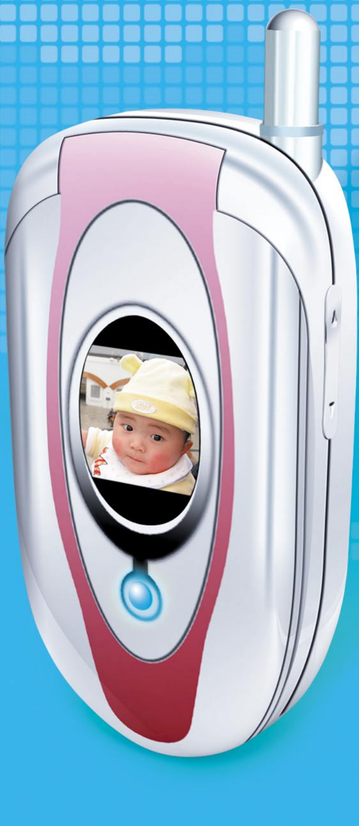
FIRST MOBILE GROUP HOLDINGS LIMITED
第一電訊集團有限公司

MASTERING THE MOBILE ARENA



INTERIM REPORT 2003
二零零三年中期業績報告

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.

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HIGHLIGHTS

For the six months ended 30th June, 2003, First Mobile Group Holdings Limited and its subsidiaries recorded satisfactory results under a very competitive and difficult environment. Highlights of the six months' performance are as follows:

- The Group achieved a turnover of approximately HK$3,048 million
- Gross profit was approximately HK$159 million
- Profit attributable to shareholders was approximately HK$19 million
- Basic earnings per share was HK0.99 cent
- Sold approximately 2.0 million units of mobile phones

INTERIM FINANCIAL STATEMENTS

The directors (the "Directors") of First Mobile Group Holdings Limited (the "Company") are pleased to 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, 2003 (the "Periods"), together with the comparative figures in 2002:

Unaudited Condensed Consolidated Profit and Loss Account

For the three months and the six months ended 30th June, 2003

		Three months ended 30th June,		Six months ended 30th June,	
		2003	2002	**2003**	2002
	Note	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*2*	**1,633,176**	1,726,201	**3,048,347**	2,977,171
Cost of sales		**(1,557,987)**	(1,633,306)	**(2,889,672)**	(2,785,437)
Gross profit		**75,189**	92,895	**158,675**	191,734
Other revenues	*2*	**1,628**	1,291	**3,071**	2,712
Selling and distribution expenses		**(10,904)**	(9,640)	**(26,205)**	(23,277)
General and administrative expenses		**(34,019)**	(30,539)	**(79,141)**	(56,725)
Other operating (expenses)/income, net	*3*	**(3,470)**	8,931	**(3,801)**	12,123
Operating profit	*4*	**28,424**	62,938	**52,599**	126,567
Finance costs	*5*	**(8,832)**	(7,088)	**(16,710)**	(11,939)
Share of profit/(loss) of a jointly controlled entity		**–**	115	**(166)**	115
Profit before taxation		**19,592**	55,965	**35,723**	114,743
Taxation	*6*	**(7,994)**	(12,477)	**(13,840)**	(25,765)
Profit after taxation		**11,598**	43,488	**21,883**	88,978
Minority interests		**(1,016)**	2,524	**(2,694)**	2,954
Profit attributable to shareholders		**10,582**	46,012	**19,189**	91,932
Dividend	*7*	**–**	19,457	**–**	19,457
Earnings per share	*8*				
– Basic		**HK0.54 cent**	HK2.62 cents	**HK0.99 cent**	HK5.24 cents
– Diluted		**Not applicable**	HK2.61 cents	**Not applicable**	HK5.19 cents

