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

MASTERING THE MOBILE ARENA

ANNUAL REPORT 2003 二零零三年年報

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.

香港聯合交易所有限公司(「聯交所」)創業板(「創業板」)之特色

創業板乃為帶有高投資風險的公司提供一個上市的市場,尤其在創業板上市的公司毋須有過往溢利紀錄,亦毋須預測未來溢利。此外,在創業板上市的公司可因其新興性質及該等公司經營業務的行業或國家而帶有風險。有意投資的人士應了解投資於該等公司的潛在風險,並應經過審慎周詳的考慮後方作出投資決定。創業板的較高風險及其他特色表示創業板較適合專業及其他資深投資者。

由於創業板上市公司新興的性質使然,在創業板買賣的證券可能會較於主板買賣之證券承受較大的市場波動風險,同時無法保證在創業板買賣的證券會有高流通量的市場。

創業板發佈資料的主要方法為透過聯交所運作的互聯網網頁刊登。上市公司一般毋須在憲報指定報章刊登付款公佈。因此,有意投資的人士應注意彼等須瀏覽創業板網頁www.hkgem.com,以便取得創業板上市發行人的最新資料。

TABLE OF CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Ng Kok Hong
Ng Kok Tai
Ng Kok Yang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Sze Tsai To Robert
Wu Wai Chung Michael
Wong Tin Sang Patrick

AUDIT COMMITTEE

Sze Tsai To Robert *(Chairman)*
Wu Wai Chung Michael
Wong Tin Sang Patrick
Ng Kok Hong

COMPLIANCE OFFICER

Ng Kok Hong

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Chan Kwok Keung

REGISTERED OFFICE

Ugland House
South Church Street
P.O. Box 309, George Town
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 1919-1923, 19th Floor
Grandtech Centre
8 On Ping Street
Shatin, New Territories
Hong Kong

COMPANY WEBSITE

www.firstmobile.com

AUDITORS

PricewaterhouseCoopers

LEGAL ADVISER AS TO HONG KONG LAW

Woo, Kwan, Lee & Lo

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bumiputra-Commerce Bank Berhad
CITIC Ka Wah Bank Limited
Malayan Banking Berhad

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House, 68 Fort Street
P.O. Box 705, George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

MAJOR OPERATING COMPANIES

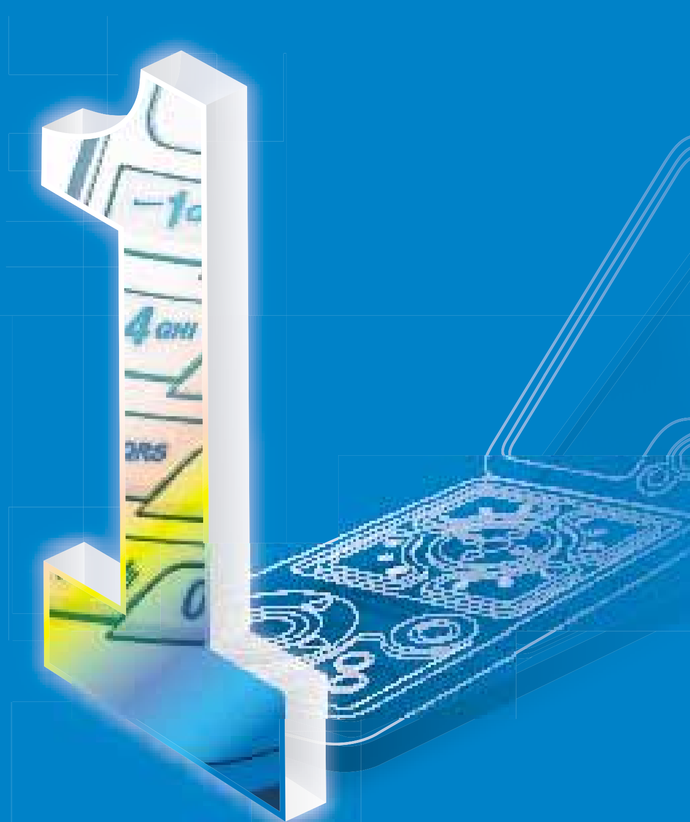
FIRST MOBILE GROUP HOLDINGS LIMITED

- **Mobile Phone Distribution**
  - FIRST TELECOM INTERNATIONAL LIMITED (HONG KONG)
  - FIRST MOBILE GROUP SDN. BHD. (MALAYSIA)
  - MOBILE DISTRIBUTION (M) SDN. BHD. (MALAYSIA)
  - EXQUISITE MODEL SDN. BHD. (MALAYSIA)
  - SHANGHAI FAST TELCON EQUIPMENT INTERNATIONAL TRADING CO., LTD. (MAINLAND CHINA)
  - FIRST ASIA MOBILE, INC. (THE PHILIPPINES)
  - FIRST MOBILE INDIA PRIVATE LIMITED (INDIA)
  - CONTACT MOBILE PTE LTD (SINGAPORE)
- **VoIP Business**
  - CHI TELECOM PTY LTD (AUSTRALIA)
  - CHI TEL NZ LIMITED (NEW ZEALAND)
  - CHI TEL LIMITED (HONG KONG)
  - CHI-TEL UK LIMITED (THE U.K.)
  - CHI TEL USA CORP. (THE U.S.)
  - CHI TEL CANADA LTD. (CANADA)
  - CHI TEL FRANCE SARL (FRANCE)

CORPORATE PROFILE AND MISSION

PROFILE

First Mobile Group Holdings Limited ("First Mobile" or the "Group"), the leading regional player, is principally engaged in the trading and distribution of mobile phones as well as related accessories from a wide variety of brands in the Asia Pacific region. Recognised for its focus on value-added services, First Mobile offers total sales, marketing and distribution solutions for both mobile phone manufacturers and end users



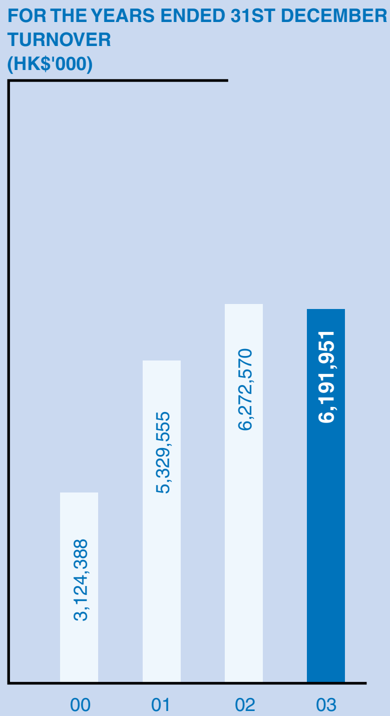
MISSION

Maintain our leadership in the distribution of mobile phones from renowned and upcoming brands as well as extend our geographical presence in the Asia Pacific region

CHAIRMAN'S STATEMENT

"We will continue to maximise the overall profitability and growth of our businesses, with the view of rewarding our dedicated staff, experienced management and supportive shareholders, as well as to thank our manufacturers and dealers for their continuous support throughout the years"

There were good news and bad news in 2003. The bad news, of course, included the unexpected Severe Acute Respiratory Syndrome ("SARS") epidemic that took everyone by surprise and affected the lives of many people as well as operations of many businesses on a global basis, and the weary US-Iraq war that caused much political and social tension. The good news was that the SARS subsided within 3 months in June, and consumer sentiments also rebounded in the wake of the reviving global economic environment. The economy of Hong Kong also witnessed a



conspicuous rebound, thanks to a series of favourable government policies, the continuous influx of Mainland Chinese tourists as well as the improving number of tourists and business travellers from overseas.

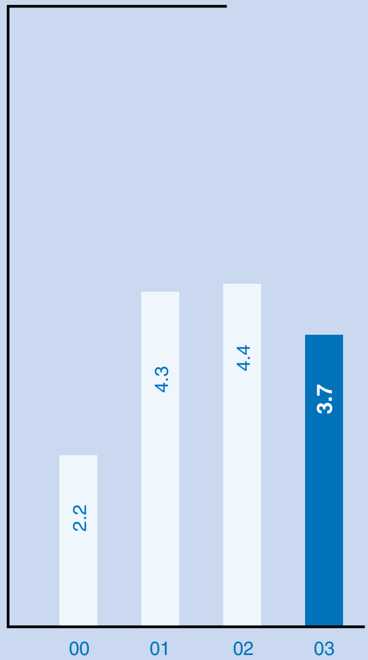
Under such competitive market environment, First Mobile maintained its turnover by recording a mere decline of 1.3% for the year ended 31st December, 2003 as a result of the rapid expansion of its product portfolio, existing distribution channel and Voice-over-IP ("VoIP") business in various countries. Although the net profit of 2003 dropped substantially as compared with that of 2002, it showed an ascending turn since the fourth quarter of 2002 when we examined the 2003 quarterly performance in detail.

