長遠電信網絡集團有限公司
FORTUNE TELECOM HOLDINGS LIMITED
（於百慕達註冊成立之有限公司）
(Incorporated in Bermuda with limited liability)

2005
中期報告
INTERIM REPORT

CORPORATE INFORMATION

Board of Directors

Chairman
Lau Siu Ying

Executive Director
Luo Xi Zhi

Non-Executive Directors
Fung Oi Ip, Alfonso
Lo Wing Yat

Independent Non-Executive Directors
Chang Wing Seng, Victor
Liu Kwok Fai, Alvan
Fok Wai Ming, Eddie

Company Secretary

Yuen Wai Ho

Qualified Accountant

Yuen Wai Ho

Audit Committee

Chang Wing Seng, Victor
Liu Kwok Fai, Alvan
Fok Wai Ming, Eddie

Principal Share Registrar and Transfer Office

The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street, Hamilton HM11
Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Abacus Share Registrars Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai, Hong Kong

Head Office and Principal Place of Business

Hong Kong Head Office
Room 1505-7, Tower A
Regent Centre, 63 Wo Yi Hop Road
Kwai Chung, Hong Kong

China Head Office
Room C, E and F, 8th Floor, East Tower
Shanghai Hi-Tech King World
No. 666, Beijing East Road
Huang Pu District
Shanghai, PRC

Shanghai Office
Room 328, Xin Mao Lou
No. 2 Tai Zhong Nan Lu
Waigaoqiao Free Trade Zone
Shanghai, PRC

Auditor

Deloitte Touche Tohmatsu

Legal Advisor

Conyers Dill & Pearman

Principal Bankers

CITIC Ka Wah Bank
Standard Chartered Bank
Bank of East Asia
China Merchants Bank
Bangkok Bank

Corporate Web-Sites

www.fortunetele.com
www.fortunetele.com.cn
www.synergy-hk.com.hk

Stock Code

110

HIGHLIGHTS

- Turnover for the six months ended 30 June 2005 was approximately HK$1,541 million, representing an increase of approximately 22% as compared with that of the six months ended 30 September 2004.

- The Group distributed a total of 1.5 million handsets during the period as compared to 1.2 million units in the six months ended 30 September 2004.

- Unaudited gross profit and profit from operations for the six months ended 30 June 2005 was approximately HK$54.6 million and HK$24.3 million respectively, representing an increase of approximately 8% and a decrease of approximately 17% as compared with that of the six months ended 30 September 2004.

- The earnings per share was HK 2.2 cents for the six months period.

- During the period, the Group has obtained nationwide distribution rights for Nokia's handset model 6021 and NEC handset model 730.