Unaudited Condensed Consolidated Balance Sheet

As at 30th June, 2003

	Note	30th June, 2003 (unaudited) HK$'000	31st December, 2002 (audited) HK$'000
Non-current assets			
Intangible assets	9	27,808	17,446
Fixed assets	10	88,351	79,009
Investment in a jointly controlled entity		–	941
Deferred tax assets		783	–
		116,942	97,396
Current assets			
Inventories		296,776	239,357
Other securities		526	479
Trade receivables	11	883,745	880,632
Other receivables and prepayments		129,945	113,106
Bank balances and cash			
– pledged		306,064	288,850
– not pledged		125,600	174,105
		1,742,656	1,696,529
Current liabilities			
Trade payables	12	355,184	239,304
Bills payable		86,202	87,316
Other payables and accrued charges		81,647	88,211
Current portion of long-term liabilities		72,390	52,560
Taxation payable		3,546	3,754
Bank loans and overdrafts			
– secured		528,809	563,683
– unsecured		17	355
		1,127,795	1,035,183
Net current assets		614,861	661,346
Total assets less current liabilities		731,803	758,742

	30th June, 2003 (unaudited)	31st December, 2002 (audited)
	HK$'000	*HK$'000*
Financed by:		
Share capital	**194,570**	194,570
Reserves	**519,235**	499,624
Proposed final dividend	**–**	19,457
Shareholders' funds	**713,805**	713,651
Minority interests	**7,758**	4,685
Non-current liabilities		
Long-term liabilities	**10,240**	40,406
	731,803	758,742

Unaudited Condensed Consolidated Cash Flow Statement

For the six months ended 30th June, 2003

	Six months ended 30th June, 2003	Six months ended 30th June, (As restated) 2002
	HK$'000	*HK$'000*
Net cash from/(used in) operating activities	**60,128**	(101,989)
Net cash (used in)/from investing activities	**(41,663)**	10,180
Net cash (used in)/from financing activities	**(65,697)**	180,952
Effects of exchange rate changes	**(935)**	(973)
Net (decrease)/increase in cash and cash equivalents	**(48,167)**	88,170
Cash and cash equivalents at 1st January	**173,750**	183,009
Cash and cash equivalents at 30th June	**125,583**	271,179

Analysis of balances of cash and cash equivalents

	30th June, 2003	30th June, 2002 (As restated)
	HK$'000	*HK$'000*
Non-pledged bank balances and cash	**125,600**	271,587
Bank overdrafts	**(17)**	(408)
	125,583	271,179

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30th June, 2003

	Share capital	Share premium	Other properties revaluation reserve	Merger reserve	Capital reserve	Reserve fund *(note (i))*	Exchange reserve	Retained earnings *(note (ii))*	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st January, 2003	**194,570**	**127,258**	**3,067**	**3,994**	**162**	**4,872**	**63**	**379,665**	**713,651**
Net gains not recognised in the profit and loss account									
Exchange differences	**–**	**–**	**–**	**–**	**–**	**–**	**422**	**–**	**422**
Profit attributable to shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**19,189**	**19,189**
2002 final dividend *(note 7(i))*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(19,457)**	**(19,457)**
Balance at 30th June, 2003	**194,570**	**127,258**	**3,067**	**3,994**	**162**	**4,872**	**485**	**379,397**	**713,805**
Balance at 1st January, 2002	175,000	6,655	4,638	3,994	162	1,950	548	310,929	503,876
Net losses not recognised in the profit and loss account									
Exchange differences	–	–	–	–	–	–	(803)	–	(803)
Profit attributable to shareholders	–	–	–	–	–	–	–	91,932	91,932
2001 final dividend	–	–	–	–	–	–	–	(17,500)	(17,500)
Issue of shares	19,570	129,289	–	–	–	–	–	–	148,859
Share issue expenses	–	(8,686)	–	–	–	–	–	–	(8,686)
Balance at 30th June, 2002	194,570	127,258	4,638	3,994	162	1,950	(255)	385,361	717,678

Notes:

(i) 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 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.

(ii) Retained earnings as at 30th June, 2002 is analysed below:

	HK$'000
Retained earnings	365,904
Interim dividend proposed	19,457
	385,361

Notes:

1. Basis of preparation and accounting policies

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed accounts should be read in conjunction with the 2002 annual report.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual report for the year ended 31st December, 2002 except for the following:

(a) the Group has changed one of its accounting policies following its adoption of the following SSAP issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1st January, 2003.