FINANCIAL FIGURES

During the year under review, turnover amounted to approximately HK$6,192 million, representing a slight decrease of 1.3% from 2002. Sale of mobile phones reached approximately 3.7 million units. Inevitably affected by the drastic changes in business environment and consumer sentiments in the wake of the SARS, the average gross profit margin decreased slightly from the first quarter to the second quarter. However, it had an ascending turn since the beginning of the second half of 2003.

Gross profit and profit attributable to shareholders amounted to approximately HK$338 million and HK$55 million respectively, while basic earnings per share decreased to HK2.8 cents. No dividend was proposed for the year.

FOR THE YEARS ENDED 31ST DECEMBER
NUMBER OF MOBILE PHONES SOLD
(million)



MARKET OVERVIEW

The global mobile subscribers grew to 1.33 billion in 2003, representing a 20% growth rate from 2002 that brought forth 227 million new subscribers (source: EMC World Cellular). Such figures demonstrated promising prospects for the market. However, the mobile phone distribution market has been, and continued to be, intensely competitive, especially in Asia where mobile phone usage is very high. 2003 was a challenging year for the whole industry. Gone is a sector dominated by a few all-powerful manufacturers, and in its place is a more layered and collaborative industry with Asian manufacturers and distributors right at the centre. New entrants continued to erode the market share of existing players and further fuelled the competitive pressure in the market. In addition, the outbreak of the SARS in the second quarter also brought about an adverse impact to the Group's overall business performance during the first half of 2003. Despite the difficulties, the Group remained dedicated to its business development and was able to remain profitable and recorded satisfactory results.

During the year under review, an exciting and new technological development took place in the mobile phone industry: the launch of 3G. Countries including Italy, the United Kingdom ("U.K.") and Korea were the firsts to experience the power of this technology as it advanced to a new level. Market reaction reflected interest and curiosity, although actual market response and subscriber figures are yet to be examined and analysed. In the near future, First Mobile will explore and seek after potential opportunities from the launch of the 3G era to benefit the Group.

Leveraging on the rebounding market environment and business activities in the second half of 2003, the Group will grasp all potentials as it sees fit, with the view of further expanding its business reach, just like what it was doing in the past years.

SUMMARY OF BUSINESS OPERATIONS IN 2003

Recognised for its value-added services and distribution of mobile phones as well as related accessories from a wide variety of brands in the Asia Pacific region, First Mobile continued to sustain its leading market position and endeavoured to propel its businesses to new heights.

While the Group's business operations were slightly hindered by the economic environment in Hong Kong and the region as a result of the SARS, the Group achieved satisfactory progress in other new markets, such as India, which we believe possesses the highest growth potential after Mainland China. At the same time, the Group also expanded its VoIP business rapidly into other countries, including Europe, Canada and the United States ("U.S.").

FUTURE PLANS AND DEVELOPMENT

Unlike new entrants who have to fight for market shares and attract customers, the mission of First Mobile is to sustain its unrivaled market leadership in the mobile communications industry throughout the Asia Pacific region. This vision we will achieve, through continuing with our effective geographical expansion strategies and enhancing our market presence in the Asia Pacific region.

In the coming future, special emphasis will be placed on the fast growing markets, such as the flourishing India and the Philippines, by actively collaborating with manufacturers and operators for swift market penetration and an extensive distribution channel. As for our VoIP business, we will ride on the existing momentum to further accelerate its expansion and development. We are confident that the VoIP business will bring forth a generous income base in the future.

Last but not least, First Mobile will continue to maximise the overall profitability and growth of its businesses, with the view of rewarding its dedicated staff, experienced management and supportive shareholders, as well as to thank its manufacturers and dealers for their continuous support throughout the years. On behalf of the Board of Directors, I would like to express my heartfelt appreciation to everyone who has contributed to the achievements of First Mobile. We would not have reached this far without your vote of confidence.

Ng Kok Hong
Executive Chairman

Hong Kong, 19th March 2004

1 STRENGTHENING

CORE COMPETENCIES FOR MARKET RECOGNITION AND SUCCESS

Distinctive service standards refer not only to the point of sales, but in fact it is a detailed process that combines shopping convenience, in-depth product knowledge, comprehensive product range and extensive after-sales services that win customer loyalty and vote of confidence.

BUSINESS FORTES OF FIRST MOBILE

During the year under review, the Group has successfully achieved its 2003 sales target for its mobile phone distribution business under intense market competition. As at 31st December, 2003, the Group's existing product portfolio totalled to 10 brands and over 60 models of mobile phones, including an addition of 27 models from promising brands such as BenQ and Daxian during the year.

Even more conspicuous was the speedy development of the Group's VoIP business, which has already established its presence in various regions including Hong Kong, Australia, New Zealand, the U.K., the U.S., Canada and France within a short period of time. During the year under review, the Group sold approximately 371 million minutes, representing a substantial increase compared with approximately 124 million minutes during the second half of 2002.

BUSINESSES BY GEOGRAPHICAL COVERAGE

Mobile Phone Distribution

HONG KONG

Hong Kong has always been renowned for its advanced technologies, and willingness to try new ideas and products, which include, of course, the latest and the most advanced mobile phones. With a high mobile phone penetration rate that exceeds 100% (source: OFTA, February 2004), the new subscriber market is already saturated, while the replacement market still demonstrated a stable performance.

The outbreak of the SARS hit Hong Kong hard during the first half of 2003, which further diminished the consumption power and exerted pressure on product selling prices as well as the stock market. In view of the weak economic climate, the Hong Kong SAR Government implemented a series of initiatives, such as the "We Love Hong Kong" campaign and with the support of the mainland government, the relaxation of regulations for mainland visitors travelling to Hong Kong, which has, and will continue to, benefit the overall Hong Kong retail market. As evidenced by the GfK reports, sales have already been picking up in the second half of 2003 to reflect a strong and prosperous replacement market.

MALAYSIA

For the Malaysian market, the total number of new mobile subscribers increased by 18% to reach approximately 11 million as at December 2003. With the penetration rate gradually increasing to 42%, the forecasted number of mobile subscribers is expected to reach 12 million by 2004.

During the year under review, the Group acquired the distribution right of a mobile phone model from the renowned and upcoming Taiwanese brand, BenQ, which received encouraging market response and acceptance from consumers through the Group's aggressive and effective marketing strategies and widespread sales network.

The Group established its "FMG-Mobile Village" in several major shopping malls like Prangin Mall, Penang/Alam Sentral, KL/Summit Batu Pahat, JB/South City Plaza and Selangor, to act as a main window in offering retail sales, after-sales and enquiry services for customers. Most importantly, the FMG-Mobile Village helps to enhance the overall image of the Group's quality and comprehensive services in the retail arena.

MAINLAND CHINA

Despite the size and potentials of the enormous China market, the growth rate of the mobile subscriber base has slowed down, from an increase of 42% between 2001 and 2002 to an increase of 30% between 2002 and 2003 (source: MII, February 2004). As at December 2003, the penetration rate of mobile phones reached 21%, while the number of mobile subscribers reached 280 million. During the year under review, GSM subscribers accounted for 261 million and continued to dominate the market, while the number of CDMA subscribers witnessed tremendous growth and accounted for the remaining 19 million, representing respective increases of 18% and 58% as compared to the previous year (source: GfK, December 2003).

Market share of domestic brands also witnessed a substantial increase, from 39% for the year ended December 2002 to an overwhelming 55% for the year ended December 2003 (source: Wireless Asia, 2003). Such impressive growth is attributable to effective strategies that combine attractive prices, good service standards, aggressive and effective advertising as well as promotion efforts to develop the brand names and product models. Leveraging on the fact that consumers are highly receptive to new brands and local brands that have unique designs and innovative features, the popularity of local brands will continue to flourish and capture growing market shares.

During the year under review, the Group continued to distribute GSM and CDMA mobile phones. In addition to establishing a business partnership with Daxian, one of the renowned local mobile phone brands in Mainland China, to become one of their distributors, the Group also launched several models of Kyocera, Telsda and Lenovo. At the same time, the Group also continued with its CDMA mobile phone distribution through joint promotions with the esteemed China Unicom. To complement the two-pronged development strategies, the Group will strive to acquire more distribution rights of innovative mobile phone models that offer attractive and advanced features demanded by consumers, such as colour display, camera and Multimedia Messaging Service ("MMS"). As the market is under a very keen competition, the Group will reassess and adjust its business strategies in order to capture opportunities from the trend.

THE PHILIPPINES

In 2003, the total number of mobile subscribers increased by 31% and penetration rate reached 17% in the high potential market of the Philippines (source: National Telecommunications Commission, February 2004). The Philippine market is expected to grow to 30 million subscribers in the coming years. During the year under review, the Group continued to focus and concentrated on building an extensive sales and distribution network to open up the high-end market segment, so as to increase profitability and expand revenue source.

