FORTUNE TELECOM HOLDINGS LIMITED

長遠電信網絡集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 110

Interim Results Announcement
For the six months ended 30 September 2004

HIGHLIGHTS

- Turnover for the six months ended 30 September 2004 was approximately HK$1,265 million, representing an increase of approximately 37% as compared with the corresponding period in the previous year.
- The Group distributed a total of 1.2 million handsets during the period as compared to 0.8 million units in the previous period.
- Unaudited gross profit and profit from operations for the six months ended 30 September 2004 was approximately HK$51 million and HK$31 million respectively, representing an increase of approximately 24% and 35% as compared with the corresponding period in the previous year.
- The earnings per share was HK 5.5 cents for the six months period.
- During the period, the Group has obtained nationwide distribution right for Nokia's new handset models 7610 and 3220.

INTERIM RESULTS

The board of directors (the "Board") of Fortune Telecom Holdings Limited (the "Company") is pleased to present the unaudited interim results and the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 September 2004 together with the comparative figures as follows:

Condensed Consolidated Income Statement (Unaudited)

		Six months ended 30 September	
		2004	2003
	Notes	***HK$'000***	*HK$'000*
Turnover	*2, 3*	**1,264,858**	926,534
Cost of sales		**(1,214,188)**	(885,761)
Gross profit		**50,670**	40,773
Other operating income		**1,893**	2,811
Distribution costs		**(9,804)**	(6,639)
Administrative expenses		**(9,673)**	(10,014)
Other operating expenses		**(2,427)**	(4,188)
Profit from operations	*3, 4*	**30,659**	22,743
Finance costs		**(8,586)**	(8,434)
Surplus arising on revaluation of an investment property		**–**	200
Unrealised holding (loss) gain on other investments		**(1,526)**	2,638
Profit before taxation		**20,547**	17,147
Taxation	*5*	**(4,358)**	(2,265)
Profit before minority interests		**16,189**	14,882
Minority interests		**326**	682
Profit for the period		**16,515**	15,564
Dividend paid during the period	*6*	**15,105**	15,105
Earnings per share – Basic	*7*	**5.5 cents**	5.2 cents

Condensed Consolidated Balance Sheet

	Notes	As at 30 September 2004 Unaudited HK$'000	As at 31 March 2004 Audited HK$'000
Non-Current Assets			
Investment property	8	**7,500**	7,500
Property, plant and equipment	9	**1,285**	1,613
Goodwill		**936**	1,256
		9,721	10,369
Current Assets			
Inventories		**133,026**	243,032
Trade and other receivables	10	**245,463**	153,131
Other investments	11	**1,661**	3,187
Taxation recoverable		**752**	752
Pledged bank deposits		**176,300**	216,040
Bank balances and cash		**129,083**	119,724
		686,285	735,866
Current Liabilities			
Trade and other payables	12	**33,934**	24,963
Taxation liabilities		**2,831**	1,350
Bank borrowings	13	**258,908**	389,573
Obligations under finance leases		**200**	200
		295,873	416,086
Net Current Assets		**390,412**	319,780
		400,133	330,149
Capital and Reserves			
Share capital		**30,210**	30,210
Reserves	14	**292,343**	290,933
		322,553	321,143
Minority interests		**8,430**	8,756
Non-Current Liabilities			
Bank borrowings	13	**69,000**	–
Obligations under finance leases		**150**	250
		69,150	250
		400,133	330,149

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). The shares of the Company have been listed on The Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 16 February 2000. On 26 January 2004, the Company withdrawn the listing of its shares on GEM, and on the same date, the Company has by way of introduction, listed its entire share capital on the Main Board of the Stock Exchange. Its ultimate holding company is Future 2000 Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its subsidiaries are the distribution and trading of mobile phones and related accessories, computer hardware and software and the development of marketing and after-sales service network.

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the Statement of Standard Accounting Practice 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange.

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 unaudited condensed consolidated interim financial statements are consistent with those used in the annual audited financial statements for the year ended 31 March 2004.

The accounting year end date for the Company and the Group has been changed from 31 March to 31 December and the Group shall publish its next audited consolidated financial statements covering the period from 1 April 2004 to 31 December 2004.