INTERIM RESULTS

The board of directors (the "Board") of Fortune Telecom Holdings Limited (the "Company") is pleased to present the unaudited consolidated interim financial results and the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2005 together with the comparative figures for the six months ended 30 September 2004 set out below. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the audit committee (the "Audit Committee") of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	**1.1.2005 to 30.6.2005 (Unaudited) HK$'000**	1.4.2004 to 30.9.2004 (Unaudited) (Restated) HK$'000
Turnover	*3*	**1,541,130**	1,264,858
Cost of sales		**(1,486,574)**	(1,214,188)
Gross profit		**54,556**	50,670
Other operating income		**3,088**	1,893
Distribution costs		**(17,429)**	(9,804)
Administrative expenses		**(10,213)**	(9,673)
Other operating expenses		**(5,719)**	(2,427)
Unrealized holding loss on other investments		**–**	(1,526)
Profit from operations	*3, 4*	**24,283**	29,133
Finance costs		**(11,761)**	(8,586)
Profit before taxation		**12,522**	20,547
Taxation	*5*	**(3,097)**	(4,358)
Profit for the period		**9,425**	16,189
Attributable to:			
Equity holders of the parent		**6,652**	16,515
Minority interests		**2,773**	(326)
		9,425	16,189
Dividend	*6*	**11,329**	15,105
Earnings per share – Basic	*7*	**2.2 cents**	5.5 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	As at 30 Jun 2005 (Unaudited) HK$'000	As at 31 Dec 2004 (Audited) HK$'000
Non-current assets			
Investment property		**9,300**	9,300
Property, plant and equipment		**1,098**	1,335
Goodwill		**777**	777
		11,175	11,412
Current assets			
Inventories		**409,857**	279,928
Trade and other receivables	*8*	**202,473**	279,724
Other investments		**662**	2
Taxation recoverable		**–**	130
Pledged bank deposits		**200,408**	176,993
Bank balances and cash		**88,948**	125,311
		902,348	862,088
Current liabilities			
Trade and other payables	*9*	**66,599**	44,653
Dividend payable		**11,329**	–
Taxation payables		**1,436**	4,942
Bank borrowings	*10*	**428,349**	403,591
Obligations under finance leases		**200**	200
		507,913	453,386
Net current assets		**394,435**	408,702
Total assets less current liabilities		**405,610**	420,114
Capital and reserves			
Share capital	*11*	**30,210**	30,210
Reserves		**314,067**	318,744
Equity attributable to equity holders of the parent		**344,277**	348,954
Minority interests		**11,333**	8,560
Total equity		**355,610**	357,514
Non-current liabilities			
Bank borrowings	*10*	**50,000**	62,500
Obligations under finance leases		**–**	100
		50,000	62,600
		405,610	420,114

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2005

	Attributable to equity holders of the parent									
	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000	Goodwill HK$'000	Translation reserve HK$'000	Statutory funds HK$'000	Accumulated profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 April 2004	30,210	103,275	2,481	(1,277)	402	19,256	166,796	321,143	8,756	329,899
Transfer	–	–	–	–	–	6,874	(6,874)	–	–	–
Profit for the period	–	–	–	–	–	–	16,515	16,515	(326)	16,189
Dividend paid	–	–	–	–	–	–	(15,105)	(15,105)	–	(15,105)
At 30 September 2004	30,210	103,275	2,481	(1,277)	402	26,130	161,332	322,553	8,430	330,983
Profit for the period	–	–	–	–	–	–	26,401	26,401	130	26,531
At 31 December 2004	30,210	103,275	2,481	(1,277)	402	26,130	187,733	348,954	8,560	357,514
At 1 January 2005	30,210	103,275	2,481	(1,277)	402	26,130	187,733	348,954	8,560	357,514
Profit for the period	–	–	–	–	–	–	6,652	6,652	2,773	9,425
Dividend payable	–	–	–	–	–	–	(11,329)	(11,329)	–	(11,329)
At 30 June 2005	30,210	103,275	2,481	(1,277)	402	26,130	183,056	344,277	11,333	355,610

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	1.1.2005 to 30.6.2005 HK$'000	1.4.2004 to 30.9.2004 HK$'000
Net cash (used in) from operating activities	**(27,047)**	45,194
Net cash (used in) from investing activities	**(21,461)**	41,048
Net cash from (used in) financing activities	**22,103**	(76,883)
Net (decrease) increase in cash and cash equivalents	**(26,405)**	9,359
Cash and cash equivalents at beginning of the period	**115,348**	119,724
Cash and cash equivalents at end of the period	**88,943**	129,083
Represented by:		
Bank balances and cash	**88,948**	129,083
Bank overdraft	**(5)**	–
	88,943	129,083

Notes:

1. **Basis of preparation**

During the last financial period, the Company changed its financial year end date from 31 March to 31 December in order to coincide with that of the major subsidiaries operating in the People's Republic of China (the "PRC"), of which year end date is set at 31 December each year by the PRC registration and cannot be changed.

