

**FIRST MOBILE GROUP HOLDINGS LIMITED**

第一電訊集團有限公司

Stock code: 8110 股票編號: 8110



MASTERING THE MOBILE ARENA

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

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## **HIGHLIGHTS**

For the six months ended 30th June, 2006, First Mobile Group Holdings Limited (the "Company") and its subsidiaries recorded a loss in a competitive environment. Highlights of the six months' performance are as follows:

- Turnover was approximately HK\$3,981 million, representing an increase of 25.4% over the same period of 2005
- Gross profit was approximately HK\$152 million, representing an increase of 2.4% over the same period of 2005
- Loss attributable to equity holders of the Company was approximately HK\$9.7 million, representing a decrease of 55.9% over the same period of 2005
- Loss per share was HK0.5 cent
- Number of mobile phones sold was approximately 2.7 million units

## INTERIM FINANCIAL STATEMENTS

The directors (the "Directors") of First Mobile Group Holdings Limited (the "Company") announce the unaudited financial information of the Company and its subsidiaries (collectively the "Group") for the three months and the six months ended 30th June, 2006 (the "Periods") together with the unaudited comparative figures:

### Unaudited Condensed Consolidated Profit and Loss Account

For the three months and the six months ended 30th June, 2006

	Note	Three months ended 30th June,		Six months ended 30th June,	
		2006 HK\$'000	(restated) 2005 HK\$'000	2006 HK\$'000	(restated) 2005 HK\$'000
Turnover	2	1,932,554	1,636,185	3,981,087	3,174,806
Cost of sales		(1,852,634)	(1,548,334)	(3,829,023)	(3,026,290)
Gross profit		79,920	87,851	152,064	148,516
Other income/revenues	2	4,320	4,345	8,557	9,722
Selling and distribution expenses		(9,757)	(15,457)	(24,763)	(34,707)
General and administrative expenses		(49,402)	(49,998)	(91,414)	(101,371)
Other operating income	3	2,378	2,179	4,978	2,892
Other operating expenses	3	(16,766)	(5,894)	(17,936)	(20,469)
Operating profit	4	10,693	23,026	31,486	4,583
Finance costs	5	(14,950)	(11,709)	(28,767)	(19,985)
(Loss)/profit before taxation		(4,257)	11,317	2,719	(15,402)
Taxation	6	(9,057)	(8,242)	(12,711)	(9,437)
(Loss)/profit for the period		(13,314)	3,075	(9,992)	(24,839)
Attributable to:					
Equity holders of the Company		(13,358)	3,749	(9,715)	(22,032)
Minority interests		44	(674)	(277)	(2,807)
(Loss)/profit for the period		(13,314)	3,075	(9,992)	(24,839)
(Loss)/earnings per share	7				
– basic		HK(0.69) cent	HK0.19 cent	HK(0.50) cent	HK(1.13) cents
– diluted		HK(0.69) cent	HK0.19 cent	HK(0.50) cent	HK(1.13) cents

## Unaudited Condensed Consolidated Balance Sheet

As at 30th June, 2006

		(audited)
	30th June, 2006	31st December, 2005
	HK\$'000	HK\$'000
Non-current assets	Note	
Intangible assets	9	12,139
Leasehold land	10	23,735
Fixed assets	10	49,222
Deferred tax assets		9,203
Available-for-sale financial asset		65,000
		<u>155,431</u>
Current assets		<u>376,982</u>
Inventories		627
Financial assets at fair value through profit or loss	11	1,136,240
Trade receivable		111,495
Other receivables and prepayments		6,712
Tax recoverable		–
Derivative financial instruments		387,692
Bank balances and cash		304,850
– pledged		
– not pledged		
		<u>2,454,372</u>
Current liabilities		<u>2,324,598</u>
Trade payable	12	701,466
Bills payable		245,137
Other payables and accrued charges		107,259
Derivative financial instruments		3,147
Current portion of long-term liabilities		897
Taxation payable		15,841
Bank loans and overdrafts		
– secured		532,867
– unsecured		8,891
		<u>1,615,505</u>
Net current assets		<u>709,093</u>
Total assets less current liabilities		<u>868,392</u>
Capital and reserves attributable to the Company's equity holders		
Share capital		194,570
Reserves		622,714
		<u>817,284</u>
Minority interests		355
Total equity		817,639
Non-current liabilities		
Long-term liabilities		49,777
Deferred tax liabilities		976
		<u>868,392</u>

## Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2006

	Six months ended 30th June,	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Net cash (used in)/from operating activities	(70,423)	15,728
Net cash from/(used in) investing activities	6,409	(5,030)
Net cash (used in)/from financing activities	(92,658)	40,933
Effects of exchange rate changes	7,051	1,737
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Net (decrease)/increase in cash and cash equivalents	(149,621)	53,368
Cash and cash equivalents at 1st January	295,959	146,885
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Cash and cash equivalents at 30th June	<b>146,338</b>	<b>200,253</b>
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### Analysis of balances of cash and cash equivalents