2. Turnover

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

3. Segment information

For the six months ended 30 September 2004 and 30 September 2003, substantially all the Group's turnover and contribution to profit from operations were derived from the distribution and trading of mobile phones. In addition, no geographical market analysis is provided as substantially all the Group's turnover and contribution to profit from operations were derived from the People's Republic of China ("PRC") and substantially all the assets are located in the PRC.

4. Profit from operations

	Six months ended 30 September	
	2004	2003
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Amortization of goodwill	**319**	320
Auditors' remuneration	**410**	278
Depreciation and amortization on		
– owned assets	**365**	318
– assets held under finance leases	**156**	156
Exchange loss	**121**	56
Loss on disposal of property, plant and equipment	**283**	–
Staff costs		
– directors' emoluments	**1,279**	1,274
– other staff costs	**10,515**	8,699
– retirement benefits scheme contribution (excluding directors)	**286**	256
and after crediting:		
Bank interest income	**1,689**	1,904
Gain on disposal of other investment	**–**	736

5. Taxation

	Six months ended 30 September	
	2004	2003
	HK$'000	*HK$'000*
The charge comprises:		
PRC enterprises income tax		
Current period	**4,358**	2,984
Overprovision in prior year	**–**	(719)
	4,358	2,265

Hong Kong Profits Tax has not been provided for the period as the companies within the Group had no estimated assessable profits in Hong Kong.

PRC enterprises income tax represents taxation charges on the assessable profits of the Company's 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 enterprises income tax rate of 15% which is granted to companies established in Shanghai Waigaoqiao Free Trade Zone.

6. Dividend paid

	Six months ended 30 September	
	2004	2003
	HK$'000	*HK$'000*
2004 final dividend of HK 5 cents per share (2003: 2003 final dividend of HK 5 cents per share)	**15,105**	15,105

The final dividend of HK 5 cents (2003: HK 5 cents) per share have been approved by shareholders in annual general meeting and was paid during the period.

7. Earnings per share

The calculation of the basic earnings per share is based on the profit for the six months ending 30 September 2004 of HK$16,515,000 (2003: HK$15,564,000) and on the weighted average number of 302,100,000 shares (2003: 302,100,000 shares) in issue during the period.

8. Investment property

The investment property is held under a long term lease in Hong Kong. It is pledged to a bank to secure general banking facilities granted to a subsidiary and rented out under an operating lease. It was valued at 31 March 2004 by an independent property valuer.

9. Property, plant and equipment

During the six months ending 30 September 2004, addition to property, plant and equipment amounts to HK$651,000 (2003: HK$441,000) .

10. Trade and other receivables

The Group allows credit period ranged from 30 to 90 days (at 31 March 2004: ranged from 30 to 90 days) to its trade customers. The following is an aged analysis of the trade receivables.

	As at 30 September 2004	As at 31 March 2004
	HK$'000	*HK$'000*
Trade receivables		
Up to 30 days	**173,721**	107,636
31 to 90 days	**10,433**	4,846
More than 90 days	**6,454**	2,768
	190,608	115,250
Value-added-tax receivables	**–**	17,949
Rebates receivables	**26,208**	13,020
Deposits and prepayments	**28,647**	6,912
	245,463	153,131

11. Other investments

	As at 30 September 2004	As at 31 March 2004
	HK$'000	*HK$'000*
Overseas equity securities:		
Listed	**1,659**	3,185
Unlisted	**2**	2
	1,661	3,187
Market value of listed securities	**1,659**	3,185

All the listed overseas equity securities were disposed subsequent to 30 September 2004.

12. Trade and other payables

The following is an aged analysis of the trade payables.