The condensed consolidated financial statements for the current period cover the six months ended 30 June 2005. However, the corresponding comparative amounts shown for the condensed consolidated income statement, consolidated cash flows and related notes cover a period of six months ended 30 September 2004 and therefore may not be comparable with amounts shown for the current period.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. **Principal accounting policies**

The condensed financial statements have been prepared on the historical cost basis expect for investment property, which is measured at a revalued amount.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the nine months ended 31 December 2004 except as described below:

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and interpretations (hereinafter collectively refereed to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

2. Principal accounting policies *(Continued)*

Business combinations

In the current period, the Group has applied HKFRS 3, Business combinations, which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarized below:

In previous periods, goodwill arising on acquisitions after 1 April 2001 was capitalized and amortized on a straight line basis over its useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalized on the balance sheet, the Group has discontinued amortizing such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortization of goodwill has been charged in the current period. Comparative figures for the six months ended 30 September 2004 have not been restated.

Investment property

In prior periods, changes in the fair values of investment properties were dealt with as movements in the investment property revaluation reserve. If the total of this reserve was insufficient to cover a deficit, on a portfolio basis, the excess of the deficit was charged to the income statement. Any subsequent revaluation surplus was credited to the income statement to the extent of the deficit previously charged.

Upon the adoption of HKAS 40, gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of the retirement or disposal.

The change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings.

3. Segment information

For the six months ended 30 June 2005 and 30 September 2004, substantially all turnover and contribution to profit from operations of the Group were derived from the distribution and trading of mobile phones. In addition, no geographical market analysis is provided as substantially all turnover and contribution to profit from operations of the Group were derived from the PRC (including Hong Kong) and substantially all the assets are located in the PRC (including Hong Kong).

4. Profit from operations

	1.1.2005 to 30.6.2005 HK$'000	1.4.2004 to 30.9.2004 HK$'000
Profit from operations has been arrived at after charging:		
Amortization of goodwill	–	319
Auditors' remuneration	411	410
Depreciation and amortization on		
– owned assets	332	365
– assets held under finance leases	78	156
Loss on disposal of property, plant and equipment	–	283
Staff costs	19,839	12,080

5. Taxation

	1.1.2005 to 30.6.2005 HK$'000	1.4.2004 to 30.9.2004 HK$'000
The charge comprises:		
– Hong Kong Profits Tax	861	–
– PRC enterprise income tax	2,236	4,358
	3,097	4,358

Hong Kong Profits Tax is calculated at 17.5% (1.4.2004 to 30.9.2004: 17.5%) of the estimated assessable profits for the six months ended 30 June 2005.

PRC enterprise 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 enterprise income tax rate of 15% which is granted to companies established in Shanghai Waigaoqiao Free Trade Zone.

6. Dividend

	1.1.2005 to 30.6.2005 HK$'000	1.4.2004 to 30.9.2004 HK$'000
The final dividend of HK3.75 cents per share for the nine months ended 31 December 2004 (1.4.2004 to 30.9.2004: final dividend of HK5 cents per share for the year ended 31 March 2004)	11,329	15,105

6. Dividend *(Continued)*

The final dividend of HK3.75 cents for the nine months ended 31 December 2004 (1.4.2004 to 30.9.2004: HK5 cents for the year ended 31 March 2004) per share has been approved by shareholders in annual general meeting, which was then payable (1.4.2004 to 30.9.2004: paid) at 30 June 2005 and was subsequently paid on 28 July 2005.

7. Earnings per share

The calculation of the basic earnings per share is based on the Group's profit for attributable to equity holders of the parent the six months ending 30 June 2005 of HK$6,652,000 (1.4.2004 to 30.9.2004: profit of HK$16,515,000) and on the weighted average number of 302,100,000 shares (1.4.2004 to 30.9.2004: 302,100,000 shares) in issued during the period.