	30th June, 2006 <i>HK\$'000</i>	30th June, 2005 <i>HK\$'000</i>
Non-pledged bank balances and cash	169,704	207,727
Bank overdrafts	(23,366)	(7,474)
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	<b>146,338</b>	<b>200,253</b>
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## Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2006

	Attributable to equity holders of the Company								Total HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Merger reserve HK\$'000	Reserve fund (note) HK\$'000	Exchange reserve HK\$'000	Available- for-sale financial asset revaluation reserve HK\$'000	Retained earnings HK\$'000	Minority interests HK\$'000	
Balance at 1st January, 2006	194,570	127,258	3,989	4,872	1,615	1,991	482,989	355	817,639
Exchange differences	-	-	-	-	7,907	-	-	54	7,961
Loss attributable to equity holders of the Company	-	-	-	-	-	-	(9,715)	-	(9,715)
Minority's share of loss for the Period	-	-	-	-	-	-	-	(277)	(277)
Contribution from a minority shareholder	-	-	-	-	-	-	-	70	70
<b>Balance at 30th June, 2006</b>	<b>194,570</b>	<b>127,258</b>	<b>3,989</b>	<b>4,872</b>	<b>9,522</b>	<b>1,991</b>	<b>473,274</b>	<b>202</b>	<b>815,678</b>
<b>Retained by:</b>									
<b>Company and subsidiaries</b>	<b>194,570</b>	<b>127,258</b>	<b>3,989</b>	<b>4,872</b>	<b>9,522</b>	<b>1,991</b>	<b>473,274</b>	<b>202</b>	<b>815,678</b>
Balance at 1st January, 2005	194,570	127,258	3,989	4,872	(2,271)	-	484,219	376	813,013
Exchange differences	-	-	-	-	517	-	-	531	1,048
Loss attributable to equity holders of the Company	-	-	-	-	-	-	(22,032)	-	(22,032)
Minority's share of loss for the period	-	-	-	-	-	-	-	(2,807)	(2,807)
2004 final dividend	-	-	-	-	-	-	(9,728)	-	(9,728)
<b>Balance at 30th June, 2005</b>	<b>194,570</b>	<b>127,258</b>	<b>3,989</b>	<b>4,872</b>	<b>(1,754)</b>	<b>-</b>	<b>452,459</b>	<b>(1,900)</b>	<b>779,494</b>
<b>Retained by:</b>									
<b>Company and subsidiaries</b>	<b>194,570</b>	<b>127,258</b>	<b>3,989</b>	<b>4,872</b>	<b>(1,754)</b>	<b>-</b>	<b>452,459</b>	<b>(1,900)</b>	<b>779,494</b>

*Note:* In accordance with the relevant regulations in the People's Republic of China (the "PRC") applicable to wholly foreign owned enterprises, the PRC subsidiary of the Group is required to appropriate to the reserve fund an amount of not less than 10% of profit after taxation (based on figures reported in the statutory accounts). If the accumulated total of the reserve fund reaches 50% of the registered capital of the PRC subsidiary, the enterprise will not be required to make any further appropriation. The reserve fund may be used to reduce any losses incurred by the PRC subsidiary. The appropriation is made only at 31st December.

Notes:

## 1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

This condensed consolidated financial information should be read in conjunction with the 2005 annual accounts.

The accounting policies used in the preparation of this condensed consolidated financial information are consistent with those used in the annual accounts for the year ended 31st December, 2005 except for the adoption of some new and revised standards stated below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards, HKASs and interpretations (collectively “HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2006. The Group has adopted all HKFRSs which are pertinent to its operations in the accounts for the year ending 31st December, 2006. The applicable HKFRSs are set out below:

HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS Int 4	Determining whether an Arrangement contains a Lease

All new and revised standards adopted by the Group require retrospective application other than those specifically allowed under the transitional provisions in the relevant standards.

(a) *HKAS 39 (Amendment) The Fair Value Option*

This amendment changes the definition of financial instruments classified as fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. This amendment does not have any financial impact as the Group’s accounting policies already comply with the amendment.

(b) *HKAS 39 and HKFRS 4 (Amendment) Financial Guarantee Contracts*

This amendment regulates issued financial guarantees, other than those previously assorted by the entity to be insurance contracts to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and referred; and (ii) the expenditure required to settle the commitment at the balance sheet date. This amendment does not have any financial impact to the Group’s financial results.

(c) *HKFRS Int 4 Determining whether an Arrangement contains a Lease*

HKFRS Int 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (i) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the “asset”); and (ii) the arrangement conveys a right to use the asset. This interpretation does not have any financial impact to the Group’s financial results.



## 2. Turnover, income, revenues and segment information

The Group is principally engaged in the trading and distribution of mobile phones and accessories and the provision of inter-city/international telecommunication services using Voice-over-IP (“VoIP”) technology.