Business partnership was also established with key dealers in the Philippines to open up additional service centres in strategic locations, namely Manila and 3 other cities, Cebu, Cagayan de Oro and Davoa, within the archipelagos island of the Philippines. Such effort in enhancing overall service quality and maximising customer satisfaction is highly effective in securing loyalty from existing customers and attracting new customers in the Philippine booming mobile phone market.

1 EXPANDING

INTO NEW REGIMES AND BRIGHT HORIZONS

In First Mobile, we like to challenge ourselves and we like to improve. We like to set goals, and we like to achieve them. These are the reasons why we have expanded into new business regimes and geographical horizons and delivered sound performance as well as healthy progress.

INDIA

For the booming Indian market, the total number of mobile subscribers increased by 110% within one year to reach approximately 22 million in 2003. Such promising figure indicated vast growth and rapid development of the subscriber market in India, as well as endless room for future growth, since the penetration rate that more than doubled from 1% to 2.2% is still at its infancy stage (source: COAI, February 2004).

During the year under review, First Mobile India Private Limited ("First Mobile India"), a subsidiary of the Group, acquired the distribution rights of 8 Philips mobile phone models and 3 BenQ mobile phone models. The Group also established new offices in Ahmedabab and Bangalore as well as 17 new service centres (either wholly owned by the Group or operated through franchise) in 2003, to provide better pre-sales and after-sales service support to its suppliers and consumers in major cities in India. There are now a total of 10 offices in India, so as to build an extensive sales and distribution network to accelerate its business development in the flourishing Indian market.

First Mobile India aims to offer a total value chain of mobile phone distribution services to its manufacturers. In order to capture this booming Indian market, the Group is forming a strong foundation by strengthening its sales and distribution network, after-sales service as well as logistics across the country.

SINGAPORE

The penetration rate was approximately 83% by the end of 2003 (source: GfK, March 2004) and there is a high replacement market in Singapore, in which the Group will aggressively seek after potential opportunities to further develop its business.

THE U.K.

The Group discontinued its business operation in the U.K. since the fourth quarter of 2003 because it was commercially unviable under the highly competitive environment as a result of the change in custom duty policy.

VoIP Business

The Group ventured into the booming VoIP business last year by acquiring Chi Telecom Pty Ltd ("Chi Telecom") and Chi Tel Limited which are principally engaged in the provision of VoIP services in the form of prepaid calling cards and wholesale of long-distance call traffic. By the end of last year, the VoIP business had expanded extensively to cover Hong Kong, Australia, New Zealand and the U.K. and witnessed speedy development in each of the respective regions.

In 2003, the VoIP business further expanded the network to cover two continents, North America and Europe, with its expansion into the U.S., Canada and France. Price wars dominated the overall market situation, especially in Australia. The development process has been challenging, but the Group was able to maintain its business progress through relentless commitment and dedication to network expansion.

AUSTRALIA

In June 2003, the Group introduced a new business model of Business Solutions in Australia. This is an effective model that leverages on its established international network and new VoIP hardware to provide PBX networks with unique and adaptable voice Virtual Private Network ("VPN") and VoIP solutions. Most importantly, it also caters to the immediate cost saving needs of many businesses and enterprises and thus, it is expected to bring forth additional revenue for the Group in the near future.

The Business Solutions offers business and enterprise customers an alternative to the incumbent telcos - by providing a secure and reliable voice VPN solution running over the global VoIP network. Sales network coverage is mainly in the Sydney and New South Wales area, with channel partners operating in other cities and states around Australia. The Business Solutions unit has made sales to businesses directly and also through our Channel Partner program which the Group introduced in August 2003.

2004 could be the year that Chi Telecom gains exposure in the business and enterprise arena, and becomes recognised as a leading Australian company in 'Phone Call Cost Savings' for the Australian business communities.

NEW ZEALAND

The subsidiary is now one of the largest VoIP service providers in New Zealand in terms of minutes sold, revenue distribution capability, overall market presence and recognition. Such encouraging development of the VoIP service is attributable to the combination of attractive pricing policy, good voice quality, excellent back office administration, professional sales operation, customer services and effective marketing strategies. During the year under review, access to the local system available in New Zealand already covered 6 major cities, including Auckland, Wellington, Hamilton, Christchurch, Dunedin and Palmerston North, while the calling card distribution network spanned over 2,000 retail outlets nationwide through 3 major wholesalers.

HONG KONG

The VoIP business in Hong Kong progressed smoothly, with the establishment of a retail coverage that spans over 1,000 shops. Despite the Group's confidence in the prospects and potentials of its VoIP business, the VoIP market is in fact highly competitive, due to the continuous emergence of new entrants, and already over 30 calling cards in the market at present, which inevitably leads to price pressure in the market. However, thanks to its unrivaled market expertise and extensive coverage, the renowned Chi Tel Limited has successfully maintained its turnover and minutes sold during the year under review.

THE U.K.

During the year under review, the VoIP operation in the U.K. increased its distribution from 300 to 1,200 dealers spanning across all major cities in the country. The Group implemented a strategy to travellers, especially the enormous Asian and African populations in the U.K.. During the year under review, three new brands were launched in the market to provide higher flexibility in pricing structures targeting various customer market segments and call patterns. In addition, a new business model was implemented, so that our remote sales staff located throughout the U.K. can provide better coverage and higher level of service standards to our dealer base.

THE U.S.

The VoIP business commenced its operation in the U.S. in the second quarter of 2003 and established several sales networks in key cities such as New York, Chicago, Washington D.C., Houston, Los Angeles, San Francisco as well as Seattle. Currently, the subsidiary has its development focus on the West Coast cities like Los Angeles, San Francisco and Seattle, as it has been well established in the East Coast cities. At the same time, the Group has been exploring for opportunities in the Spanish market and already swiftly developed specific Spanish calling cards and customer services personnel to cater to this potential market.

CANADA

The VoIP business started its operation in Canada in September 2003, and already recorded a total of approximately 6.1 million traffic minutes in four months. To realize its strategy of establishing market presence in the main cities of Toronto, Montreal and Vancouver, the Group has already reached approximately 850 retailers in these three cities that have the highest Chinese population. In the coming future, the Group plans to increase its retail penetration and advertising expenditure in a wide range of media formats in various immigrant communities, so as to maximise its market awareness and exposure to attract an expanding customer base.

FRANCE

The subsidiary, Chi Tel France SARL and its service were established and launched in the fourth quarter of 2003. The sales network now spreads across major cities such as Paris, Nantes, Lille, Strasborg, Lyon, Marseille, Bordeaux and Toulouse.

JAPAN

The business operation in the already matured Japanese market was terminated in the fourth quarter of 2003 due to the unique business practice and culture of the Japanese market that made it difficult for foreign enterprises to excel and compete with local companies.

FINANCIAL REVIEW

Overview

Turnover for the year 2003 amounted to approximately HK$6,192 million (2002: HK$6,273 million), representing a slight decrease of 1.3% from 2002. Sale of mobile phones reached a total of approximately 3.7 million units. The slight decrease in both turnover and units sold was a result of the Group's strategy to improve gross profit margin by shifting the product portfolio to more mid/high-end models. Average selling price per unit increased from approximately HK$1,415 in 2002 to approximately HK$1,630 in 2003.

The slight decline in gross profit margin, from 5.7% in 2002 to 5.5% in 2003, was mainly attributable to the outbreak of the SARS during the first half of 2003. Both economic environment and consumption sentiment in the Southeast Asia region were severely hit. Gross profit margin was dropped to maintain our competitiveness in such an adverse market environment. Nevertheless, with the revived market sentiment following the containment of the SARS and our successful marketing and promotion programs launched during the second half of 2003, gross profit margin recovered steadily on a quarter to quarter basis, from approximately 4.6% in the second quarter to approximately 7.0% in the fourth quarter.

As a result of active marketing activities for sales pushes in the competitive environment and for strengthening brand image to bring long-term benefits to the Group, selling and distribution expenses moderately increased by approximately 14.1% to approximately HK$65 million for the year. General and administrative expenses increased by approximately 9.1% to approximately HK$156 million in 2003 due to the growth of the Group's mobile phone distribution business in India and the geographical expansion of the VoIP business. The increase in overhead caused by the above business changes was partially offset by management's continuous effort in restraining overhead costs, so as to cope with the increasing pressure on gross profit margin which resulted in a milder overall increment.

Finance costs for the year 2003 slightly increased to approximately HK$33 million from approximately HK$32 million in 2002.

As a result of the intensified market competition, the negative effects caused by the SARS outbreak and the loss arising from the mobile phone distribution business in the U.K. and the VoIP business in Japan (operations were ceased in both countries at the end of 2003), profit attributable to shareholders decreased significantly from approximately HK$108 million in 2002 to approximately HK$55 million in 2003, and basic earnings per share also fell sharply from approximately HK5.9 cents in 2002 to approximately HK2.8 cents in 2003. Nevertheless, amidst such difficult business environment, an increase in net profit from quarter to quarter was achieved in 2003 as management strives to improve the Group's profitability. No final dividend was proposed for the year.