8. Trade and other receivables

The Group allows credit period ranged from 30 to 90 days to some of its trade customers. The following is an aged analysis of the trade receivables:

	As at 30 Jun 2005 HK$'000	As at 31 Dec 2004 HK$'000
Trade receivables:		
– Up to 30 days	**86,087**	185,076
– 31 to 90 days	**17,860**	6,867
– More than 90 days	**1,450**	727
	105,397	192,670
Value-added-tax receivables	**31,259**	20,023
Rebates receivable	**42,255**	30,457
Deposits and prepayments	**23,562**	36,574
	202,473	279,724

9. Trade and other payables

The following is an aged analysis of the trade payables:

	As at 30 Jun 2005 HK$'000	As at 31 Dec 2004 HK$'000
Trade payables:		
– Up to 30 days	**46,741**	28,657
– 31 to 90 days	**1,615**	2,139
– More than 90 days	**1,219**	483
	49,575	31,279
Other payables	**17,024**	13,374
	66,599	44,653

10. Bank borrowings

	As at 30 Jun 2005 HK$'000	As at 31 Dec 2004 HK$'000
Bank borrowings comprise:		
Bank loans	**474,718**	454,170
Bank overdraft	**5**	9,963
Trust receipt loans	**3,626**	1,958
	478,349	466,091
Analysed as		
– secured	**322,834**	268,925
– unsecured	**155,515**	197,166
	478,349	466,091
The bank borrowings are repayable as follows:		
– Within one year or on demand	**428,349**	403,591
– More than one year, but not exceeding two years	**26,000**	25,000
– More than two years, but not exceeding five years	**24,000**	37,500
	478,349	466,091
Less: Amount due within one year and shown under current liabilities	**(428,349)**	(403,591)
Amount due after one year	**50,000**	62,500

11. Share capital

	No. of ordinary shares	Share capital HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 31 December 2004 and 30 June 2005	1,000,000,000	100,000
Issued and fully paid		
At 31 December 2004 and 30 June 2005	302,100,000	30,210

12. Subsequent events

On 31 August 2005, the Company entered into a loan agreement with a syndicate of banks for a three-year term loan facility amounting to US$16,000,000 to finance the Company's general working capital requirements.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2005 (1.4.2004 to 30.9.2004: nil).

REVIEW AND OUTLOOK

Financial Review

Performance

During the period, the Group obtained a nationwide distribution right for Nokia's new handset model 6021. This together with other four nationwide distribution models, 7610, 3220, 2600 and N-Gage QD, and other provincial distribution models, 3100 and 2300, enabled the group maintain a high and stable turnover and push its sales to a record high for the period. The total number of handsets sold in the first six months of 1,484,000 sets represents an increase of 21% as compared with that of 1,222,000 sets sold in the six months ended 30 September 2004 and maintained the same momentum as in the last quarter of 2004 of total 741,000 sets per quarter. As most of the above models were launched in the second half of 2004, the strong demand from the market is expected to continue throughout the whole year of 2005. The consolidated turnover for the six months ended 30 June 2005 of HK$1,541 million represents an increase of approximately 22% as compared with the six months ended 30 September 2004 while, at the same time, the gross profit increased by HK$3.9 million to HK$54.6 million.

Notwithstanding the launch of a new handset and the satisfactory sales during the period, the Group's overall profit margin decreased to 3.5% during the six months period as compared with that of 4.0% for the six months ended 30 September 2004. The decrease was mainly attributable to the keen competition in the market. Leading telecom and home appliances chain stores in China (some were direct supplied by vendors) were cutting price to enlarge their market shares and clear up inventory. To draw attention, they put low price print advertisements for many hot models like 3100 and 2300 at extremely low prices. Even though they only offered limited quantity as a tactic to attract potential buyers, it affected the channel pricing structure and the margin of those products. More seriously, some chain stores even violated their contracts with vendors via wholesales at their back-door and transshipment to other territories to cash in and clear up their excess inventory arising from their incorrect forecasts. To cope with the above, the Group's management was proactively negotiating with vendors and chains stores to rectify the situation during the period and, as a result, vendors came up with a stricter penalty clause which effectively prevented further price erosion and transshipment from chain stores. Subsequent to the end of July, the situation was basically rectified.