SSAP 12 (revised) : Income taxes

(b) the Group has also adopted a new accounting policy following its acquisition of a distribution right during the six months ended 30th June, 2003.

The changes to the Group's principal accounting policies and the effect of adopting these new policies are set out below:

(a) SSAP 12 (revised) : Income taxes

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior periods, deferred taxation was accounted for at the current tax rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy. The effect of this change is not material and has been accounted for in the six months ended 30th June, 2003 (note 6).

(b) Intangible assets – distribution right

Expenditure on purchased distribution right is capitalised and amortised using the straight-line method over its estimated useful life of not exceeding 20 years. Distribution right is not revalued as there is no active market for these assets. Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

2. Turnover, revenues and segment information

The Group is principally engaged in the trading and distribution of mobile phones and accessories, the sale of pre-pay airtime and the provision of the inter-city/international telecommunication services using Voice-over-IP ("VoIP") technology.

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

	Three months ended 30th June,		Six months ended 30th June,	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Turnover				
Revenue from sale of mobile phones and accessories, net	**1,602,919**	1,723,060	**2,986,740**	2,971,593
Revenue from sale of pre-pay airtime using e-pay Terminals, net	**–**	3,141	**–**	5,578
Revenue from provision of inter-city/international telecommunication services using VoIP technology, net	**30,257**	–	**61,607**	–
	1,633,176	1,726,201	**3,048,347**	2,977,171
Other revenues				
Interest income	**1,392**	931	**2,505**	2,194
Gross rental income from investment properties	**–**	104	**–**	262
Other rental income	**151**	256	**453**	256
Repair service income, net	**85**	–	**113**	–
	1,628	1,291	**3,071**	2,712
Total revenues	**1,634,804**	1,727,492	**3,051,418**	2,979,883

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.

Other operations of the Group include sale of pre-pay airtime using e-pay Terminals, provision of inter-city/international telecommunication services using VoIP technology, provision of repair services for mobile phones and holding of properties, neither of which are of a sufficient size to be reported separately.

The business of sale of pre-pay airtime using e-pay Terminals was closed down during the year ended 31st December, 2002.

3. Other operating (expenses)/income, net

Other operating expenses, net for the six months ended 30th June, 2003 mainly comprised amortisation of intangible asset and exchange differences.

Other operating income, net for the six months ended 30th June, 2002 mainly comprised exchange differences and realised gain on disposals of other securities.

4. Operating profit

Operating profit is stated after crediting and charging the following:

	Three months ended 30th June,		Six months ended 30th June,	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Crediting				
Realised gain on disposals of other securities	**–**	6	**–**	4,290
Charging				
Cost of inventories sold	**1,518,383**	1,617,692	**2,819,857**	2,764,498
Depreciation				
– owned fixed assets	**2,589**	1,833	**5,091**	3,651
– leased fixed assets	**390**	430	**717**	851
Amortisation of intangible asset *(note 9)*	**969**	–	**1,938**	–

5. Finance costs

	Three months ended 30th June,		Six months ended 30th June,	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Interest expenses on:				
– bank loans and overdrafts	**5,570**	5,623	**10,452**	9,113
– finance leases	**69**	110	**199**	216
Bank and other charges	**3,193**	1,355	**6,059**	2,610
	8,832	7,088	**16,710**	11,939

6. Taxation

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

	Three months ended 30th June,		Six months ended 30th June,	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong profits tax *(note 6(i))*	**752**	7,516	**4,978**	16,706
Overseas taxation *(note 6(ii))*	**6,159**	4,943	**9,645**	9,041
Deferred taxation *(note 1)*	**1,083**	–	**(783)**	–
	7,994	12,459	**13,840**	25,747
Share of taxation attributable to a jointly controlled entity	**–**	18	**–**	18
	7,994	12,477	**13,840**	25,765

Notes:

(i) Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) 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. Dividend

	Six months ended 30th June,	
	2003	2002
	HK$'000	*HK$'000*
No interim dividend proposed (2002: interim, proposed, of HK1 cent per share) *(note)*	**–**	19,457

Note:

At the annual general meeting held on 29th April, 2003, a final dividend of HK1 cent per share or a total of HK$19,456,966 for the year ended 31st December, 2002 was approved and paid on 23rd May, 2003, and has been reflected as an appropriation of retained earnings for the six months ended 30th June, 2003.