Turnover represents invoiced value of sales of mobile phones and accessories, and airtime using VoIP technology to customers, net of returns, discounts allowed, value-added tax or sales tax where applicable. Income/revenues recognised during the Periods are as follows:

	Three months ended 30th June,		Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover				
Revenue from sales of mobile phones and accessories, net	<b>1,929,295</b>	1,613,666	<b>3,967,691</b>	3,125,509
Revenue from provision of telecommunication services using VoIP technology, net	<b>3,259</b>	22,519	<b>13,396</b>	49,297
	<b>1,932,554</b>	1,636,185	<b>3,981,087</b>	3,174,806
Other income/revenues				
Interest income	<b>3,102</b>	2,105	<b>6,023</b>	3,762
Rental income	<b>850</b>	371	<b>1,925</b>	638
Repair service income, net	<b>368</b>	1,673	<b>609</b>	5,126
Others	-	196	-	196
	<b>4,320</b>	4,345	<b>8,557</b>	9,722
Total income/revenues	<b>1,936,874</b>	1,640,530	<b>3,989,644</b>	3,184,528

## 2. Turnover, income, revenues and segment information (Cont'd)

### Primary reporting format – business segments

The Group's segment revenues, expenses, results, assets and liabilities are primarily attributable to trading and distribution of mobile phones and accessories, and provision of inter-city/international telecommunication services using VoIP technology.

Other operations of the Group include retailing of mobile phones and accessories, provision of repair services for mobile phones and holding of properties, all of which are of insufficient size to be reported separately.

The analysis of the Group's segment information for the six months ended 30th June, 2006 by business segment is as follows:

	Sales of mobile phones and accessories Six months ended 30th June,		Revenue from provision of telecommunication services using VoIP technology Six months ended 30th June,		Consolidated Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Turnover	<b>3,967,691</b>	3,125,509	<b>13,396</b>	49,297	<b>3,981,087</b>	3,174,806
Segment results	<b>44,336</b>	11,929	<b>(497)</b>	(4,279)	<b>43,839</b>	7,650
Interest income					<b>6,023</b>	3,762
Unallocated income and expenses, net					<b>(18,376)</b>	(6,829)
Operating profit					<b>31,486</b>	4,583
Finance costs					<b>(28,767)</b>	(19,985)
Profit/(loss) before taxation					<b>2,719</b>	(15,402)
Taxation					<b>(12,711)</b>	(9,437)
Loss for the period					<b>(9,992)</b>	(24,839)

## 2. Turnover, income, revenues and segment information (Cont'd)

Primary reporting format – business segments (Cont'd)

	Sales of mobile phones and accessories		Revenue from provision of telecommunication services using VoIP technology		Consolidated	
	As at 30th June, 2006 HK\$'000	As at 31st December, 2005 HK\$'000	As at 30th June, 2006 HK\$'000	As at 31st December, 2005 HK\$'000	As at 30th June, 2006 HK\$'000	As at 31st December, 2005 HK\$'000
Segment assets	2,403,921	2,270,614	15,268	16,856	2,419,189	2,287,470
Unallocated corporate assets					190,614	196,427
Consolidated total assets					2,609,803	2,483,897
Segment liabilities	(1,726,411)	(1,601,625)	(12,189)	(13,748)	(1,738,600)	(1,615,373)
Unallocated corporate liabilities					(55,525)	(50,885)
Consolidated total liabilities					(1,794,125)	(1,666,258)
	Six months ended 30th June,		Six months ended 30th June,		Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Capital expenditure	10,491	5,518	–	564	10,491	6,082
Depreciation and amortisation	5,414	6,092	872	1,650	6,286	7,742
Impairment of trade receivable	20,168	16,194	29	289	20,197	16,483
(Reversal of impairment)/ impairment of inventories	(7,725)	22,936	–	–	(7,725)	22,936

## 2. Turnover, income, revenues and segment information (Cont'd)

### Secondary reporting format – geographical segments

Although the Group's business segments are managed on a worldwide basis, they operate in five main geographical areas:

- Hong Kong – trading and distribution of mobile phones and accessories.  
– retailing of mobile phones and accessories.
- Malaysia – trading and distribution of mobile phones and accessories.  
– retailing of mobile phones and accessories.
- The Philippines – trading and distribution of mobile phones and accessories.
- Mainland China – trading and distribution of mobile phones and accessories.
- Taiwan – trading and distribution of mobile phones and accessories.