With the growth of the distribution business in Malaysia, India and the Philippines, inventory balance increased to approximately HK$336 million as at 31st December, 2003 (2002: HK$239 million). Nevertheless, stock turnover days has been carefully monitored and was maintained at a reasonable level of 22 days in 2003 (2002: 16 days).

Trade receivables was moderately reduced, from HK$881 million to approximately HK$837 million as at 31st December, 2003 as a result of the Group's effort in monitoring collection. Debtor turnover days was improved from 52 days in 2002 to 51 days in 2003.

Liquidity and Financial Resources

As at 31st December, 2003, bank and cash balances of the Group were approximately HK$470 million (2002: HK$463 million), of which approximately HK$338 million (2002: HK$289 million) were pledged for general banking facilities. Total borrowings of the Group amounted to approximately HK$575 million (2002: HK$657 million), comprising long-term bank loans of approximately HK$42 million (2002: HK$90 million), obligations under finance lease of approximately HK$3 million (2002: HK$3 million), and short-term bank loans and overdrafts of approximately HK$530 million (2002: HK$564 million).

Due to partial repayments for the HK$80 million transferable term loan during the year, long-term bank loans reduced significantly. The gearing ratio (total long-term liabilities/net assets) of the Group as at 31st December, 2003 was 6.1% (2002: 13.0%).

In June 2003, a subsidiary of the Company pledged all its current and future assets as security for a mortgage loan. This was supplemented by a personal guarantee from the resident director of the subsidiary in accordance with local banking practice. As at 31st December, 2003, the mortgage loan amounted to approximately HK$4 million and the gross asset value of the subsidiary was approximately HK$24 million.

Certain properties (excluding the pledged property of the subsidiary mentioned above) of the Group with carrying values of approximately HK$42 million (2002: HK$44 million) are also pledged as security for the Group's general banking facilities. In addition, a motor vehicle with carrying value of approximately HK$0.2 million (2002: HK$0.2 million) is pledged as security for a loan to finance its purchase.

Fixed assets increased to approximately HK$85 million as at 31st December 2003 (2002: HK$79 million) mainly contributed by the acquisition of a property and the purchases of equipment as a result of the expansion of the VoIP business.

Capital Structure

There was no change in the Company's share capital during the year.

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 31st December, 2003, the Group had approximately HK$142 million (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.

Acquisition of Subsidiaries

During the year, there was no acquisition of subsidiaries.

In June 2002, an indirect wholly owned subsidiary of the Company (the "Subsidiary") acquired 70% interest in Chi Telecom and Chi Tel Limited from

China Huge International Limited (the "Seller") pursuant to a shares sale agreement dated 4th April, 2002 (the "Principal Agreement"). Details of the Principal Agreement were disclosed in the Company's announcement dated 4th April, 2002.

Pursuant to the Principal Agreement, the Seller and one of its directors, Mr. Frank Huang ("Mr. Huang") had provided profit guarantees to the Group for the two years ended 31st December, 2003 (the "Profit Guarantees"). On the other hand, the Subsidiary had granted a reward guarantee (the "Reward Guarantee") to the Seller and Mr. Huang.

On 8th March, 2004, a supplemental agreement (the "Supplemental Agreement") was entered into between the parties to the Principal Agreement, in which the parties agreed to waive the obligations of the Seller, Mr. Huang and the Subsidiary in the Profit Guarantees and Reward Guarantee and to amend the Principal Agreement by deleting the post completion profit guarantee clause. Details of the Supplemental Agreement were disclosed in the Company's announcement dated 10th March, 2004.

Based on the audited financial statements of Chi Telecom and Chi Tel Limited and the audited consolidated financial statements of Chi Tel Global Holdings Limited and its subsidiaries (collectively the "Chi Tel Group") for the year ended 31st December, 2002, and their latest financial information for the year ended 31st December, 2003, the estimated net shortfall to the Profit Guarantees would be approximately AUD736,000 and AUD394,000, and the estimated amount payable by the Seller and Mr. Huang would have been approximately HK$12,211,000 had the Supplemental Agreement not been entered into.

Capital Commitments

The Group did not have any significant capital commitments as at 31st December, 2003 and 2002.

Contingent Liabilities

The Group did not have any significant contingent liabilities as at 31st December, 2003 and 2002.

Employees

As at 31st December, 2003, the Group had 579 (2002: 405) employees. The total of employee remuneration, including that of the Directors, for the year ended 31st December, 2003 amounted to approximately HK$97 million (2002: HK$78 million). The Group remunerates its employees based on their performance, experience and the prevailing industry practice. In addition, the Group has a share option scheme for Directors and employees, details of which are disclosed in the section of "Share Option Schemes" in the Directors' Report.

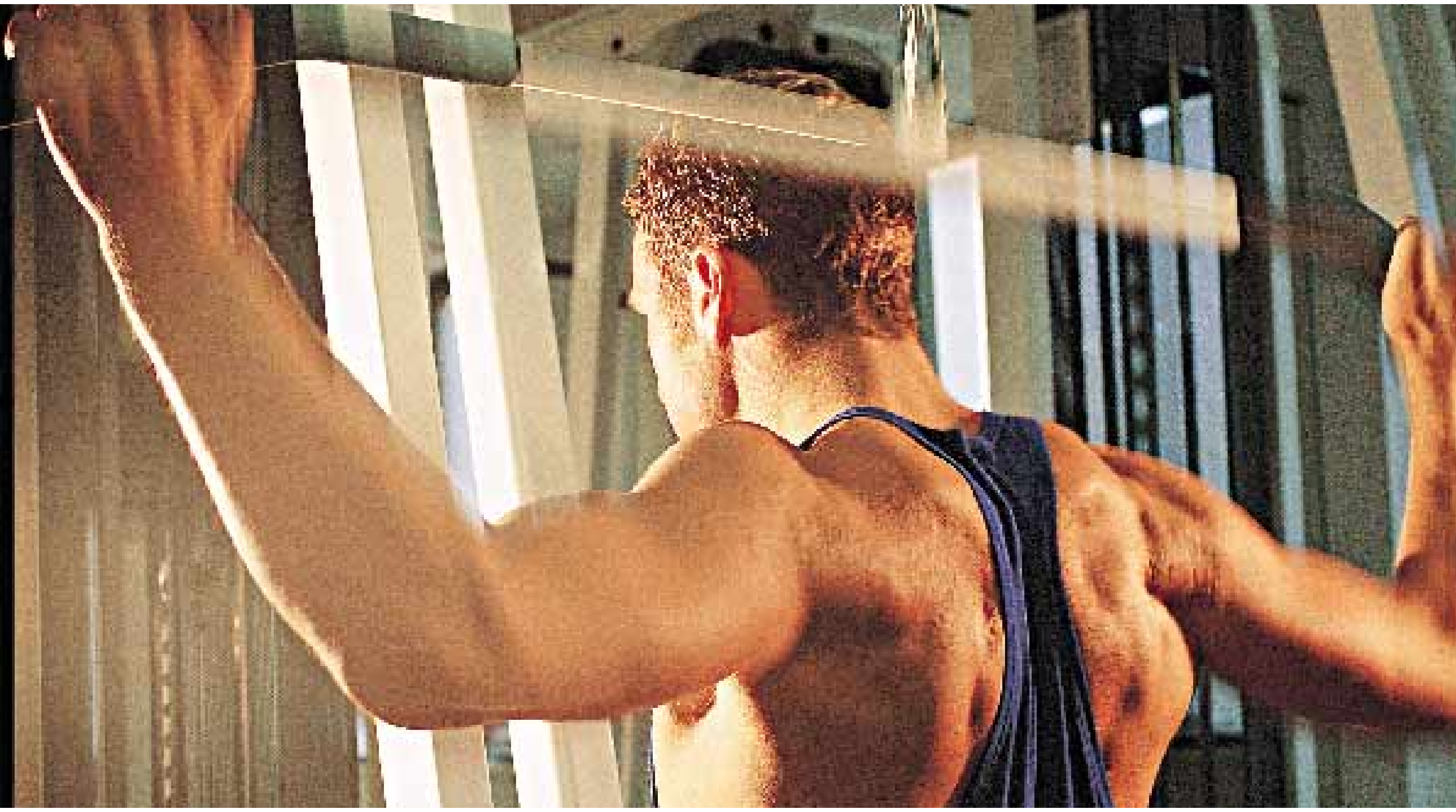
STRATEGIES IN 2004

Backed by the encouraging revival of the economic health, the mobile phone industry is expected to witness growth again in 2004. Manufacturers recorded a total sale of 481 million units of mobile phones in 2003 (source: Wireless Asia, February 2004), thanks to the reviving global economy and speedy post-SARS recovery in Asia, as well as the latest wave of new technologies and designs. In order to capture the strong and prosperous economy, the Group's relentless effort in sustaining its status as the leading regional distributor of mobile phones and related accessories in the Asia Pacific region and developing its VoIP business in major developed countries is a testimony of its dedication to business success as well as new product and service expansion. With the view of satisfying the ever changing consumer tastes and new technological advancements, the Group will continue to seek after quality and upcoming brands from various countries to complete its product portfolio.