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30th June, 2003.

8. Earnings per share

Basic earnings per share for the three months and the six months ended 30th June, 2003 are calculated based on the profit attributable to shareholders of HK$10,582,000 and HK$19,189,000 respectively (2002: HK$46,012,000 and HK$91,932,000 respectively) and on the weighted average number of 1,945,696,565 shares and 1,945,696,565 shares respectively (2002: 1,758,997,757 shares and 1,754,523,734 shares respectively) in issue during the Periods.

Diluted earnings per share for the Periods are not presented as there were no dilutive potential shares as at 30th June, 2003.

Diluted earnings per share for the three months and the six months ended 30th June, 2002 are calculated based on 1,761,727,057 shares and 1,769,690,379 shares respectively which are the weighted average number of shares in issue during the periods plus the weighted average of 2,729,300 shares and 15,166,645 shares respectively deemed to be issued at no consideration if all outstanding options had been exercised.

9. Intangible assets

	Distribution right *HK$'000*	Goodwill *HK$'000*	Total *HK$'000*
Net book amount as at 1st January, 2003	–	17,446	17,446
Addition	12,300	–	12,300
Amortisation charge *(note 4)*	–	(1,938)	(1,938)
Net book amount as at 30th June, 2003	12,300	15,508	27,808

10. Fixed assets

	HK$'000
Net book value as at 1st January, 2003	79,009
Exchange adjustment	1,577
Additions	16,548
Depreciation *(note 4)*	(5,808)
Disposals	(2,975)
Net book value as at 30th June, 2003	88,351

11. Trade receivables

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, 2003, the ageing analysis of the trade receivables is as follows:

	30th June, 2003 *HK$'000*	31st December, 2002 *HK$'000*
Current	**492,136**	431,680
31-60 days	**228,615**	270,103
61-90 days	**26,603**	72,931
91-120 days	**39,041**	98,739
Over 120 days	**123,506**	27,060
Less: provision	**(26,156)**	(19,881)
	883,745	880,632

12. Trade payables

At 30th June, 2003, the ageing analysis of the trade payables is as follows:

	30th June, 2003 *HK$'000*	31st December, 2002 *HK$'000*
Current	**312,004**	187,254
31-60 days	**21,526**	18,660
61-90 days	**1,790**	19,601
91-120 days	**1,364**	2,965
Over 120 days	**18,500**	10,824
	355,184	239,304

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the distribution of a wide variety of mobile phone brands and related accessories in the Asia Pacific region. The Group was able to achieve satisfactory interim results for the year 2003 despite a very difficult environment.

Mobile Phone Distribution

Market environment

During the period under review, the market environment was very challenging and competitive with a slowdown in mobile subscriber growth as well as an influx of numerous new brands. In Mainland China, the growth of subscriber base slowed down its pace to 10% in the first half of 2003 compared to 17.5% over the same period of 2002 (source: Ministry of Information Industry, July 2003). The high acceptance of upcoming and local brands has created room for their growth. Currently, with more than 60 brands in Mainland China market, the competition has further intensified in this already challenging market environment.

The outbreak of the Severe Acute Respiratory Syndrome ("SARS") hit Asia Pacific in the first half of 2003 and it created a negative impact in Asia Pacific retail markets, particularly in Mainland China, Hong Kong, Singapore and Malaysia. It has further discounted the consumption power and exerted pressure on product selling prices and stock level in the affected cities. According to GfK market reports, sales volume dropped 21%, 35% and 38% in Mainland China, Hong Kong and Malaysia respectively in April 2003 compared to January 2003. The market environment was very sluggish and unfavorable in the second quarter of 2003.