	As at 30 September 2004	As at 31 March 2004
	HK$'000	*HK$'000*
Trade payables:		
Up to 30 days	**14,289**	15,212
31 to 90 days	**41**	2,720
More than 90 days	**43**	148
	14,373	18,080
Value-added-tax payables	**7,953**	–
Other payables	**11,608**	6,883
	33,934	24,963

13. Bank borrowings

	As at 30 September 2004 HK$'000	As at 31 March 2004 HK$'000
Bank borrowings comprise:		
Bank loans	**321,679**	384,566
Trust receipt loans	**6,229**	5,007
	327,908	389,573
Analysed as		
– secured	**149,154**	187,460
– unsecured	**178,754**	202,113
	327,908	389,573
The bank borrowings are repayable as follows:		
Within one year or on demand	**258,908**	389,573
More than one year, but not exceeding two years	**25,000**	–
More than two years, but not exceeding five years	**44,000**	–
	327,908	389,573
Less: Amount due within one year and shown under current liabilities	**(258,908)**	(389,573)
Amount due after one year	**69,000**	–

As at 30 September 2004, the following assets of the Group were pledged to banks to secure the above bank borrowings:

(a) bank deposits amounting to HK$176,300,000 (at 31 March 2004: HK$216,040,000) ; and

(b) investment property with net book value amounting to HK$7,500,000 (at 31 March 2004: HK$7,500,000) .

14. Reserves

	For the six months ended 30 September 2004						
	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*
At 1 April 2003	103,275	2,481	(1,277)	348	8,491	161,039	274,357
Transfer	–	–	–	–	10,765	(10,765)	–
Exchange differences arising on translation of operations in the PRC and gain not recognised in the income statement	–	–	–	54	–	–	54
Profit for the year	–	–	–	–	–	31,627	31,627
Dividend paid *(note 6)*	–	–	–	–	–	(15,105)	(15,105)
At 31 March 2004	103,275	2,481	(1,277)	402	19,256	166,796	290,933
Transfer	–	–	–	–	6,874	(6,874)	–
Profit for the period	–	–	–	–	–	16,515	16,515
Dividend paid *(note 6)*	–	–	–	–	–	(15,105)	(15,105)
At 30 September 2004	103,275	2,481	(1,277)	402	26,130	161,332	292,343

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2004 (2003: nil) .

REVIEW AND OUTLOOK

Financial Review

Performance

During the period, the Group has obtained nationwide distribution right for two key Nokia's new handset models: 7610 and 3220. The high value model 7610 contributes higher profit margin than other volume drivers. Other significant profit contributing models include Nokia's 3100 and 3300. The total number of handset sold in the first and second quarter is 441,000 and 782,000 sets respectively. The increase in sales volume in the second quarter is attributable to the following sales drivers: Nokia's 3100 and Nokia's 2300. In September, the number of handsets sold exceeded 310,000 sets in anticipation of the National Day's long holidays in China. The total number of handset sold during the first six months totaled 1,222,000 sets representing an increase of 49.7% as compared with 816,000 units sold during the corresponding period in year 2003. The consolidated turnover for the six months ended 30 September 2004 totaled HK$1,265 million representing an increase of 37% as compared with HK$927 million during the corresponding period in year 2003. The exceptional low turnover for same period last year is due to the adverse impact of SARS. The percentage increase in turnover is lower than the growth in number of handset sold is caused by the low selling price of Nokia's 2300 at less than Rmb 1,000 which accounts for approximately one third of the sales volume. Notwithstanding the launch of new handsets and its satisfactory sales during the second quarter, the Group's overall profit margin decreased to 4.0% during the six months period as compared with 4.4% for the corresponding period in year 2003 because of overall lower margin on products in the first quarter. The distribution cost also increased to HK$9.8 million as compared with HK$6.6 million for the same period last year due to increase in promotional expenses and sales commission relating to new products. Nevertheless, the interim operating profit and the net profit were increased to HK$30.6 million and HK$16.5 million respectively as compared with HK$22.7 million and HK$15.5 million during the same period last year. As a result of decrease in share price of the Group's investment in PacificNet Inc., the Group booked an unrealized loss of HK $1.5 million during the period as compared to an unrealized gain of HK$2.6 million and a realized gain of HK$0.7 million booked during the corresponding period last year. As at 30 September 2004, the Group still holds 78,217 shares in PacificNet Inc.