Simultaneously, the Group will solidify its existing market presence, so as to expand into areas with high potentials. Special emphasis will be placed on developing and fast growing markets, such as India and the Philippines, as evidenced by their encouraging performance and development. For the Indian market that has established a solid foundation and the goal of increasing its market reach, the Group will increase the manpower of its sales team, so as to prepare for the astounding growth of this booming market. The plan is to establish as many as 40 to 50 after-sales service centres and more local offices in order to meet the anticipated surge in mobile subscriber base.

As announced in June 2003, the Group is exploring the possibility of applying for a separate listing of shares in a subsidiary of the Group in an overseas stock market. This exercise, if successfully completed in 2004, will allow the Group to access the international capital market as well as to further enhance shareholder's value.

For the Group's VoIP business that is about to take off, the focus will be to strengthen its existing coverage and explore into areas with high growth potentials, such as Singapore, Malaysia, Taiwan and Korea. By increasing its coverage, which will directly benefit and enlarge its user base, the Group is confident of achieving encouraging results for its VoIP business and generating additional revenue from it.



1 DEVELOPING

FORTES THAT DISTINGUISH AND PREVAIL

First Mobile knows what its strengths are and commits full fledgedly into offering the best of its services and the most impeccable of its quality standards. We stay abreast of market trends and technological evolutions for you, our customers, and take the initiative to research and develop the prospects and potentials of the new product/service as we see fit.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. NG Kok Hong, aged 40, Executive Chairman of the Group. Mr. Ng is actively involved in the corporate planning and operation of the Group. Since he co-founded a company with Mr. Ng Kok Tai to do mobile phone distribution in Malaysia in 1989 until present, Mr. Ng Kok Hong has been actively involved in the mobile phone industry. Mr. Ng has successful grown the Group's business to cover Mainland China, Hong Kong, the Philippines, India, Japan, Australia, New Zealand and the U.K.. Mr. Ng has also contributed a lot to the strategic relationship between the Group and renowned manufacturers like Samsung and Siemens.

Mr. NG Kok Tai, aged 43, Executive Deputy Chairman of the Group. He is also the President and a director of First Mobile Group Sdn. Bhd., Mobile Distribution (M) Sdn. Bhd., Exquisite Model Sdn. Bhd. as well as a director of First Telecom International Limited. He began his career in financial sector in 1981 in Malaysia. In 1988, he left the financial sector to join Mr. Ng Kok Hong in 1989 to venture into the mobile phone industry and became one of the top mobile phone dealers in Kuala Lumpur. He is the elder brother of Mr. Ng Kok Hong and Mr. Ng Kok Yang. He is the husband of Ms. Siew Ai Lian.

Mr. NG Kok Yang, aged 36, Chief Executive Officer of the Group. Having obtained his law degree from the University of London, he read for the Bar at Lincoln's Inn and was admitted to the Bar of England and Wales in 1991. Upon his return to his native Malaysia, he was admitted to the rolls as an Advocate and Solicitor of Malaya. From 1992 to 1996, Mr. Ng Kok Yang practised law in Kuala Lumpur, Malaysia. In 1996, he joined First Telecom International Limited and shared in Mr. Ng Kok Hong's vision of a global mobile phone distribution network. During the past six and a half years, Mr. Ng had made invaluable contribution to the growth of the Group including the setting up of a strong suppliers network worldwide as well as strong distribution channels in Asia Pacific. He is the younger brother of Mr. Ng Kok Hong and Mr. Ng Kok Tai.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SZE Tsai To Robert, aged 63, has been an independent non-executive Director since September 2000. Mr. Sze is a member of the Chinese People's Political Consultative Conference in Shanghai. Mr. Sze was a partner in an international firm of accountants with which he practised for over 20 years. He is a fellow of The Institute of Chartered Accountants in England and Wales and a fellow of the Hong Kong Society of Accountants. Mr. Sze is currently an independent non-executive director of a number of companies listed in Hong Kong and the U.S., including SW Kingsway Capital Holdings Limited.

Mr. WU Wai Chung Michael, aged 54, has been an independent non-executive Director since August 2000. Mr. Wu is currently an executive director of SW Kingsway Capital Holdings Limited. He was the Deputy Chairman of the Shanghai Stock Exchange until July 2002. Prior to that, he was a full time Advisor to the China Securities Regulatory Commission. Until end of 1997, he was the Deputy Chairman and Chief Operating Officer of the Securities and Futures Commission of Hong Kong. Mr. Wu is also an independent non-executive director of Interchina Holdings Company Limited.

Mr. WONG Tin Sang Patrick, aged 71, has been an independent non-executive Director since August 2001. Mr. Wong is a retired banker. Mr. Wong has over 40 years of experience in the banking industry and had held senior positions in 4 banking institutions. His last position was a business adviser in the corporate banking group at CITIC Ka Wah Bank Limited. Mr. Wong is also an independent non-executive director of Wealthmark International (Holdings) Limited, a company listed on the Stock Exchange of Hong Kong Limited, since June 2002.

SENIOR MANAGEMENT

Mr. CHAN Kwok Keung, aged 40, Chief Financial Officer of the Group and the Company Secretary and the Qualified Accountant of the Company. Mr. Chan is a fellow of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Society of Accountants, a member of the Hong Kong Securities Institute and a Certified International Investment Analyst. He obtained a Post Graduate Diploma in Banking and Finance from the City University of Hong Kong. Before joining the Group in July 2000, Mr. Chan had over 14 years of assurance and business advisory experience working in the Hong Kong and Boston offices of an international accounting firm.

Ms. CHAN Suet Lan Angela, aged 41, Senior Vice President (Marketing) of the Group. Ms. Chan is responsible for the marketing activities of the Group. Ms. Chan received her Bachelor Degree in Arts from the University of Hong Kong and has over 19 years of extensive experience in marketing telecommunications products. Prior to joining the Group in May 2000, she worked for various information technology and telecommunications corporations including Tricom, Hong Kong Telecom, Cable & Wireless, Attachmate, JOS, Philips and Siemens.

Mdm. ENG Sew Chin, aged 56, Group Treasurer. Mdm. Eng is also a director/Chief Financial Officer of First Mobile Group Sdn. Bhd. in Malaysia and has more than 31 years of experience in the accounting and financial field. Prior to joining the Group in July 2000, Mdm. Eng was the Financial Controller of a big group of companies involved in manufacturing, services, trading, and plantations in Malaysia. Mdm. Eng is the elder sister of Mr. Ng Kok Hong, Mr. Ng Kok Tai and Mr. Ng Kok Yang.

Ms. HONG Heng Mei, aged 36, Vice President (Human Resources) of the Group. Ms. Hong is an associate member of the Chartered Institute of Management Accountants, United Kingdom, a member of the Malaysian Institute of Accountants and a member of the Singapore Institute of Management. Ms. Hong has over 13 years of experience in finance and accounting as well as human resources management. Prior to joining the Group in October 2002, Ms. Hong worked for multinational corporations in Malaysia, Hong Kong and Singapore.

Mr. HUANG Frank C. D., aged 41, Chief Executive Officer of the Chi Tel Group. Mr. Huang graduated from Civil Aviation University of China in the PRC and has accumulated over 10 years of experience in the civil aviation industry from working for China Southwest Airlines and China Air Express. He joined the Group in June 2002. Mr. Huang moved to the telecommunications business in the late 80's and started to distribute pagers and mobile phones in 1988 and 1992 respectively. In 1996, Mr. Huang ventured into the distribution of mobile phone SIM cards. He started the prepaid phone cards business by using the VoIP technology in 1999 and successfully expanded the Chi Tel Group to Australia, Hong Kong, New Zealand, the U.K., the U.S. and other countries.

Mr. KHOO Chan Leng, aged 32, Country Manager of First Asia Mobile, Inc. ("FAMI") in the Philippines. Mr. Khoo joined FAMI in September 2002, where he was relocated to Manila from Hong Kong. Prior to joining the Group, he was the Assistant Financial Controller of Philips Electronics Hong Kong Ltd.. He has been working in the business and finance fields for more than 9 years and is currently a member of the accountancy bodies in Australia, Malaysia and Hong Kong.

Mr. NG Kian Teck Simon, aged 45, Executive Vice President (Corporate Planning) of First Mobile Group Sdn. Bhd. in Malaysia. Mr. Ng has a Master Degree in Business Administration from the University of Bath, the U.K.. He has over 18 years of experience in the mobile phone industry. Prior to joining the Group in April 1999, he held senior positions with a listed company in Malaysia.