Industry leader

During the period under review, the Group acquired additional 14 new models, including Samsung SGH-S200, S300, V200C, V200, Siemens S57, SL55, Alcatel OT512, OT715, OT320, Philips fisio 826, 630, 625, 330, and Legend G303. The Group is now carrying a total of 15 brands and over 70 models and believes its diverse supplier mix will enhance the Group's competitiveness.

In India, a subsidiary of the Group, First Mobile India Private Limited ("First Mobile India") has acquired distribution rights of several mobile phone models of Alcatel and Philips. Moreover, First Mobile India established 5 new service centers to provide better pre-sales and after-sales service support to its suppliers and consumers. All in all, there are 13 service centers located in major cities across India, either wholly owned by the Group (two in Mumbai and one in New Delhi, Chennai and Bangalore) or operated through franchise (Mumbai, Kolkata, Hyderabad, Indore, Nagpur, Ahmedabad, Pune and

Coimbatore). First Mobile India is the authorized service agent of Philips. The Group believes India is fast becoming one of the hottest mobile markets in the world and will further intensify its sales and service network and strengthen its supplier mix.

In the Philippines, First Asia Mobile, Inc., a subsidiary of the Group, acquired 4 Samsung new mobile phone models and hence, has further strengthened the Group's product portfolio. By implementing aggressive efforts to develop the Philippine business, the Group now possesses a vast sales network across the Philippines.

Voice-over-IP ("VoIP")

With the completion of acquisition of Chi Telecom Pty Ltd and Chi Tel Limited in June 2002, First Mobile ventured into the booming VoIP market. These two companies are principally engaged in the provision of VoIP services in the form of prepaid calling cards and wholesale of long-distance call traffic.

During the period under review, the VoIP business sold approximately 184 million minutes through its extensive sales network. Comparing to the second half of 2002, the minutes sold has increased 50%.

At present, its geographical coverage includes Hong Kong, Australia, New Zealand, the U.K., the U.S. and Japan. During the period under review, the VoIP business commenced its operation in the U.S. and started to establish sales networks in several key cities, including New York, Chicago, Washington D.C., Houston, Los Angeles and Seattle. Chi Tel USA Corp., a subsidiary of the Group, is strategically located in New Jersey, which is close to one of the key markets – New York and its key telecommunications partners.

Besides the establishment of Chi Tel USA Corp., the VoIP business has launched two new brands of prepaid calling cards: Talk 2 U and Flower. The Talk 2 U card offers attractive prices for calling to South America and Europe. The Flower card is catered for calling to the Middle East and South Asia. These cards have their own market segments and have been well received in the United Kingdom and Australian markets.

The Group has introduced a new business model, Chi Tel Business Solutions in Australia in June 2003. This model utilises its international network and new VoIP hardware to provide PBX networks with a unique and adaptable voice VPN and VoIP solutions through its established global network and to meet the immediate cost saving needs of businesses and enterprises. The Group believes that this business will bring forth an additional revenue source and create synergies with its other businesses.

Financial Review

For the six months ended 30th June, 2003, turnover of approximately HK$3,048 million was recorded, representing a slight increase of approximately 2% from the corresponding period in 2002. Number of mobile phones sold was maintained at approximately 2.0 million units (2002: 2.1 million units). Nevertheless, a drop in gross profit margin was witnessed, from 6.4% in the first half of 2002 to 5.2% in the corresponding period in 2003. Due to the outbreak of SARS in late March, the economy of this region was severely hit with shrinking consumption sentiment in the Hong Kong, Mainland China and Malaysian markets during the second quarter of 2003. Under such an adverse market environment, it is inevitable to lower the gross profit margin to maintain our competitiveness.