	<b>Six months ended 30th June, 2006</b>		<b>As at 30th June, 2006</b>
	<b>Turnover</b>	<b>Capital expenditure</b>	<b>Total assets</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Hong Kong</b>	<b>3,434,879</b>	<b>672</b>	<b>1,498,563</b>
<b>Malaysia</b>	<b>299,289</b>	<b>9,582</b>	<b>691,506</b>
<b>The Philippines</b>	<b>42,851</b>	<b>118</b>	<b>56,984</b>
<b>Mainland China</b>	<b>105,072</b>	<b>–</b>	<b>90,604</b>
<b>Taiwan</b>	<b>14,330</b>	<b>115</b>	<b>24,108</b>
<b>Other countries</b>	<b>84,666</b>	<b>4</b>	<b>57,424</b>
	<b><u>3,981,087</u></b>	<b><u>10,491</u></b>	<b><u>2,419,189</u></b>
<b>Unallocated assets</b>			<b><u>190,614</u></b>
<b>Capital expenditure/total assets</b>		<b><u>10,491</u></b>	<b><u>2,609,803</u></b>

## 2. Turnover, income, revenues and segment information (Cont'd)

Secondary reporting format – geographical segments (Cont'd)

	Six months ended 30th June, 2005	Capital expenditure HK\$'000	As at 30th June, 2005 Total assets HK\$'000
Hong Kong	2,416,409	3,875	1,337,593
Malaysia	434,928	336	574,737
The Philippines	96,761	29	56,174
Mainland China	56,585	–	65,772
Oceania	33,976	128	18,617
Taiwan	48,495	21	51,856
Other countries	87,652	1,693	54,947
	<u>3,174,806</u>	6,082	2,159,696
Unallocated assets			<u>175,873</u>
Capital expenditure/total assets		<u>6,082</u>	<u>2,335,569</u>

## 3. Other operating income/expenses

Other operating income/expenses comprises of loss on disposal of fixed assets, amortisation of intangible assets and exchange differences.

As further elaborated in note 13 herein, the Company had on 3rd July, 2006 disposed of Chi Tel Investments Limited. Consequently, the results for the three months ended 30th June, 2006 include the one-time write-off of goodwill and advances of HK\$7,754,000 and HK\$2,634,000 respectively in connection therewith.

#### 4. Operating profit

Operating profit is stated after charging the following:

	Three months ended 30th June,		Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cost of inventories sold	1,835,298	1,507,160	3,801,831	2,939,832
Depreciation				
– owned fixed assets	1,573	2,811	4,005	5,499
– leased fixed assets	179	276	405	420
Amortisation of intangible assets (note 9)	803	769	1,590	1,537
Amortisation of leasehold land (note 10)	143	138	286	286
Impairment of goodwill	7,754	–	7,754	–
	<u>7,754</u>	<u>–</u>	<u>7,754</u>	<u>–</u>

#### 5. Finance costs

	Three months ended 30th June,		Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Interest expenses on:				
– bank loans and overdrafts	9,240	8,772	16,171	13,913
– finance leases	32	44	57	89
Bank and other charges	5,678	2,893	12,539	5,983
	<u>14,950</u>	<u>11,709</u>	<u>28,767</u>	<u>19,985</u>

#### 6. Taxation

	Three months ended 30th June,		Six months ended 30th June,	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong profits tax (note (i))	6,963	148	8,745	252
Overseas taxation (note (iii))	2,325	9,952	4,197	11,920
Deferred taxation	(231)	(1,858)	(231)	(2,735)
	<u>9,057</u>	<u>8,242</u>	<u>12,711</u>	<u>9,437</u>

Notes:

- (i) Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the Periods.
- (ii) Taxation on overseas profits has been calculated on the estimated assessable profits for the Periods at the rates of taxation prevailing in the countries in which the Group operates.

## 7. Earnings per share

Basic loss per share for the three months and the six months ended 30th June, 2006 are calculated based on the loss of HK\$13,358,000 and HK\$9,715,000 attributable to equity holders of the Company respectively (2005: profit of HK\$3,749,000 and loss of HK\$22,032,000) and on the weighted average of 1,945,696,565 (2005: 1,945,696,565) shares in issue during the Periods.

The Company has no dilutive potential shares as at 30th June, 2006 (2005: None).

## 8. Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2006 (2005: Nil).

## 9. Intangible assets

	<b>Goodwill</b>	<b>Distribution</b>	<b>Total</b>
	<b>HK\$'000</b>	<b>right</b>	<b>HK\$'000</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Net book value as at 1st January, 2006</b>	<b>7,754</b>	<b>4,385</b>	<b>12,139</b>
<b>Exchange differences</b>	<b>-</b>	<b>123</b>	<b>123</b>
<b>Impairment (note)</b>	<b>(7,754)</b>	<b>-</b>	<b>(7,754)</b>
<b>Amortisation charge (note 4)</b>	<b>-</b>	<b>(1,590)</b>	<b>(1,590)</b>
<b>Net book value as at 30th June, 2006</b>	<b>-</b>	<b>2,918</b>	<b>2,918</b>
Net book value as at 1st January, 2005	9,692	7,431	17,123
Amortisation charge	-	(1,537)	(1,537)
Net book value as at 30th June, 2005	9,692	5,894	15,586

Note: Consequent to the Group's disposal of its equity interest in Chi Tel Investments Limited on 3rd July, 2006 (note 13), the goodwill associated therewith was regarded as fully impaired and written-off to the profit and loss account as of 30th June, 2006.