Mr. ROY Sanjoy, aged 48, Chief Executive Officer of First Mobile India Private Limited. Graduated with a Degree in Business Management from St. Xavier's Institute of Management, Mumbai and a Bachelor of Science Degree from University of Nagpur, India, Mr. Roy has a total of 27 years' working experience of which 16 years in mobile phones and hi-tech equipment sales. Prior to joining the Group in July 2001, he worked as a senior management staff for Motorola India Ltd. for 6 years and Modi Xerox Ltd. India for 7 years.

Mr. SHAM Kam Ying, aged 41, Chief Executive Officer of Shanghai Fast Telcon Equipment International Trading Co., Ltd.. Prior to joining the Group in October 2002, Mr. Sham has more than 10 years experience in the mobile phone industry where he previously worked as the Senior Vice President of Siemens Shanghai Mobile Communications Ltd., and the Country Manager of Philips Consumer Communications, and held a key management position in NEC China.

Ms. SIEW Ai Lian, aged 44, an Alternate Director of First Mobile Group Sdn. Bhd. in Malaysia. Ms. Siew was educated in Malaysia and has extensive experience in administration and human resources management. Ms. Siew is an Associate Member of the Malaysian Institute of Management. She joined the Group in 1996. Prior to that, she worked with a number of financial institutions and foreign agencies in Malaysia. She is the wife of Mr. Ng Kok Tai.

Mr. TAN Joseph, aged 48, Executive Vice President (Sales, Marketing Service & Logistics) of First Mobile Group Sdn. Bhd. in Malaysia. Mr. Tan obtained his Bachelor of Economics from University of South Wales, Cardiff, the U.K.. Before joining the Group in January 2003, Mr. Tan has over 22 years of experience working in multinational organizations with portfolios that include general management, marketing, sales and new business development in different countries such as Russia, the U.S., Switzerland, Indonesia, Vietnam and Singapore.

Mr. WONG Wai Hoe, aged 36, Vice President (Hong Kong Operations) of First Telecom International Limited. Mr. Wong is a fellow of the Association of Chartered Certified Accountants. Prior to joining the Group in 2000, Mr. Wong worked in the corporate finance department of a merchant bank in Malaysia and an accounting firm in London.

DIRECTORS' REPORT

The directors of the Company (the "Directors") have pleasure in submitting to shareholders their report together with the audited accounts of First Mobile Group Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31st December, 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities and other particulars of the principal subsidiaries are set out in note 29 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 35.

The Directors do not recommend the payment of a final dividend for the year ended 31st December, 2003.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 to the accounts.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately HK$298,000.

INTANGIBLE ASSETS AND FIXED ASSETS

Details of the movements in intangible assets and fixed assets are set out in notes 12 and 13 to the accounts respectively.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 22 to the accounts.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 92.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the year ended 31st December, 2003, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on pro-rata basis to existing shareholders.

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors

Mr. Ng Kok Hong
Mr. Ng Kok Tai
Mr. Ng Kok Yang

Independent non-executive Directors

Mr. Sze Tsai To Robert
Mr. Wu Wai Chung Michael
Mr. Wong Tin Sang Patrick

In accordance with Article 116 of the Company's Articles of Association, Mr. Ng Kok Yang and Mr. Wu Wai Chung Michael retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of Directors and senior management are set out on pages 20 to 23.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service agreement with the Company under which they act as executive Directors for an initial term of three years commencing from 1st January, 2001 and shall continue thereafter until terminated by either party giving to the other not less than six months' notice in writing. The executive Directors are entitled to a discretionary bonus calculated as a percentage of the audited consolidated profit of the Group attributable to shareholders of the Company. The percentage shall be determined by the board of Directors but in any case the aggregate amount payable in each financial year to all the executive Directors of the Company shall not exceed 10% of such profit.

Based on the audited financial results for the year ended 31st December, 2003, the maximum amount of the discretionary bonus that the executive Directors would have been entitled to was approximately HK$5,544,000 (2002: HK$10,847,000). During the year ended 31st December, 2003, the executive Directors were entitled to a discretionary bonus of HK$1,800,000 (2002: HK$1,900,000).

DIRECTORS' SERVICE CONTRACTS *(continued)*

The independent non-executive Directors of the Company, Mr. Sze Tsai To Robert, Mr. Wu Wai Chung Michael and Mr. Wong Tin Sang Patrick have been appointed for a fixed term and subject to retirement by rotation in accordance with the Company's Memorandum and Articles of Association.

Save as disclosed above, none of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance (as defined in rule 18.25 of the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange of Hong Kong Limited (the "Exchange") (the "GEM Listing Rules")) in relation to the Company's business to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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.

1 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.

SHARE OPTION SCHEMES *(continued)*

1 2003 Share Option Scheme *(continued)*

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 31st December, 2003, no options under this scheme had been granted.

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

Options to subscribe for 24,080,000 Shares in the Company lapsed during the year ended 31st December, 2003 due to the resignation of employees. As at 31st December, 2003, there are options remaining to subscribe for an aggregate of 144,523,750 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 3,648,750 Shares granted to 40 employees.

SHARE OPTION SCHEMES *(continued)*

2 Pre-Listing Share Option Plan *(continued)*

During the year ended 31st December, 2003 and up to the date of this report, no options had been exercised or cancelled.

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 31st December, 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:

1 Shares in the Company

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

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES *(continued)*

2 Shares in an associated corporation

	Number of non-voting deferred shares of HK$1.00 each in First Telecom International Limited		
Name of Director	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.

3 Options to subscribe for shares in the Company

	Number of underlying shares under the Pre-Listing Share Option Plan		
Name of Director	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 year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES *(continued)*

Save as disclosed above, as at 31st December, 2003, none of the Directors, chief executive or their associates had any interests, short positions or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

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

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31st December, 2003, according to the register required to be kept under Section 336 of the SFO, the following persons (other than the Directors of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company based on returns filed on the respective dates of notification:

Name	Date of Notification	Number of shares of HK$0.10 each	Percentage of issued share capital
SW Kingsway Capital Group Limited	10th April, 2003	140,932,250	7.24% *(note(i))*
SW Kingsway Capital Holdings Limited	10th April, 2003	140,932,250	7.24% *(note(ii))*
World Developments Limited	10th April, 2003	140,932,250	7.24% *(note(iii))*
Innovation Assets Limited	10th April, 2003	140,932,250	7.24% *(note(iv))*
Kingsway International Holdings Limited	10th April, 2003	149,988,250	7.71% *(note(v))*
Mr. Choi Koon Shum Jonathan	10th April, 2003	149,988,250	7.71% *(note(vi))*

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO *(continued)*

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 virtue 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 31st December, 2003, there was no other person (other than the Directors 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

–	the largest customer	8.4%
–	five largest customers combined	32.8%

Purchases

–	the largest supplier	49.2%
–	five largest suppliers combined	71.1%

None of the Directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers noted above.

COMPLIANCE WITH THE GEM LISTING RULES

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

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 31st December, 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 year and up to the date of this report, five audit committee meetings were held for reviewing the Company's annual report, half-year report and quarterly reports, and providing advice and recommendations to the board of Directors.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Ng Kok Hong
Executive Chairman

Hong Kong, 19th March, 2004

AUDITORS' REPORT

Auditors' Report to the Shareholders of
First Mobile Group Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the accounts on pages 35 to 91 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's Directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2003 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19th March, 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31ST DECEMBER, *2003*

	Note	2003 HK$'000	2002 HK$'000
Turnover	2	**6,191,951**	6,272,570
Cost of sales	3	**(5,853,778)**	(5,915,233)
Gross profit		**338,173**	357,337
Other revenues	2	**6,010**	6,548
Selling and distribution expenses		**(64,630)**	(56,629)
General and administrative expenses		**(155,748)**	(142,750)
Other operating (expenses)/income, net		**(6,757)**	12,403
Operating profit	4	**117,048**	176,909
Finance costs	5	**(33,051)**	(31,643)
Share of (loss)/profit of a jointly controlled entity		**(166)**	190
Profit before taxation		**83,831**	145,456
Taxation	6	**(26,243)**	(36,832)
Profit after taxation		**57,588**	108,624
Minority interests		**(2,144)**	(155)
Profit attributable to shareholders	7	**55,444**	108,469
Dividends	8	**–**	(38,914)
Basic earnings per share	9	**HK2.8 cents**	HK5.9 cents