During the six months ended 30th June, 2003, general and administrative expenses increased significantly by approximately 40% to approximately HK$79 million. As discussed in the first quarterly report for 2003, the increase was mainly the result of the growth of the Group's business establishments in India and Japan, and the incorporation of the results of the VoIP business which was acquired in June 2002. Furthermore, in view of the competitive and adverse market environment, the Group has implemented a more prudent provisioning policy on stocks and debtors, resulting in a higher provision amount in the first half of 2003. Notwithstanding the business expansion and prudent provisioning policy, the general and administrative expenses in the second quarter of 2003 was in fact approximately 25% lower than the first quarter of 2003, which reflected management's effort in restraining increase in overheads to cope with pressure on the gross profit margin.

Finance costs surged from approximately HK$12 million to HK$17 million mainly because of the change in supplier mix as several new suppliers require settlement by documentary credits instead of on open account.

Under the difficult environment in the first half of 2003, profit attributable to shareholders decreased significantly from approximately HK$92 million for the six months ended 30th June, 2002 to approximately HK$19 million in 2003, and basic earnings per share also fell from approximately HK5.24 cents in 2002 to approximately HK0.99 cent in 2003.

As a result of the economy downturn in the second quarter of 2003, inventories as at 30th June, 2003 increased moderately to approximately HK$297 million (as at 31st December, 2002: HK$239 million). Nevertheless, stock turnover days was at a healthy level of 19 days for the six months ended 30th June, 2003 (for the year ended 31st December, 2002: 16 days).

Trade receivables as at 30th June, 2003 amounted to approximately HK$884 million (as at 31st December, 2002: HK$881 million) and debtor turnover days was 54 days for the six months ended 30th June, 2003 (for the year ended 31st December, 2002: 52 days).

Liquidity and Financial Resources

As at 30th June, 2003, bank and cash balances of the Group was approximately HK$432 million (as at 31st December, 2002: HK$463 million), of which approximately HK$306 million (as at 31st December, 2002: HK$289 million) were pledged for general banking facilities. Total borrowings of the Group amounted to approximately HK$612 million (as at 31st December, 2002: HK$657 million), comprising long-term bank loans of approximately HK$80 million (as at 31st December, 2002: HK$90 million), obligations under finance lease of approximately HK$3 million (as at 31st December, 2002: HK$3 million), and short-term bank loans and overdrafts of approximately HK$529 million (as at 31st December, 2002: HK$564 million).

The decrease in bank and cash balances was mainly due to partial repayment made in the second quarter of 2003 for the HK$80 million transferable term loan obtained in 2001 and less utilization of short term banking facilities. The gearing ratio (total long-term liabilities/net assets) of the Group as at 30th June, 2003 was 12% (as at 31st December, 2002: 13%).

All current and future assets of a subsidiary of the Company are pledged as security for the subsidiary's general banking facilities. As at 30th June, 2003, the banking facility was undrawn (as at 31st December, 2002: nil). The gross assets of the subsidiary as at 30th June, 2003 were approximately HK$9 million (as at 31st December, 2002: HK$9 million). In June 2003, another subsidiary of the Company pledged all its current and future assets as security for a mortgage loan. As at 30th June, 2003, the mortgage loan amounted to approximately HK$3 million. The gross assets of the subsidiary as at 30th June, 2003 were approximately HK$12 million. Certain properties (excluding the pledged property of the subsidiary mentioned above) and a motor vehicle of the Group are also pledged as security for the Group's general banking facilities. As at 30th June, 2003, the carrying value of these pledged assets (excluding the pledged bank balances and the assets of the two subsidiaries mentioned above) was approximately HK$43 million (as at 31st December, 2002: HK$44 million).

The increase in fixed assets was mainly contributed by the acquisition of a property and the purchases of equipment as a result of the expansion of the VoIP business.

Treasury Policies

The Group's business transactions, assets and liabilities are mainly denominated in either Hong Kong Dollars, United States Dollars, Renminbi, Euro or Malaysian Ringgits. 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, 2003, the Group had approximately HK$162 million (as at 31st December, 2002: HK$56 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, 2003.