Treasury Policies, Liquidity and charge on assets

During the period, the Group has fully settled its syndicated loan of HK$160 million before maturity which was partly refinanced by the arrangement of bilaterial loan from existing bankers. The maturity period of such loans extends up to three years from date of borrowings. The amount of long term debts, all denominated in Hong Kong dollars as at 30 September 2004 amounted to HK$69 million and aggregate current portion of bank borrowings amounts to HK$259 million, of which HK$214 million are denominated in Renminbi with the balance denominated in Hong Kong dollars. The gearing ratio of the Group, computed as non-current liabilities over shareholders fund, is approximately 21%. The interest rates for all the loans are fixed on either monthly, bi-monthly, quarterly or semi-annual basis. As at 30 September 2004, the total bank deposits and cash balances amounted to approximately HK$305 million, of which HK$176 million was pledged as securities for Renminbi and Hong Kong dollars short term revolving trade related bank facilities. The Group's cash and deposits are held mainly in Hong Kong dollars, Renminbi and United States dollars. During the period, there is no material change to 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 between the Hong Kong Dollar and Renminbi is stable, the risk of currency exposure is minimal and there is no financial instruments used for hedging purposes.

Working Capital

The amount of inventory as at 30 September 2004 was HK$133 million, which represents approximately 20 days stock turnover, as compared with 48 days stock turnover based on the inventory level of HK$243 million as at 31 March 2004. The inventory level is significantly reduced because of better than expected sales in September in anticipation of the National Day holidays. Substantially all the inventory is current models of mobile phones and no significant provision for obsolescence is necessary. The amount of trade receivables as at 30 September 2004 was HK$191 million, which represents approximately 28 days debtors' turnover period as compared with 22 days debtors' turnover based on the amount of trade receivables of HK$115 million as at 31 March 2004. The increase is mainly due to the increase of credit sales for September and the increase in number of direct retail customers which apply for credit terms. The Company assesses these direct retail customers on individual basis and carefully monitor their credit limits and risk exposure. The debtor's turnover period is approximately 18 days if it is computed solely based on September's turnover. A provision of HK$1.1 million was made for the period in respect of long overdue trade receivables which represents less than 0.1% of the Group's turnover.

Employees
As at 30 September 2004, the Group has a total number of 723 employees which included 641 marketing representatives and non-contracted promoters in various cities in the PRC. The increase in the number of marketing representatives and promoters during the period is due to the launch of new products and increased sales efforts targeting at third and fourth tier cities. There is no material change in remuneration policy, bonus and share option scheme since 31 March 2004. No option has been granted since the adoption of the current option scheme.

Contingency and Material Acquisition and Disposal
During the period under review, there is no acquisition or disposal of material investment, subsidiary, associates or affiliated company. There is no plan for material investment or purchase of capital assets in the next 12 months. There is no significant contingent liability or capital commitment as at 30 September 2004.

The Board believes that the Group will continue to have sufficient financial resources and funding for its operational requirements.

Operational Review
Market Overview
<u>The PRC Mobile Phone and Telecommunications Market</u>
According to the statistics released by the Ministry of Information Industry ("MII") , China recorded more than 320 million subscribers to mobile phone services as at the end of October 2004, equivalent to a penetration rate of 24.8 users per 100 persons. The number of mobile phone users in China increased by approximately 55 million during the 10 months period up to October 2004.

The Chinese government has not yet decided on when to issue 3G licenses and how many would be issued. While 3G technologies such as wideband code division multiple assess ("W-CDMA") and CDMA demonstrated a significant improvement in stability and reliability in field trials and were ready for commercial operations, full scale field trials indicates that time division synchronous code division multiple access ("TD-SCDMA") still performing below standard in transmitting calls among different networks and equipment vendors. Some industry report expects that TD-SCDMA will be aggressively pushed by the industry in China and will be officially rolled out in October 2005. However, China Mobile, the largest operator of mobile communication services in China, will be very likely to adopt the WCDMA standard. It is believed that all three standards or more will be introduced in China by different operators when the chipsets and handsets for TD-SCDMA phones are ready for commercial launching.