CONSOLIDATED BALANCE SHEET

AS AT 31ST DECEMBER, 2003

	Note	2003 HK$'000	2002 HK$'000
Non-current assets			
Intangible assets	12	**24,075**	17,446
Fixed assets	13	**84,634**	79,009
Investment in a jointly controlled entity	15	**–**	941
Deferred tax assets	28	**4,576**	–
		113,285	97,396
Current assets			
Inventories	16	**335,947**	239,357
Other securities	17	**599**	479
Trade receivables	18	**837,424**	880,632
Other receivables and prepayments		**154,829**	113,106
Tax recoverable		**5,879**	–
Bank balances and cash	19		
– pledged		**337,589**	288,850
– not pledged		**132,759**	174,105
		1,805,026	1,696,529
Current liabilities			
Trade payables	20	**294,778**	239,304
Bills payable		**168,730**	87,316
Other payables and accrued charges	21	**110,158**	88,211
Current portion of long-term liabilities	24	**36,050**	52,560
Taxation payable		**12,039**	3,754
Bank loans and overdrafts			
– secured		**527,115**	563,683
– unsecured		**2,758**	355
		1,151,628	1,035,183
Net current assets		**653,398**	661,346
Total assets less current liabilities		**766,683**	758,742

	Note	2003 HK$'000	2002 HK$'000
Financed by:			
Share capital	22	**194,570**	194,570
Reserves	23	**554,825**	499,624
Proposed final dividend	23	**–**	19,457
Shareholders' funds		**749,395**	713,651
Minority interests		**7,272**	4,685
Non-current liabilities			
Long-term liabilities	24	**9,027**	40,406
Deferred tax liabilities	28	**989**	–
		766,683	758,742

Ng Kok Hong
Director

Ng Kok Yang
Director

BALANCE SHEET

AS AT 31ST DECEMBER, 2003

	Note	2003 HK$'000	2002 HK$'000
Non-current assets			
Investments in subsidiaries	14	**514,257**	476,692
Current assets			
Other receivables		**178**	28
Bank balances and cash		**34**	56,822
		212	56,850
Current liabilities			
Other payables and accrued charges		**935**	962
Net current (liabilities)/assets		**(723)**	55,888
Total assets less current liabilities		**513,534**	532,580
Financed by:			
Share capital	22	**194,570**	194,570
Reserves	23	**318,964**	318,553
Proposed final dividend	23	**–**	19,457
Shareholders' funds		**513,534**	532,580

Ng Kok Hong
Director

Ng Kok Yang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31ST DECEMBER, 2003

	Note	2003 HK$'000	2002 HK$'000
Equity at beginning of year		**713,651**	503,876
Net surplus/(deficit) on revaluation of properties	23	**53**	(1,425)
Exchange differences arising on translation of the accounts of foreign subsidiaries and a jointly controlled entity	23	**(296)**	(485)
Net losses not recognised in the consolidated profit and loss account		**(243)**	(1,910)
Profit for the year	23	**55,444**	108,469
Dividends	23	**(19,457)**	(36,957)
Issue of shares	22, 23	**–**	148,859
Share issue expenses	23	**–**	(8,686)
Equity at end of year		**749,395**	713,651

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31ST DECEMBER, *2003*

	Note	**2003** **HK$'000**	2002 HK$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	25(a)	**197,732**	(238,789)
Hong Kong profits tax paid		**(10,028)**	(45,309)
Overseas taxation paid		**(18,373)**	(21,107)
Overseas taxation refund		**946**	–
Interest received		**4,711**	5,273
Interest paid		**(21,591)**	(20,384)
Bank and other charges paid		**(11,640)**	(10,096)
Net cash generated from/(used in) operating activities		**141,757**	(330,412)
Cash flows from investing activities			
Purchase of fixed assets		**(19,363)**	(27,931)
Sale of fixed assets		**3,150**	7,617
Purchase of other securities		**–**	(108)
Sale of other securities		**–**	47,087
Purchase of subsidiaries, net of cash acquired	25(d)	**–**	(3,737)
Disposal of/(investment in) jointly controlled entities		**520**	(780)
Sale of a subsidiary, net of cash disposed of	25(e)	**–**	(691)
Increase in pledged bank deposits		**(48,739)**	(76,825)
Purchase of distribution right		**(12,300)**	–
Net cash used in investing activities		**(76,732)**	(55,368)

	Note	**2003** **HK$'000**	2002 HK$'000
Cash flows from financing activities	25(b)		
Interest element on finance lease payments		**(340)**	(387)
Dividends paid		**(19,457)**	(36,957)
Proceeds from issue of shares		**–**	138,947
Share issue expenses		**–**	(8,686)
Capital element of finance lease payments		**(1,922)**	(1,565)
Capital contribution from a minority shareholder of a subsidiary		**410**	1,248
Increase in long-term bank loans		**3,665**	138
Repayment of long-term bank loans		**(51,067)**	(5,019)
(Decrease)/increase in short-term bank loans		**(36,568)**	289,163
Net cash (used in)/generated from financing activities		**(105,279)**	376,882
Effect of foreign exchange rate changes		**(3,495)**	(361)
Net decrease in cash and cash equivalents		**(43,749)**	(9,259)
Cash and cash equivalents at beginning of year		**173,750**	183,009
Cash and cash equivalents at end of year	25(f)	**130,001**	173,750

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation of the accounts

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, properties and other securities are stated at fair value.

In the current year, the Group adopted the Statement of Standard Accounting Practice ("SSAP") No. 12 "Income taxes" issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2003. The adoption of the new SSAP 12 represents a change in accounting policy on deferred taxation and the effect of adopting the new accounting policy is set out in note (m) below.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power, has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of Directors, or to cast majority of votes at the meetings of the board of Directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(b) Group accounting *(continued)*

(i) Consolidation (continued)

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entity for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity.

(iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transactions dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(c) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiaries at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January, 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life of not exceeding 20 years. Goodwill on acquisitions that occurred prior to 1st January, 2001 was taken directly to reserves. Where the fair value of the Group's share of net assets acquired exceed the cost of an acquisition, such differences are taken directly to reserve as capital reserve.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st January, 2001 acquisitions, the related goodwill taken directly to reserves to the extent it has not previously been realised in the profit and loss account.

(ii) Distribution right

Expenditure on acquired distribution right is capitalised and is amortised using the straight-line method over its useful life of not exceeding 20 years.

(iii) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible assets, including those previously written off against reserves, is assessed and written down immediately to its recoverable amount.

(d) Merger reserve

The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued in exchange therefor.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Fixed assets

(i) Fixed assets

Leasehold properties and freehold properties are interests in land and buildings and are stated in the balance sheet at their revalued amount, being fair value at the date of revaluation less any subsequent accumulated depreciation. Fair value is determined by the Directors based on independent valuations. The valuations are on an open market basis related to individual properties and separate values are not attributed to land and buildings. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of these properties is credited to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, when the surplus is recognised as income. A decrease in net carrying amount arising on revaluation of a property is recognised as an expense to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that property.

Fixed assets, other than leasehold properties and freehold properties, are stated at cost less accumulated depreciation and impairment losses.

Freehold land is not subject to amortisation.

Leasehold land is amortised over the remaining period of respective leases while other fixed assets are depreciated at rates sufficient to write off their cost or valuation over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2% to 4%
Leasehold improvements	20% to 25%
Motor vehicles	20% to 25%
Furniture, fixtures and equipment	8% to 25%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(e) Fixed assets *(continued)*

(ii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that other fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the balance on revaluation reserve for that same asset, in which case it is treated as a decrease in the revaluation reserve.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(f) Assets held under finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in long-term liabilities. The finance charges are charged to the profit and loss account over the lease periods.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Other securities

Other securities are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other securities are recognised in the profit and loss account. Profits or losses on disposal of other securities, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(h) Inventories

Inventories primarily comprise mobile phones and accessories for resale and are stated at the lower of cost and net realisable value. Cost is calculated on the weighted average basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(i) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(k) Advertising and promotion costs

Advertising and promotion costs incurred net of reimbursements from suppliers are charged to the profit and loss account in the year in which they are incurred.

(l) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(m) Deferred taxation

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. Taxation 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 and joint ventures, 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 years, 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 new SSAP 12 represents a change in accounting policy. The effect of this change is not material and has been accounted for in the current year's accounts.

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made by the Group for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Employee benefits *(continued)*

(ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

Pursuant to the relevant regulations of the governments in Malaysia, the United Kingdom (the "U.K."), Mainland China, the Philippines, Australia, India, Japan, France, Canada and Singapore, the subsidiaries of the Group in these countries participate in respective government retirement benefit schemes (the "Schemes") whereby these subsidiaries are required to contribute to the Schemes to fund the retirement benefits of the eligible employees. Contributions made to the Schemes are calculated either based on certain percentages of the applicable payroll costs or fixed sums for each employee with reference to the salary scale, as stipulated under the requirements in respective countries. The governments of respective countries are responsible for the entire pension obligations payable to retired employees. The only obligation of the Group with respect to the Schemes is to pay the ongoing required contributions under the Schemes. Contributions under the Schemes are charged to the profit and loss account as incurred.