In additions, since the second half of 2004, various domestic manufacturers in China have been facing problems like piling up of inventory, dropping of margin and market shares and shortage of cash. They got no other alternatives but to reduce prices on many of their current models and even some new models. In order to compete and keep up volume and market share, the Group decided to adjust the competing models pricing temporary. However, the situation has been improved and some of the domestic manufacturers has had already out of the industry.

At the same time, it was also the Group's strategy to expand its sales and marketing team to cover smaller cities and counties with an aim to enlarge its geographical coverage down to third and fourth tier cities, to capture higher market share and to deepen market penetration. During the period, the number of customers increased continuously up to 8,000, which successfully built up a firm foundation for our client base. In view of this, the Group will start focusing on increasing its profit margin in the last quarter of 2005 by adopting a more flexible pricing policy and negotiating with suppliers for more favorable terms. This together with the coming high season, the Group expects that the performance as well as the profit margin will improve in the second half year.

On the other hand, the Group continues to explore other possibilities in developing different distribution models with a view to create higher added value for both its customers and suppliers, and hence higher and steady revenue for the Group.

The distribution costs increased from HK$9.8 million for the six months ended 30 September 2004 to HK$17.4 million for the six months ended 30 June 2005 which was mainly due to higher staff costs arising from the increase in number of staffs and transportation costs for increasing geographical coverage and deepening market penetration. The increase in other operating expenses was mainly due to the additional provision for doubtful debts of HK$4.7 million made during the period in accordance with the Group's policies and practices. As a result, the Group reports an interim operating profit of HK$24.3 million for the six months ended 30 June 2005, HK$4.9 million lower than that of the six months ended 30 September 2004 while profit for the period reduced by HK$6.8 million to HK$9.4 million. Nevertheless, the Group has already started to streamline its operation and to review its operating costs and finance costs critically, which should improve its bottom line in the second half of the year accordingly.

Treasury Policies, Liquidity and charge on assets

As at 30 June 2005, the Group's aggregate bank borrowings amounted to approximately HK$478 million, of which HK$380 million is revolving working capital loans denominated in Renminbi to provide flexibility to the Group in response to the changing monthly trading volume. The gearing ratio of the Group, calculated as non-current liabilities to equity attributable to equity holders of the parent was approximately 15%. The total bank deposits and cash balances amounted to approximately HK$289 million, of which HK$200 million has been pledged to banks as securities for Renminbi and Hong Kong dollars short term revolving trade related bank facilities. The interest rates for all the loans are fixed on monthly, bi-monthly, quarterly or semi-annual basis. However, due to the continuous increase in interest rate, the finance costs for the six months ended 30 June 2005 increased by HK$3.2 million to HK$11.8 million. The interest cover is approximately 2.1 times. To cope with the increasing trend in the interest rate, the Group has just arranged a three-year term loan of USD16 million with a lower interest rate than our existing facilities. This will help the Group in reducing higher interest rate Renminbi revolving working capital loans and, hence, to lower the finance costs.

During the period, there was no material change in the Group's funding and treasury policy. As over 90% of the Group's sales and purchases are denominated in Renminbi and the exchange rate of Renminbi and Hong Kong dollar is relatively stable, the risk of currency exposure is considered minimal and there is no financial instruments used for hedging purposes.

Working Capital

The amount of inventory as at 30 June 2005 of HK$410 million represents approximately 49 days stock turnover as compare to 38 days stock turnover based on the inventory level of HK$280 million as at 31 December 2004. The increase in inventory as well as stock turnover period is mainly attributable to the increase in turnover and carrying more inventories for the initial startup of taking up new brands and models as well as seasonal factor as June is a slack month as opposite to December which is the peak of the year. Substantially all the inventories are current models of mobile phones and no significant provision for obsolescence is necessary. Besides, any drop in price of the product has no material impact on the financial position of the Group, as it will be covered by pre-arranged price rebates from suppliers.