## 10. Leasehold land and fixed assets

	Leasehold land <i>HK\$'000</i>	Fixed assets <i>HK\$'000</i>
<b>Net book value as at 1st January, 2006</b>	<b>23,735</b>	<b>49,222</b>
<b>Exchange differences</b>	–	<b>358</b>
<b>Additions</b>	–	<b>10,491</b>
<b>Amortisation/depreciation</b>	<b>(286)</b>	<b>(4,410)</b>
<b>Disposals</b>	–	<b>(1,038)</b>
<b>Net book value as at 30th June, 2006</b>	<b>23,449</b>	<b>54,623</b>
Net book value as at 1st January, 2005	24,307	63,261
Exchange differences	–	(645)
Additions	–	6,082
Amortisation/depreciation	(286)	(5,919)
Disposals	–	(6,182)
Net book value as at 30th June, 2005	24,021	56,597

## 11. Trade receivable

The normal credit period granted to the customers of the Group is up to 90 days, except for sales made to certain credit worthy customers to which a slightly longer credit period may be granted.

At 30th June, 2006, the ageing analysis of the trade receivable was as follows:

	<b>30th June, 2006 <i>HK\$'000</i></b>	31st December, 2005 <i>HK\$'000</i>
1–30 days	<b>467,612</b>	529,019
31–60 days	<b>385,054</b>	375,436
61–90 days	<b>276,371</b>	167,709
91–120 days	<b>48,741</b>	11,943
Over 120 days	<b>146,850</b>	116,246
Less: provision for impairment	<b>(84,310)</b>	(64,113)
	<b>1,240,318</b>	1,136,240



## 12. Trade payable

At 30th June, 2006, the ageing analysis of the trade payable was as follows:

	<b>30th June, 2006 HK\$'000</b>	31st December, 2005 HK\$'000
1-30 days	<b>487,958</b>	260,815
31-60 days	<b>132,228</b>	86,159
61-90 days	<b>131,204</b>	287,081
91-120 days	<b>12,342</b>	6,452
Over 120 days	<b>38,438</b>	60,959
	<hr/> <b>802,170</b> <hr/>	<hr/> 701,466 <hr/>

## 13. Subsequent event

As announced by the Company on 3rd July, 2006, First E-Pro Limited, an indirect wholly-owned subsidiary of the Company, had on said date entered into a sale and purchase agreement for the disposal of its 70% equity interest in Chi Tel Investments Limited to China Huge International Limited for a consideration of HK\$1, payable in cash upon completion of the transaction. China Huge International Limited is a substantial shareholder of Chi Tel Investments Limited.

## **BUSINESS REVIEW AND OUTLOOK**

The Group is principally engaged in the trading and distribution of mobile phones and related accessories from various international brands in the Asia Pacific region. It offers complete value-added solutions to manufacturers, operators, dealers and end users, from pre-sales to distribution, marketing and after-sales of products.

### **Business Review**

For the first half of 2006, the Group maintained its leading position as a key distributor in the region. During the period, the Group distributed approximately 10 brands and over 100 models and sold approximately 2.7 million units of mobile phones.

During the first half of 2006, the Malaysian subsidiary enriched the Group's product portfolio by acquiring distribution rights of 17 new models, namely Samsung SGH-D820, X300, P850, I300, D510, X670, E770, D720, X630, X160, E870, P300, Z540, X680, X650, E900 and X210. With a market share of approximately 18%, Samsung is the second largest mobile phone brand in Malaysia. A shop and kiosk were opened under the Mobile City branding at Equine Park Seri Kembangan and Low Yat Plaza respectively during the Period.

The Group's Philippines subsidiary acquired exclusive distribution rights to 11 new Samsung models, namely SGH-X700, E360, D510, E770, I300, D720, D820, P300, X300, X670 and X680. Samsung continues to be the second largest mobile phone brand in the country, with a market share of approximately 18%. The Group continued to enjoy a solid relationship with Samsung with fruitful sales performance. During the period under review, Ambassador and Audionet Telecom were appointed new dealers. Ambassador is a consumer electronics chain store and is one of the leading appliance stores in the Philippines based in Metro Manila; and Audionet Telecom is one of the largest electronic shops based in Cebu City which has stores within the Visayas/Mindanao region.

In Hong Kong, the Group's retail business and brand name Mobile City has grown in popularity among consumers due mainly to the appropriate strategies adopted by management and the contributions of the hardworking and dedicated staff. To further publicise the brand name, Mobile City participated in the Hong Kong Shopping Festival, a promotion organised by the Hong Kong Tourism Board which aims at attracting tourists as well as local residents to spend in Hong Kong. Mobile City continued to run various joint promotions with Nokia, Motorola, Sony Ericsson and other major brands to promote sales. In March and April 2006, television channels ATV Home of Asia Television Limited and East.TV of East Asia Satellite Television interviewed Mobile City's management and sales team for the professional and quality service Mobile City provides. This has helped build Mobile City's brand image.

