

FIRST MOBILE GROUP HOLDINGS LIMITED

第一電訊集團有限公司



Mastering the Mobile Arena



FIRST QUARTERLY REPORT 2002
二零零二年第一季度業績報告

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

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

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

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

HIGHLIGHTS

For the three months ended 31st March, 2002, First Mobile Group Holdings Limited and its subsidiaries have achieved excellent results. Highlights of the three months' performance are as follows:

- The Group achieved a turnover of approximately HK\$1,251 million, representing an increase of 21% over the same period of 2001
- Gross profit was approximately HK\$99 million, an increase of 47% over the same period of 2001
- Profit attributable to shareholders was approximately HK\$46 million, an increase of 24% over the same period of 2001
- Basic earnings per share was HK2.62 cents, an increase of approximately 24% over the same period of 2001
- Sold approximately 1 million units of mobile phones

RESULTS

The directors (the “Directors”) of First Mobile Group Holdings Limited (the “Company”) are pleased to announce the unaudited results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31st March, 2002 (the “Period”) together with the unaudited comparative figures for the three months ended 31st March, 2001:

Unaudited Consolidated Profit and Loss Account

For the three months ended 31st March, 2002

	<i>Note</i>	From 1st January, 2002 to 31st March, 2002 HK\$'000	From 1st January, 2001 to 31st March, 2001 HK\$'000
Turnover	2	1,250,970	1,035,464
Cost of sales		(1,152,131)	(968,238)
Gross profit		98,839	67,226
Other revenues	2	1,421	1,366
Selling and distribution expenses		(13,637)	(8,281)
General and administrative expenses		(26,186)	(23,935)
Other operating income, net	3	3,192	9,901
Operating profit		63,629	46,277
Finance costs		(4,851)	(2,246)
Profit before taxation		58,778	44,031
Taxation	4	(13,288)	(7,480)
Profit after taxation		45,490	36,551
Minority interests		430	600
Profit attributable to shareholders		45,920	37,151
Earnings per share	6		
– Basic		HK2.62 cents	HK2.12 cents
– Diluted		HK2.59 cents	Not applicable

Unaudited Consolidated Net Tangible Assets

As at 31st March, 2002

	Note	As at 31st March, 2002 HK\$'000	As at 31st March, 2001 HK\$'000
Net tangible assets	8	<u>530,383</u>	<u>385,965</u>

Notes:

1. Basis of preparation

The unaudited consolidated profit and loss account and the unaudited consolidated net tangible assets have been prepared in accordance with the principal accounting policies of the Group which conform with accounting principles generally accepted in Hong Kong.

2. Turnover and revenues

The Group is principally engaged in the trading and distribution of mobile phones and accessories and the sale of pre-pay airtime. Turnover represents invoiced value of sales of mobile phones and accessories and pre-pay airtime to customers, net of returns, discounts allowed or value-added tax where applicable. Revenues recognised during the Period are as follows:

	From 1st January, 2002 to 31st March, 2002 HK\$'000	From 1st January, 2001 to 31st March, 2001 HK\$'000
Turnover		
Revenue from sales of mobile phones and accessories, net	1,248,533	1,035,464
Revenue from sale of pre-pay airtime using e-pay Terminals, net	<u>2,437</u>	<u>—</u>
	<u>1,250,970</u>	<u>1,035,464</u>
Other revenues		
Interest income	1,263	1,348
Gross rental income from investment properties	<u>158</u>	<u>18</u>
	<u>1,421</u>	<u>1,366</u>
Total revenues	<u>1,252,391</u>	<u>1,036,830</u>

3. Other operating income, net

Other operating income, net for the three months ended 31st March, 2002 mainly comprised exchange differences and realised gain on disposal of other securities.

4. Taxation

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

	From 1st January, 2002 to 31st March, 2002 HK\$'000	From 1st January, 2001 to 31st March, 2001 HK\$'000
Hong Kong profits tax (<i>note (i)</i>)	9,190	3,461
Overseas taxation (<i>note (ii)</i>)	4,098	4,723
Deferred tax credit (<i>note (iii)</i>)	—	(704)
	13,288	7,480

Notes:

- (i) Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits for the Period.
- (ii) Taxation on overseas profits has been calculated on the estimated assessable profits for the Period at the rates of taxation prevailing in the countries in which the Group operates.
- (iii) The deferred tax credit for the three months ended 31st March, 2001 was recognised in respect of tax losses of a subsidiary in the United Kingdom.