The amount of trade receivable as at 30 June 2005 of HK$105 million represents approximately 12 days debtor's turnover period as compare to 25 days as at 31 December 2004. The decrease in debtor's turnover period is mainly due to the Group tightening credit control during the slack season to reduce credit risk exposure. The Group continues to adopt a very tight credit control policy and most of the sales are on either cash basis or limited credit period of less than 30 days. During the period, a provision of HK$4.7 million was made on doubtful debts, which represents less than 0.2% of the Group's annual turnover.

Employees

As at 30 June 2005, the Group had a total number of 1,445 employees, which included 1,333 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 was 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 December 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 June 2005.

OPERATIONAL REVIEW

Market Overview

According to the statistics released by the Ministry of Information Industry, China recorded more than 363 million subscribers to mobile phone services as at the end of 30 June 2005, equivalent to a penetration rate of 28 users per 100 persons. Even though the growth was slow down from 5.4 million per month in 2004 to 4.7 million per month in the first six months of 2005, the number of mobile phone users in China still increased by approximately 28 million or 8.5% during the six months period up to 30 June 2005. The existing penetration rate is still low in comparison with other developed countries, which are normally over 50%. With an economic growth of more than 8% per annum in the PRC, it is expected that the PRC mobile phone market will continue to grow at a double digits figure per year especially with the growth in replacement market.

The Chinese government has not yet decided on when to issue 3G licenses and how many would be issued. Nevertheless, most mobile phone manufacturers, no matter domestic brands or foreign brands, are preparing to launch their 3G mobile phones once the market is ready. However, the 3G mobile phone market is quite different from that of 2G mobile phone market in that it requires a lot of supports from operators to provide different added value services while, at the same time, operators can also generate more revenue on providing such services. It is still not yet clear what the market will be but it is quite certain that it will be a highly potential market and will definitely increase the overall demand of mobile phones in the coming year.

The mobile phones market in the PRC remains very competitive with over 1,000 models at various price ranges. However, the aggregate market share of all domestic brands has dropped further down below 40% and it is still on a downward trend. Even though the top five foreign brands gradually capture the market shares of domestic brands, they are also facing the increasing competitions from South Korea and Taiwan brands. At the same time, China Government also lowers her restrictions on foreign manufacturers after entering the WTO and issued more mobile phone manufacturing licenses to both domestic and foreign manufacturers during the period. The competition thus remains keen. In view of that, a large mobile phone manufacturer normally needs to launch 20 to 30 models a year to maintain its market share. As a result, life cycles of handset models are getting short and handsets are getting more fashionable and differentiated.

Business Review

Mobile phone distribution is still the Group's major core business during the period, accounting for over 90% of the Group's turnover and operation profit. The Nokia's lower end models 2600 and 2300 accounted for more than 50% of the Group's sales volume during the period even though the previous most popular models 3100 and 3200 still maintained the same momentum and accounted for almost 35% of the Group's sales volume. In dollar term, the performance of Nokia's models 3220 and 7610 were still promising in the mid to high end market segment. When Nokia's model 3220 accounted for more than 20% of the Group's turnover, the high end model Nokia's model 7610 accounted for almost 17% of the Group's turnover during the period.

The Group strengthened its distribution network further during the period and covered more than 8,000 customers by the end of June 2005. Nevertheless, the Group will still continue to enhance its distribution network and deepen its penetration in the market to position itself as one of the largest and leading mobile phone distributor in the PRC.

Prospect and Outlook

With the national distribution rights for Nokia's handset models 7610, 3220, 2600, N-Gage QD and 6021 together with models from BenQ, NEC and other foreign brands, the management are confident that these will help the Group to push its turnover at a higher level in the coming half year.

Nevertheless, the Group will continue to seek for opportunities for further development, which includes expanding existing brands portfolio to cover most import brands of mobile phones in the PRC, providing added value services to customers to build up customer loyalty and setting up website to conduct Internet sales of mobile phones in the PRC. At the same time, the Group will continue reviewing its existing operating costs and pricing policy with a view to increase the Group's overall profitability.