In April and May 2006, the Group participated in two large-scale international telecom exhibitions, namely CTIA Wireless 2006 held in Las Vegas, United States and SVIAZ/EXPO COMM MOSCOW 2006 held in Moscow, Russia, to much success.

## **Financial Review**

For the six months ended 30th June, 2006, the Group recorded a turnover of approximately HK\$3,981 million, representing an increase of 25% over the corresponding period in 2005. Gross profit increased by approximately HK\$4 million although in percentage terms, margins decreased slightly from 4.7% to 3.8% in half-yearly comparison.

The Group sold 2.7 million units of handsets in the first half of 2006, up 29% compared to the 2.1 million units sold in the corresponding period of 2005.

Overheads in general remain in check as the streamlining of the Group's operations continue.

Operating profit increased from HK\$4.6 million for the six months ended 30th June, 2005 to HK\$31.5 million for the six months ended 30th June, 2006.

The financial results for the quarter ended 30th June, 2006 were depressed by a one-time write-off of goodwill and advances to the Chi Tel group of companies totalling HK\$10.4 million. The disposal marks the Group's exit from the VoIP business in line with the strategic direction of the Group.

This quarter's results were also further dampened by the unrealised foreign exchange losses resulting from the weakened Peso of HK\$4 million and continued losses incurred by the Group's business units in Taiwan of HK\$3.8 million.

The Group's finance costs for the six months ended 30th June, 2006 had also increased substantially to HK\$29 million, an increase of HK\$9 million compared to the corresponding period in 2005, due to continued increases in interest rates.

### **Liquidity and Financial Resources**

As at 30th June, 2006, bank and cash balances of the Group was approximately HK\$541 million (31st December, 2005: HK\$693 million), of which approximately HK\$371 million (31st December, 2005: HK\$388 million) were pledged for general banking facilities. Total borrowings of the Group amounted to approximately HK\$514 million (31st December, 2005: HK\$592 million), comprising long-term bank loans of approximately HK\$53 million (31st December, 2005: HK\$49 million), obligations under finance lease of approximately HK\$1 million (31st December, 2005: HK\$1 million), and short-term bank loans and overdrafts of approximately HK\$460 million (31st December, 2005: HK\$542 million).

The gearing ratio (total borrowings/total assets) of the Group as at 30th June, 2006 was 20% (31st December, 2005: 24%).

Freehold properties and certain leasehold land and buildings of the Group with carrying values of approximately HK\$55 million (31st December, 2005: HK\$46 million) are pledged as security for the Group's general banking facilities.

### **Treasury Policies**

The Group's business transactions, assets and liabilities are mainly denominated in either Hong Kong Dollar, United States Dollar, Renminbi, Euro or Malaysian Ringgit.

It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. As at 30th June, 2006, the Group had approximately HK\$53 million (31st December, 2005: HK\$61 million) outstanding forward exchange contracts to hedge against outstanding purchase orders denominated in foreign currencies. The Group does not engage in foreign currency speculative activities.

## **Contingent Liabilities**

The Group did not have any significant contingent liabilities as at 30th June, 2006.

## **Employees**

As at 30th June, 2006 the Group had 742 (as at 31st December, 2005: 740) employees. The total of employee remuneration, including that of the Directors, for the six months ended 30th June, 2006 amounted to approximately HK\$44 million (six months ended 30th June, 2005: HK\$52 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition, the Group has share option scheme for Directors and employees, details of which are disclosed in the section below on "Share Option Schemes".

## **Future Plans and Prospects**

The disposal of the Group's equity interest in the Chi Tel group of companies marks the Group's exit from the VoIP business. The Group will continue its efforts to streamline its operations and forge ahead with turnaround strategies for non-performing business units. The Group remains focused on its core strengths and competencies and will continue to build on these going forward.

The Group looks forward to the remaining half of financial year 2006 with the promise of new and exciting handsets to be launched by key partners.

## **SHARE OPTION SCHEMES**

Pursuant to the written resolutions of the shareholders of the Company dated 15th December, 2000, two share option schemes, namely pre-listing share option plan (the "Pre-Listing Share Option Plan") and share option scheme (the "2000 Share Option Scheme"), were approved and adopted. The summary of the terms of the two share option schemes had been set out in Appendix V of the Company's prospectus in connection with placing of the Company's shares dated 20th December, 2000.

At the annual general meeting held on 29th April, 2003, the shareholders of the Company approved the adoption of a new share option scheme (the "2003 Share Option Scheme") and the termination of the operation of the 2000 Share Option Scheme. No options had been granted under the 2000 Share Option Scheme since its adoption on 15th December, 2000 and up to the date of its termination. The summary of the terms of the 2003 Share Option Scheme was disclosed in the circular to shareholders dated 27th March, 2003.