5. Dividend

A final dividend of HK1 cent per share or a total of HK\$17,500,000 for the year ended 31st December, 2001 was proposed on 12th March, 2002, approved by the shareholders on 25th April, 2002 and will be payable on 17th May, 2002.

The Directors of the Company do not recommend the payment of an interim dividend for the Period (2001: nil).

6. Earnings per share

Basic earnings per share is calculated based on the profit attributable to shareholders of HK\$45,920,000 (2001: HK\$37,151,000) and on the weighted average number of 1,750,000,000 (2001: 1,750,000,000) shares in issue during the Period.

Diluted earnings per share for the three months ended 31st March, 2002 is calculated based on 1,775,894,569 shares which is the weighted average number of shares in issue during the Period plus the weighted average of 25,894,569 shares deemed to be issued at no consideration if all outstanding options had been exercised.

Diluted earnings per share is not presented for the three months ended 31st March, 2001 as there were no dilutive potential ordinary shares in existence during the period.

7. Movements in reserves

Movements in the reserves of the Group during the Period are set out below:

	Other properties		Investments revaluation reserve	Merger reserve	Capital reserve	Reserve fund #	Exchange reserve	Retained earnings	Total
	Share premium	revaluation reserve							
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2001	6,655	1,111	(4,747)	3,994	162	1,868	(26)	165,095	174,112
Exchange differences	-	-	-	-	-	-	(298)	-	(298)
Profit for the period	-	-	-	-	-	-	-	37,151	37,151
At 31st March, 2001	<u>6,655</u>	<u>1,111</u>	<u>(4,747)</u>	<u>3,994</u>	<u>162</u>	<u>1,868</u>	<u>(324)</u>	<u>202,246</u>	<u>210,965</u>
At 1st January, 2002	6,655	4,638	-	3,994	162	1,950	548	310,929	328,876
Exchange differences	-	-	-	-	-	-	322	-	322
2001 proposed final dividend	-	-	-	-	-	-	-	(17,500)	(17,500)
Profit for the Period	-	-	-	-	-	-	-	45,920	45,920
At 31st March, 2002	<u>6,655</u>	<u>4,638</u>	<u>-</u>	<u>3,994</u>	<u>162</u>	<u>1,950</u>	<u>870</u>	<u>339,349</u>	<u>357,618</u>

In accordance with the relevant regulations in the People's Republic of China ("PRC") applicable to wholly foreign owned enterprises, the PRC subsidiary is required to appropriate to the reserve fund an amount of not less than 10% of the amount 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.

8. Net tangible assets

	2002 HK\$'000	2001 HK\$'000
Opening net tangible assets of the Group as at 1st January	503,876	349,112
Profit attributable to shareholders for the three months ended 31st March	45,920	37,151
2001 proposed final dividend	(17,500)	–
Movements in exchange reserve	322	(298)
Intangible assets	(2,235)	–
Closing net tangible assets of the Group as at 31st March	530,383	385,965

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the distribution of a wide variety of brands of mobile phones and related accessories in the Asia Pacific region. The Group's first quarterly results for the year 2002 were very encouraging. For the three months ended 31st March, 2002, turnover was approximately HK\$1,251 million, representing a growth of 21% over the same period of 2001. Gross profit has increased 47% to approximately HK\$99 million. Profit attributable to shareholders has increased 24% to approximately HK\$46 million.

Mobile Phone Distribution

During the period, the Group maintained its industry leader status through pro-active marketing efforts and continuous introduction of new brands and models of mobile phones. The Group sold approximately 1 million units of mobile phones in the first three months of 2002. On new product introduction, the Group acquired 7 new models of mobile phones, namely Samsung T100, N500, Sewon SG-6680, SG-1100, Panasonic GD35, Sanyo SCP-600 and Kyocera KZ-610.

One of the Group's competitive advantages is our ability to develop long term and fruitful relationship with up and coming mobile phone manufacturers. Towards the end of 2001, the Group began to distribute Sewon SG2000 and SG2200 mobile phones,

which are Sewon's first GSM mobile phones, in various Asia Pacific regions. In January 2002, the Group officially launched these two models in Hong Kong and other Asian countries in retail level and achieved incredible sales results. Aggressive marketing and advertising campaigns were launched. These models were well received by consumers in both sales and brand recognition aspects and became one of the top sellers in the market.