The mobile phones market remains very competitive with over 1,000 models at various price ranges. However, the aggregate market share of all domestic brands has dropped back to slightly below 50% as compared to over 50% market share one year ago. This is partly due to the shortage of components in the market and the over optimistic sales expectation of the domestic brands. Some of the low end GSM phone users were also attracted by the low charge of Xiaolingtone. This leads to excessive channel inventory in domestic brands manufacturers. However, the export of handsets have reached 111 million sets for the first ten months in 2004, two third of which were GSM handsets of Nokia, Motorola and Siemens.

There may be a good chance that the MII will abolish handset licenses in China within two years under the roadmap of entering World Trade Organisation. This would cause an open market for handsets in terms of both production and sales, which could also potentially add to the current handset inventory issue in China.

Business Review
<u>Mobile Phone Distribution</u>
Mobile phone distribution continues to be the Group's major core business for the period, accounting for over 90% of the Group's turnover and operation profit. The Nokia's models 3100 and 2300 account for over 50% and 30% of the Group's sales volume respectively. While these models are targeting the low price segment, the high end models like Nokia's 7610 contribute a relatively higher profit margin. For instance, a music phone Nokia's 3300, currently selling at a retail price of Renminbi 1,800, brings higher profit margin to the Group due to its unique features, compared to other handsets.

The new Nokia's 3220 was launched in September right before the National Day's long holidays which caught the attention of the market for its attractive features. As the Group distributes Nokia's latest models on a nationwide basis, the Group is in a better position to stabilize the price in all sales channels and react more quickly to the fast changing market environment. Nokia remains as the key supplier and product of the Group during the period. With the introduction of various new Nokia's models in the near future, the Group shall continue to act as key value chain partner for top brand handset manufacturers.

Outlook and Prospects

Subsequent to the interim period, the Group has obtained nationwide distribution right for the latest Nokia's handset model 2600 and N-Gage QD. Nokia's 2600 is a color display handset with good value for functions selling at retail price of approximately Renminbi 1,200. N-Gage QD is a games oriented GSM handset with multimedia messaging services, FM radio, personal information management, voice recorder and MP3 features that will capture not only the handset market but also the mobile handheld game market in China as well. We are confident that these two models as well as other existing current handset models will continue to provide good profit contribution to the Group during the final quarter ending December 2004. As the Group has changed its year end date to 31 December commencing in the current calendar year, the forthcoming annual results will be based on nine months operation instead of full 12 months.

The management will continue to explore and develop other telecommunications and distribution related business in China that can build on its core competence as a distribution specialist.

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

During the six months ended 30 September 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not in compliance with the Code of Best Practice, as set out in Appendix 14 to the Listing Rules on the Stock Exchange, at any time during the six months ended 30 September 2004, save that the non-executive directors were not appointed for a specific term but are subject to retirement by rotation in annual general meetings of the Company in accordance with the Bye-laws of the Company.

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules regarding directors' securities transaction. All directors have confirmed that they are in full compliance with the Model Code for the six months ended 30 September 2004.

AUDIT COMMITTEE OF THE BOARD

The audit committee of the Board comprises of independent non-executive directors, Messrs. Chang Wing Seng, Victor, Liu Kwok Fai, Alvan and Fok Wai Ming, Eddie. 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.

The Board has further resolved that a director fee of HK$15,000 be payable to Mr. Fok Wai Ming, Eddie for the period from 27 September 2004, his date of appointment, to 31 December 2004 and thereafter at HK$60,000 per annum.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE
All information required by paragraph 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange.

By Order of the Board
Fortune Telecom Holdings Limited
Lau Siu Ying
Chairman and Chief Executive Officer

Hong Kong, 14 December 2004

As at the date of this announcement, the Board of Directors of Fortune Telecom Holdings Limited comprise three Executive Directors, Mr. Lau Siu Ying, Mr. Luo Xi Zhi and Mr. Tin Ding Hong, William; two Non-executive Directors, Mr. Fung Oi Ip, Alfonso and Mr. Lo Wing Yat; and three Independent Non-executive Directors, Mr. Chang Wing Seng, Victor, Mr. Liu Kwok Fai, Alvan and Mr. Fok Wai Ming, Eddie.

* *For identification purpose*

This announcement will also be posted on the Company's website www.fortunetele.com and www.irasia.com/listco/hk/fortunetelecom

Please also refer to the published version of this announcement in IHT.