, as at 30th June 2003, had an interest or short position in the shares of the Company which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or interested in 5% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of the Company.

## 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.

## **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, 2003 to 30th June, 2003, 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, 2003 to 30th June, 2003 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*

Beijing, the PRC, 8th August, 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".*