Employees

As at 30th June, 2003, the Group had 457 (as at 31st December, 2002: 405) employees. The total of employee remuneration, including that of the Directors, for the six months ended 30th June, 2003 amounted to approximately HK$44 million (2002: HK$37 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition, the Group also has a share option scheme for directors and employees, details of which are disclosed in the section below of "Share Option Schemes".

FUTURE PLANS AND PROSPECTS

Mobile Phone Distribution

Our mission is to maintain our leadership in the distribution of up and coming brands as well as to continue its geographical expansion and enhance its market presence in the Asia Pacific region.

To further strengthen the Group's product portfolio, the Group will continue to explore and acquire new brands with high market potentials.

The Group believes that India possesses the largest growth potential after Mainland China. In the first quarter of 2003, nearly 3 million new cellular subscribers were added to the Indian market. It is expected that the Indian market can be more than doubled in the next 12 months to 30 million and potentially exceed 120 million subscribers by 2008 and 250 million subscribers by 2013.

In addition, the Philippines is one of the fastest-growing markets in the world. It is believed that the number of subscribers will grow from 13 million in 2002 to over 20 million by the end of 2003.

The Group will focus on further development of high potential markets like India and the Philippines. We will continue to actively work with manufacturers and operators in order to pave the way for the anticipated exponential growth in these countries.

VoIP

VoIP is becoming increasingly popular in the enterprise world. A recent report from the Aberdeen Group stated that VoIP is ready for mass adoption in the enterprise world. In Asia Pacific region, it is estimated that the enterprises and individual consumers will spend US$13,960 million in 2006 with an average annual growth of over 50%. In the meantime, VoIP is set to take off in Europe, the Middle East and Africa. Consultant firm Frost & Sullivan has predicted that traffic in those regions will total to nearly 60 billion minutes by 2008 (source: ASIA teledotcom 2002). As evidenced by these figures, the Group believes that the business will prove to be very promising and highly profitable in the near future.

Based on these market researches, the Group plans to enter VoIP business in France and Canada and will explore Singaporean and Malaysian markets to further develop and expand its geographical coverage. In the near future, the Group expects the VoIP business to flourish and become one of the significant revenue contributors to the Group.

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.

(i) 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, subject to a maximum of 10% of the total number of Shares in issue as at the date of its approval 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, 2003, 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 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' interests and short positions in 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 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 23,905,000 Shares in the Company lapsed during the six months ended 30th June, 2003 due to the resignation of employees. As at 30th June, 2003, there are options remaining to subscribe for an aggregate of 144,698,750 Shares, representing 7.4% 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 8,750,000 Shares granted to 6 senior management staff and options to subscribe for an aggregate of 3,823,750 Shares granted to 41 employees.

No options had been exercised or cancelled during the Periods.

Following the adoption of the 2003 Share Option Scheme and the termination of the 2000 Share Option Scheme on 29th April, 2003, the above-mentioned outstanding options granted under the Pre-Listing Share Option Plan shall continue to be subject to the provisions of the Pre-Listing Share Option Plan and will not in any event be affected by the adoption and termination of the schemes.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30th June, 2003, the interests and short positions of the Directors and the 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

	Number of shares of HK$0.10 each				
Name of Director	**Personal interests**	**Family interests** *(note (i))*	**Corporate interests** *(note (ii))*	**Total**	**Percentage of issued share capital**
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	787,500	–	–	787,500	0.04%
Mr. Sze Tsai To Robert	787,500	–	–	787,500	0.04%

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.

Save as disclosed above, as at 30th June, 2003, none of the Directors, chief executive or their associates had any interests in the share capital of the Company.