DISCLOSURE UNDER RULE 13.18 OF THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES")

Loan facility with covenants relating to specific performance of the controlling shareholder

The Company was granted a three-year term loan facility ("Loan Facility") amounting to US$16,000,000 in September 2005 which required that:

i) Mr. Lau Siu Ying ("Mr. Lau"), the single largest controlling shareholder, Chairman of the Board and Chief Executive Officer of the Company, and his Associates continues to remain collectively the legal and beneficial owner of the entire issued share capital of Future 2000 Limited; and Future 2000 Limited continues to be the single largest shareholder of the Company; and

ii) Mr. Lau is either the Chairman or the Chief Executive Officer of the Company and continues to engage in full-time management of the Company.

A breach of any of the above conditions will constitute an event of default under the Loan Facility. If such an event of default occurs, all amounts outstanding, including the accrued interest and all other sums payable, under this Facility may become immediately due and payable.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2005, the interests and short positions of the Directors and Chief Executive in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long position in Shares

Name of Director	Nature of interests	Number of Issued ordinary shares held *(Note)*	Percentage of the issued share capital of the Company
Lau Siu Ying	Held by trust	211,500,013	70%

Note: These shares are held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn is held by a trust. The beneficiaries of the discretionary trust include Mr. Lau Siu Ying, his spouse and his children.

Save as disclosed above, none of the directors, chief executives nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as defined in the SFO as at 30 June 2005.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsist at the end of the period or at any time during the period.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that other than the interests and short positions disclosed in the section headed "Directors' and chief executive's interests in shares" above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES AND COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

Compliance with the Code on Corporate Governance Practices

The Company is committed to maintaining high standards of corporate governance. Throughout the six months ended 30 June 2005, the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that:

1. there is no separation of the role of chairman and chief executive officer. Mr. Lau Siu Ying currently assumes the role of both the Chairman and the Chief Executive Officer of the Company;

2. all Non-executive Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation in accordance with the Company's Bye-laws; and

3. Mr. Lau Siu Ying, the Chairman of the Board of the Company does not need to retire by rotation.

Mr. Lau Siu Ying has been in charge of the overall management of the Company since 1992. Accordingly, although Mr. Lau Siu Ying does not meet to retire by rotation and assumes the role of both the Chairman and the Chief Executive Officer of the Company, the Company considers that such arrangement at this stage can promote the efficient formulation and implementation of the Company's strategies which will enable the Group to further develop its businesses effectively. In addition, through the supervision of the Board and the independent non-executive directors, the interests of the shareholders are adequately and fairly represented.

The Company is considering the adoption of appropriate measures to ensure that the Company's corporate governance practices are no less stringent than those in the Code.

Audit Committee

The written term of reference which describes the authority and duties of the Audit Committee was prepared and adopted with reference to "A Guide for the Formation of an Audit Committee" and "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, and was amended in accordance with the Appendix 14 of the Listing Rules. The Audit Committee comprises of independent non-executive directors, Messrs. Chang Wing Seng, Victor, Liu Kwok Fai, Alvan and Fok Wai Ming, Eddie. The Audit Committee has reviewed with management the accounting policies and practices adopted by the Group and discussed internal controls and financial reporting matters, including the review of these unaudited interim financial statements for the six months ended 30 June 2005.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee was established in accordance with the requirements of the CG Code. The Committee comprises three independent non-executive directors, Messrs. Chang Wing Seng, Victor, Liu Kwok Fai, Alvan and Fok Wai Ming, Eddie. The Committee was set up to consider and approve the remuneration packages of the senior employees of the Group, including the terms of salary and bonus schemes and other long-term incentive schemes. The Committee also reviews the structure, size and composition of the Board from time to time and recommends to the Board on appointments of Directors and the succession planning for Directors.

Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of the directors of the Company, all the directors confirmed that they had complied with the required standards as set out in the Model Code throughout the review period.

By Order of the Board
Fortune Telecom Holdings Limited
Lau Siu Ying
Chairman

Hong Kong, 22 September 2005