**(a) 2003 Share Option Scheme**

Under the 2003 Share Option Scheme, the board of Directors (the "Board") or a duly authorised committee thereof which shall include the independent non-executive Directors (the "Committee") may, at its discretion, invite any participant (as defined in the 2003 Share Option Scheme), including any employee and any director of any company in the Group, to take up options at HK\$1.00 per option to subscribe for shares in the Company (the "Shares") at the higher of (i) the closing price of the Shares as stated in the Exchange's daily quotation sheet on the date of offer, which must be a business day; (ii) the average closing price of the Shares as stated in the Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of a Share. The total number of Shares which may be issued upon exercise of all options under the 2003 Share Option Scheme and the Pre-Listing Share Option Plan must not exceed 10% of the total number of Shares in issue as at the date of approval of the 2003 Share Option Scheme and as refreshed by members in general meeting in accordance with the terms of the 2003 Share Option Scheme.

Options granted under this scheme may be exercised within a period to be notified by the Board or the Committee to each grantee as being the period during which an option may be exercised, and in any event, such period shall not be longer than 10 years from the date of grant of the option.

The maximum number of Shares in respect of which options may be granted under the 2003 Share Option Scheme and any other share option schemes of the Company (including the Pre-Listing Share Option Plan) shall not exceed 30% of the total number of Shares in issue from time to time.

As at 30th June, 2006, no options under this scheme had been granted.

## **(b) Pre-Listing Share Option Plan**

The purpose of the Pre-Listing Share Option Plan is to recognise the contribution of certain Directors and employees to the growth of the Group and/or to the listing of the Shares on GEM of the Exchange on 29th December, 2000 (the "Listing Date"). On 15th December, 2000, options to subscribe for an aggregate of 174,965,000 Shares at an exercise price of HK\$0.82 per share were granted by the Company to the Directors of the Company and certain employees of the Group. Pursuant to the Pre-Listing Share Option Plan, the 3 executive Directors of the Company were granted options to subscribe for an aggregate of 132,125,000 Shares, 11 senior management staff were granted options to subscribe for an aggregate of 37,502,500 Shares and 56 employees were granted options to subscribe for an aggregate of 5,337,500 Shares.

Each of the grantees to whom options have been granted under the Pre-Listing Share Option Plan will be entitled to exercise (i) 10% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 6 months from the Listing Date, (ii) 20% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 12 months from the Listing Date, (iii) 25% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 18 months from the Listing Date, (iv) 25% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 24 months from the Listing Date, and (v) the remaining 20% of the options granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 30 months from the Listing Date and, in each case, not later than three years from the date of exercise of the options.

No options had been exercised or cancelled during the Periods.

Options to subscribe for 27,630,750 Shares in the Company lapsed during the six months ended 30th June, 2006 of which 27,625,500 Shares lapsed due to the expiry of the option period in accordance with the terms of the Pre-Listing Share Option Plan and the remaining 5,250 Shares lapsed due to the resignation of an employee. As at 30th June, 2006, being the expiry date to exercise the options, no option was remaining under the Pre-Listing Share Option Plan.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30th June, 2006, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

### (a) Shares in the Company

Name of Director	Number of Shares of HK\$0.10 each			Total	Percentage of issued share capital
	Personal interests	Family interests <i>(note (i))</i>	Corporate interests <i>(note (ii))</i>		
Mr. Ng Kok Hong	596,766,389	9,088,625	-	605,855,014	31.14%
Mr. Ng Kok Tai	-	-	596,766,389	596,766,389	30.67%
Mr. Ng Kok Yang	146,944,889	-	-	146,944,889	7.55%
Mr. Wu Wai Chung Michael	2,003,500	-	-	2,003,500	0.10%

#### Notes:

- (i) These shares are held by Ms. Tan Sook Kiang, the spouse of Mr. Ng Kok Hong, and therefore Mr. Ng Kok Hong is deemed by virtue of the SFO to be interested in these shares.
- (ii) These shares are held by NKT Holdings Sdn. Bhd., a company incorporated in Malaysia, which is owned as to 50% by Mr. Ng Kok Tai and as to 50% by Ms. Siew Ai Lian, the spouse of Mr. Ng Kok Tai. Mr. Ng Kok Tai is deemed by virtue of the SFO to be interested in these shares.



**(b) Shares in an associated corporation**

Name of Director	Number of non-voting deferred shares of HK\$1.00 each in First Telecom International Limited		
	Personal	Family	Total
	interests	interests <i>(note)</i>	
Mr. Ng Kok Hong	1,239,326	18,878	1,258,204
Mr. Ng Kok Tai	1,239,326	–	1,239,326
Mr. Ng Kok Yang	305,160	–	305,160

*Note:* These shares are held by Ms. Tan Sook Kiang, the spouse of Mr. Ng Kok Hong, and therefore Mr. Ng Kok Hong is deemed by virtue of the SFO to be interested in these shares.