(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 interests	Family interests *(note)*	Total
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		
	Personal interests	Family interests *(note)*	Total
Mr. Ng Kok Hong	47,250,000	–	47,250,000
Mr. Ng Kok Tai	42,000,000	875,000	42,875,000
Mr. Ng Kok Yang	42,875,000	–	42,875,000

Note: The option to subscribe for 875,000 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, 2003, 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 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.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2003, the following persons (other than the Directors and the chief executive of the Company as disclosed above) 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:

Name	Number of shares of HK$0.10 each	Percentage of issued share capital
SW Kingsway Capital Group Limited	140,932,250	7.24% *(note(i))*
SW Kingsway Capital Holdings Limited	140,932,250	7.24% *(note(ii))*
World Developments Limited	140,932,250	7.24% *(note(iii))*
Innovation Assets Limited	140,932,250	7.24% *(note(iv))*
Kingsway International Holdings Limited	149,988,250	7.71% *(note(v))*
Mr. Choi Koon Shum Jonathan	149,988,250	7.71% *(note(vi))*

Notes:

(i) Amongst 140,932,250 shares, 23,000,000 shares are held by SW Kingsway Capital Group Limited directly and 117,932,250 shares are held by three wholly-owned subsidiaries of SW Kingsway Capital Group Limited. The said three subsidiaries include Kingsway Lion Spur Technology Limited, Opal Dragon Investments Limited and Kingsway SW Finance Limited and they respectively hold 40,620,000, 69,312,250 and 8,000,000 shares in the Company. Therefore, SW Kingsway Capital Group Limited is deemed by virtue of the SFO to be also interested in the 117,932,250 shares.

(ii) SW Kingsway Capital Holdings Limited holds 100% interests in shares of SW Kingsway Capital Group Limited. Therefore, SW Kingsway Capital Holdings Limited is deemed by virture of the SFO to be also interested in the 140,932,250 shares directly and indirectly held by SW Kingsway Capital Group Limited.

(iii) World Developments Limited holds 74% interests in shares of SW Kingsway Capital Holdings Limited. Therefore, World Developments Limited is deemed by virtue of the SFO to be also interested in the 140,932,250 shares directly and indirectly held by SW Kingsway Capital Group Limited.

(iv) Innovation Assets Limited holds 100% interests in shares of World Developments Limited. Therefore, Innovation Assets Limited is deemed by virtue of the SFO to be also interested in the 140,932,250 shares directly and indirectly held by SW Kingsway Capital Group Limited.

(v) Amongst 149,988,250 shares, Kingsway International Holdings Limited is deemed by virtue of the SFO to be also interested in the 140,932,250 shares directly and indirectly held by SW Kingsway Capital Group Limited as Kingsway International Holdings Limited holds 100% interests in shares of Innovation Assets Limited.

Kingsway Securities Holdings Limited, a wholly-owned subsidiary of Kingsway International Holdings Limited, directly holds 7,956,000 shares in the Company. Accordingly, Kingsway International Holdings Limited is deemed by virtue of the SFO to be also interested in the 7,956,000 shares held by Kingsway Securities Holdings Limited.

Weaver Strategic Investments Limited directly holds 1,100,000 shares in the Company. Weaver Strategic Investments Limited is a wholly-owned subsidiary of HK Weaver Group Limited and Kingsway International Holdings Limited holds 77% interests in shares of HK Weaver Group Limited. Accordingly, Kingsway International Holdings Limited is deemed by virtue of the SFO to be also interested in the 1,100,000 shares held by Weaver Strategic Investments Limited.

(vi) Mr. Choi Koon Shum Jonathan beneficially owns and controls 36,929,651 shares, representing 48% of the issued share capital of Kingsway International Holdings Limited and is deemed by virtue of the SFO to be also interested in the 149,988,250 shares in the Company held indirectly by Kingsway International Holdings Limited.

Save as disclosed above, as at 30th June, 2003, there was no other person (other than the Directors and chief executive of the Company) 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) 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.

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 Periods.

AUDIT COMMITTEE

The Company established an audit committee on 15th December, 2000 with terms of reference in compliance with rules 5.23 to 5.25 of the GEM Listing Rules. As at 30th June, 2003, 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 and the Compliance Officer, 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 Periods and up to the date of this report, three audit committee meetings were held for reviewing the Company's annual report, half-year 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 August, 2003

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