During the period, the Group also started distributing Kyocera KZ-610 and Sanyo SCP-600 CDMA mobile phones in Mainland China. Through this, the Group is enjoying dual revenue from both GSM and CDMA markets. At present, the Group carries 10 brands and over 60 models, maintaining the number one position in Asia Pacific.

FUTURE PLANS AND PROSPECTS

Mobile Phone Distribution

In order to further strengthen our industry leader status and to expand our product range, the Group will continue to acquire more distribution rights from up and coming mobile phone manufacturers. In May 2002, the Group started distributing another Korean brand besides Sewon, namely Digitec, in Mainland China and Hong Kong. Digitec i-900, launched in the market for the first time with Hong Kong as its premier stop, is one of the smallest and lightest dual LCD mobile phones in the world. It is expected that Digitec i-900 will be very successful and will receive satisfactory market response with our upcoming launch campaign.

After the spectacular results of Sewon SG2000 and SG2200, the Group started distribution of SG-6680 and SG-1100 from Sewon in Mainland China, Hong Kong, Macau, Malaysia and Vietnam in March 2002. With Sewon's established eminence in the region, the Group is confident that these new models will be one of the hottest models in Asia Pacific. All in all, the Group will continue to seek more potential exclusive or non-exclusive distribution rights to further broaden its product mix, so as to enhance overall profitability and to strengthen our leading position in the mobile phone distribution arena.

Voice-over-IP (VoIP)

In January 2002, the Group has started exploring VoIP opportunities through its subsidiary in Japan, First Mobile Japan Co., Ltd.

In April 2002, the Group has ventured into the booming and lucrative VoIP market in other Asia Pacific countries by entering an agreement to acquire Chi Telecom Pty Ltd. ("Chi Telecom") and Chi Tel Limited. Upon completion of legal documentation, the Group will acquire 70% holding interest of these two companies. Chi Telecom is principally engaged in the provision of VoIP services in the form of prepay calling cards and wholesale of long-distance call traffic. Chi Telecom is especially strong in its consistent quality and line availability for connecting IDD calls. Currently, the service is available in Hong Kong and Australia. An Asia Pacific expansion plan is already devised and the Group is expecting operations in other Asian countries to commence soon.

Our long-term strategy for VoIP is to build it into a synergic business with our mobile phone distribution business and to maximize the commercial opportunities in common markets. The Directors believe that the acquisition will provide a good foundation for the Group to capture the opportunities in the VoIP arena. The Group is confident that VoIP will prove to be a healthy revenue source and help enhance our overall profitability.

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 ("Pre-Listing Share Option Plan") and share option scheme ("Share Option Scheme"), were approved and adopted. The summary of the terms of the two share option schemes has been set out in Appendix V of the Company's prospectus in connection with placing of the Company's shares dated 20th December, 2000.

(i) Share Option Scheme

Under the 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 employee including any executive 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, subject to a maximum of 10% of the total number of Shares in issue from time to time.

Options granted under this scheme may be exercised within a period to be notified by the Board or the Committee to each grantee and in any event such period of time shall not be less than three years and more than nine years commencing on the expiry of six months after the date on which an offer of the grant of an option is accepted and expiring on the last day of such period or 14th December, 2010, whichever is the earlier.

The maximum number of Shares in respect of which options may be granted under the 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 31st March, 2002, no options under this scheme had been granted.

(ii) 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 Stock 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 (where details are disclosed in the section of "Directors' and Chief Executive's Interests in Securities"), 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 grantee 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.

Options to subscribe for 4,296,250 Shares in the Company lapsed during the year ended 31st December, 2001 due to the resignation of employees. At 1st January, 2002, there are options remaining to subscribe for an aggregate of 170,668,750 Shares, representing 9.8% of the issued share capital of the Company. This comprised options to subscribe for an aggregate of 132,125,000 Shares granted to the 3 executive Directors of the Company, options to subscribe for an aggregate of 34,125,000 Shares granted to 10 senior management staff and options to subscribe for an aggregate of 4,418,750 Shares granted to 48 employees.