**(c) Options to subscribe for Shares in the Company**

Name of Director	Number of underlying Shares under the Pre-Listing Share Option Plan					
	Outstanding at 1st January, 2006		Lapsed during the Periods		Outstanding at 30th June, 2006	
	Personal interests	Family interests <i>(note)</i>	Personal interests	Family interests	Personal interests	Family interests
Mr. Ng Kok Hong	9,450,000	–	(9,450,000)	–	–	–
Mr. Ng Kok Tai	8,400,000	175,000	(8,400,000)	(175,000)	–	–
Mr. Ng Kok Yang	8,575,000	–	(8,575,000)	–	–	–

*Note:* The option to subscribe for shares in the Company was granted to Ms. Siew Ai Lian, the spouse of Mr. Ng Kok Tai. Mr. Ng Kok Tai is deemed by virtue of the SFO to be interested in this option.

These options were granted on 15th December, 2000 under the Pre-Listing Share Option Plan and are exercisable at HK\$0.82 per share. None of the above Pre-Listing share options had been exercised during the Periods.

Save as disclosed above, as at 30th June, 2006, none of the Directors, chief executive or their associates had any interests, short positions or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

Save as disclosed above, at no time during the Periods was the Company or any of its subsidiaries a party to any arrangement to enable the Directors (including their spouses or children under 18 years of age) or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## **INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO**

As at 30th June, 2006, other than the interests disclosed in the section headed "Directors' interests and short positions in shares" above, there were no other persons who had interests or short positions in the Shares and underlying Shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

## **COMPETING INTEREST**

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had an interest in a business (as defined in rule 11.04 of the GEM Listing Rules) which competes or may compete with the business of the Group.

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

During the Periods, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## **CORPORATE GOVERNANCE**

### **Code on Corporate Governance Practices**

In the Corporate Governance Report embodied in the 2005 Annual Report of the Company issued on 21st March, 2006, the Company reported its compliance with the Code on Corporate Governance Practices (the "CG Code") as set out by the Exchange effective for accounting periods commencing on or after 1st January, 2005 save for one exception as explained in the following paragraph.

At the annual general meeting of the Company held on 26th April, 2006, a special resolution amending the Articles of Association of the Company to require that (i) all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment; and that (ii) every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years, was duly passed.

These amendments to the Articles of Association have brought the Company into full compliance with the CG Code provision A.4.2.

### **Internal Controls**

The CG Code provision C.2, Internal Controls, is effective for accounting periods commencing on or after 1st July, 2005. The Board acknowledges that it has overall responsibility for the Group's system of internal controls covering financial, operational and compliance controls and risk management functions to safeguard the shareholders' investment and the Group's assets.

Pursuant to the CG Code provision C.2.1, the Directors will conduct a review of the effectiveness of the system of internal control of the Company and its subsidiaries and report the same to the shareholders in the Company's corporate governance report for the year ending 31st December, 2006.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has, on 14th May, 2004, adopted a code of conduct (the "Code of Conduct") governing securities transactions by its Directors modelled on terms no less exacting than the required standard as set out in rules 5.48 to 5.67 of the GEM Listing Rules.

Having made specific enquiry, all Directors have confirmed compliance with the Code of Conduct throughout the Periods.

## **AUDIT COMMITTEE**

The audit committee was established on 15th December, 2000 and comprises the three independent non-executive Directors:

Mr. See Tak Wah (*Committee Chairman*)

Mr. Wu Wai Chung Michael

Mr. Wong Tin Sang Patrick

The terms of reference of the audit committee was revised on 12th August, 2005 in accordance with the requirements of the Code on Corporate Governance Practices as set out by the Exchange. The primary duties of the audit committee include the review of financial information, overseeing the financial reporting system and internal control procedures as well as maintaining a working relationship with the external auditors.

The unaudited results of the Group for the six months ended 30th June, 2006 has been reviewed by the audit committee.

By order of the Board

**Ng Kok Hong**

*Executive Chairman*

Hong Kong, 11th August, 2006

*Executive Directors:*

Ng Kok Hong (*Executive Chairman*)

Ng Kok Tai (*Executive Deputy Chairman*)

Ng Kok Yang

*Independent Non-executive Directors:*

See Tak Wah

Wu Wai Chung Michael

Wong Tin Sang Patrick



**FIRST MOBILE GROUP HOLDINGS LIMITED**

第一電訊集團有限公司

Suite 1919-23

19th Floor, Grandtech Centre

8 On Ping Street

Shatin, New Territories

Hong Kong

Tel: (852) 2376 0233

Fax: (852) 2376 0210

香港新界沙田安平街8號

偉達中心19樓1919-23室

電話: (852) 2376 0233

傳真: (852) 2376 0210

[www.firstmobile.com](http://www.firstmobile.com)