No options had been exercised, cancelled or lapsed during the Period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31st March, 2002, according to the register required to be kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the Company's Directors, chief executive or their associates were as follows:

(a) Shares in the Company

(Shares of HK\$0.10 each)

Name of Director	Personal interests	Number of shares		Total
		Family interests <i>(note (i))</i>	Corporate interests <i>(note (ii))</i>	
Ng Kok Hong	596,766,389	9,088,625	–	605,855,014
Ng Kok Tai	–	–	596,766,389	596,766,389
Ng Kok Yang	146,944,889	–	–	146,944,889
Wu Wai Chung Michael	787,500	–	–	787,500
Sze Tsai To Robert	787,500	–	–	787,500

Notes:

- (i) These shares are held by Tan Sook Kiang, the spouse of Ng Kok Hong, and therefore Ng Kok Hong is deemed by virtue of the SDI Ordinance 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 Ng Kok Tai and as to 50% by Siew Ai Lian, the spouse of Ng Kok Tai. Ng Kok Tai is deemed by virtue of the SDI Ordinance to be interested in these shares.

Save as disclosed above, as at 31st March, 2002, none of the Directors, chief executive or their associates had any interests in the share capital of the Company.

(b) First Telecom International Limited*(Non-voting deferred shares of HK\$1.00 each)*

Director	Number of shares		Total
	Personal interests	Family interests	
		<i>(Note)</i>	
Ng Kok Hong	1,239,326	18,878	1,258,204
Ng Kok Tai	1,239,326	–	1,239,326
Ng Kok Yang	305,160	–	305,160

Note: These shares are held by Tan Sook Kiang, the spouse of Ng Kok Hong, and therefore Ng Kok Hong is deemed by virtue of the SDI Ordinance 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		Total
	Personal interests	Family interests	
		<i>(Note)</i>	
Ng Kok Hong	47,250,000	–	47,250,000
Ng Kok Tai	42,000,000	875,000	42,875,000
Ng Kok Yang	42,875,000	–	42,875,000

Note: The option to subscribe for 875,000 shares in the Company was granted to Siew Ai Lian, the spouse of Ng Kok Tai. Ng Kok Tai is deemed by virtue of the SDI Ordinance 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 have been exercised during the Period.

Save as disclosed above, as at 31st March, 2002, none of the Directors, chief executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Save as disclosed above, at no time during the Period was the Company or 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.

SUBSTANTIAL SHAREHOLDERS

Other than the interests of the Directors and chief executive as disclosed above, as at 31st March, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10 per cent. or more of the issued share capital of the Company.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business (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 Period, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

SPONSOR'S INTERESTS

The interests of Kingsway Capital Limited ("Kingsway") in the share capital of the Company as at 31st March, 2002 are summarised below:

	As at 31st March, 2002	
	Number of Shares	Percentage of the issued share capital of the Company
Kingsway	Nil	Nil
Kingsway's employees (excluding directors)	Nil	Nil
Kingsway's directors	11,365,500	0.7%
Kingsway's associates	142,135,250	8.1%
Total	<u>153,500,750</u>	<u>8.8%</u>

Save as disclosed herein, the joint sponsors of the Company (the "Joint Sponsors"), Kingsway and Asia Financial Capital Limited, their respective directors, employees and associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules), as at 31st March, 2002, did not have any interests in the securities of the Company or any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

Two of the independent non-executive Directors, Mr. Wu Wai Chung Michael and Mr. Sze Tsai To Robert, are independent non-executive directors of SW Kingsway Capital Holdings Limited, the holding company of Kingsway.

Pursuant to an agreement dated 3rd January, 2001 entered into between the Company and the Joint Sponsors, the Joint Sponsors have received and will receive a fee for acting as the Company's retained sponsors for the period from 29th December, 2000 to 31st December, 2002.

On 23rd October, 2001, a syndicate member of a transferable term loan (in which a subsidiary of the Company is the borrower) agreed to transfer its participation of HK\$25 million to a fellow subsidiary of Kingsway. The fellow subsidiary of Kingsway had taken up the participation on 31st October, 2001.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

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

AUDIT COMMITTEE

The Company established an audit committee on 15th December, 2000 with terms of reference in compliance with rules 5.23 and 5.24 of the GEM Listing Rules. As at 31st March, 2002, the audit committee has four members comprising three independent non-executive Directors, Mr. Sze Tsai To Robert, Mr. Wu Wai Chung Michael and Mr. Wong Tin Sang Patrick, and one executive Director, Mr. Ng Kok Hong.

The principal duties of the audit committee include the review and supervision of the financial reporting process and internal control procedures of the Group. During the Period and up to the date of this report, two audit committee meetings were held for reviewing the Company's annual report and quarterly report, and providing advices and recommendations to the board of Directors.

By order of the Board
Ng Kok Hong
Executive Chairman

Hong Kong, 13th May, 2002

* *For identification purpose only*



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