A subsidiary in the U.K. and subsidiaries in Hong Kong also operate defined contribution schemes. The scheme in the U.K. is only available to the U.K. qualified employees. Monthly contributions made by this subsidiary are at fixed sums agreed between the subsidiary and each qualified employee while the monthly contributions made by the employees are determined by respective qualified employees. Monthly contributions made by the subsidiaries in Hong Kong are calculated based on certain percentages of the applicable payroll costs or fixed sums as stipulated under the relevant requirements, as appropriate. Additional contributions to the schemes are at fixed sums payable monthly and agreed between the subsidiaries and the relevant employees. The assets of the schemes in the U.K. and Hong Kong are held separately from those of subsidiaries in independently administered funds. Contributions to the schemes are charged to the profit and loss account as incurred.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Employee benefits *(continued)*

(iv) Equity compensation benefits

Share options are granted to Directors and employees. No compensation cost is recognised in the profit and loss account in connection with share options granted. When the share options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(o) Borrowing costs

Borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Pre-operating costs

Pre-operating costs are expensed in the year in which they are incurred.

(q) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent primarily corporate expenses and gain/loss on investment securities. Segment assets and liabilities are those operating assets and liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets consist primarily of fixed assets, inventories, trade receivables, other receivables and prepayments and operating cash, and mainly exclude unallocated goowill, investments in securities, taxation and non-operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the company operates. Total assets and capital expenditure are where the assets are located. Sales between the geographical segments are eliminated.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(r) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(t) Revenue recognition

The Group recognises revenue on the following bases:

(i) Revenue from sale of mobile phones and accessories

Revenue from the sale of mobile phones and accessories is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the mobile phones and accessories are delivered to customers and title has passed. Rebates from suppliers relating to purchase of mobile phones are deducted against the purchase costs of mobile phones.

(ii) Revenue from sale of pre-pay airtime using e-pay Terminals

Revenue from the sale of pre-pay airtime using e-pay Terminals is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the pre-pay airtime is delivered to customers and title has passed.

1 PRINCIPAL ACCOUNTING POLICIES *(continued)*

(t) Revenue recognition *(continued)*

(iii) Revenue from the provision of inter-city/international telecommunication services using Voice-over-IP ("VoIP") technology

Revenue from the provision of inter-city/international telecommunication services using VoIP technology in the form of sale of prepaid calling cards is recognised based on the usage of cardholders.

(iv) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(v) Rental income

Rental income is recognised on a straight-line basis over the period of each lease.

(vi) Repair service income

Revenue for the provision of repair services for mobile phones is recognised when the services are rendered.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the trading and distribution of mobile phones and accessories and the provision of inter-city/international telecommunication services using 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 year are as follows:

	2003	2002
	HK$'000	HK$'000
Turnover		
Revenue from sale of mobile phones and accessories, net	**6,077,534**	6,215,642
Revenue from sale of pre-pay airtime using e-pay Terminals, net	**–**	5,893
Revenue from provision of inter-city/international telecommunication services using VoIP technology, net	**114,417**	51,035
	6,191,951	6,272,570
Other revenues		
Interest income	**4,652**	5,140
Gross rental income from investment properties	**–**	472
Other rental income	**908**	708
Repair service income, net	**450**	228
	6,010	6,548
Total revenues	**6,197,961**	6,279,118

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

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 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 operation of sale of pre-pay airtime using e-pay Terminals was closed down in 2002 (note 4).

Secondary reporting format – geographical segments

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

Hong Kong	–	trading and distribution of mobile phones and accessories.
	–	provision of inter-city/international telecommunication services using VoIP technology.
Mainland China	–	trading and distribution of mobile phones and accessories.
Malaysia	–	trading and distribution of mobile phones and accessories.
The Philippines	–	trading and distribution of mobile phones and accessories.
The U.K.	–	trading of mobile phones and accessories.
	–	provision of inter-city/international telecommunication services using VoIP technology.

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Secondary reporting format – geographical segments *(continued)*

	Turnover	Segment results	Total assets	Capital expenditure
	2003	2003	2003	2003
	HK$'000	HK$'000	HK$'000	HK$'000
Hong Kong	4,499,040	118,922	1,154,625	4,976
Mainland China	227,506	(23,788)	101,503	–
Malaysia	941,701	60,159	354,197	15,484
The U.K.	163,306	(6,392)	5,181	799
The Philippines	62,652	(2,850)	49,434	58
Other countries	297,746	170	88,556	11,738
	6,191,951	146,221	1,753,496	33,055
Unallocated costs		(33,825)		–
Interest income		4,652		
Operating profit		117,048		
Unallocated assets			164,815	
Total assets/capital expenditure			1,918,311	33,055

2 TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)*

Secondary reporting format – geographical segments *(continued)*

	Turnover 2002 HK$'000	Segment results 2002 HK$'000	Total assets 2002 HK$'000	Capital expenditure 2002 HK$'000
Hong Kong	4,373,912	189,427	952,933	3,545
Mainland China	804,205	(7,184)	292,883	–
Malaysia	643,707	33,995	250,280	13,246
The U.K.	220,020	854	13,916	1,808
The Philippines	113,114	(18,685)	21,843	1,157
Other countries	117,612	(4,416)	69,293	16,831
	6,272,570	193,991	1,601,148	36,587
Unallocated costs		(22,222)		19,384
Interest income		5,140		
Operating profit		176,909		
Interests in a jointly controlled entity			941	
Unallocated assets			191,836	
Total assets/capital expenditure			1,793,925	55,971

3 COST OF SALES

	2003 HK$'000	2002 HK$'000
Cost of sales comprises:		
Cost of inventories sold	**5,719,441**	5,825,660
Other direct costs	**125,559**	58,970
Provision for inventory loss	**8,778**	30,603
	5,853,778	5,915,233

4 OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	2003	2002
	HK$'000	HK$'000
Crediting		
Gain on disposal of a subsidiary#	**–**	491
Gain on disposal of an investment property#	**–**	251
Realised gain on disposal of other securities#	**–**	4,291
Unrealised gain on other securities#	**33**	21
Gain on deemed dilution of interest in a subsidiary#	**–**	278
Gain on disposal of a jointly controlled entity#	**5**	–
Local government subsidy#	**–**	2,150
Charging		
Amortisation of intangible assets#	**5,671**	1,938
Auditors' remuneration		
– current year	**2,320**	1,863
– under/(over) provision in prior years	**278**	(242)
Deficit on revaluation of an investment property#	**–**	100
Deficit on revaluation of freehold and leasehold properties#	**620**	1,188
Depreciation		
– owned fixed assets	**10,513**	9,507
– leased fixed assets	**1,427**	1,365
Loss on disposal of fixed assets other than properties#	**2,692**	1,214
Loss on discontinuing operation (note)	**–**	750
Operating lease expenses on		
– land and buildings	**9,107**	7,555
– office equipment	**199**	360
Pre-operating costs	**1,290**	55
Provision for bad and doubtful debts	**14,051**	17,128
Staff costs (including Directors' remuneration (note 11) and retirement benefit costs (note 10))	**96,849**	78,346
Redundancy cost (also included in staff costs above)	**1,684**	–

These are included in other operating (expenses)/income, net.

4 OPERATING PROFIT *(continued)*

Note:

On 12th November, 2002, the Group announced its decision to close down the provision of e-pay services using e-pay Terminals in the Philippines. The subsidiaries comprising this segment are reported in the accounts as discontinuing operation. The sales, results and net liabilities of this segment were as follows:

	2002 HK$'000
Turnover	5,893
Other revenue	5
Cost of sales	(5,657)
Operating costs	(5,831)
Loss on discontinuing operation	(750)
Loss for the year	(6,340)
Fixed assets	–
Current assets	1,578
Total assets	1,578
Total liabilities	(6,223)
Net liabilities at 31st December	(4,645)

The loss on discontinuing operation represented termination payments and loss on disposal of fixed assets in relation to the close down of the business.

The cash flows of this segment is not presented as it is not material to the Group.

5 FINANCE COSTS

	2003 **HK$'000**	2002 HK$'000
Interest expenses on:		
– bank loans and overdrafts	**21,185**	21,429
– finance leases	**340**	387
Bank and other charges	**11,526**	9,827
	33,051	31,643

6 TAXATION

	2003 HK$'000	2002 HK$'000
Company and subsidiaries		
Hong Kong profits tax (note (i))	**13,316**	25,668
Overseas taxation (note (ii))	**18,689**	11,341
Over-provision of taxation in prior years	**(2,371)**	(206)
Deferred taxation (note 28)	**(3,391)**	–
	26,243	36,803
Share of taxation attributable to a jointly controlled entity		
Mainland China taxation	**–**	29
	26,243	36,832

Notes:

(i) Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

(ii) Taxation on overseas profits has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the Group operates.

6 TAXATION *(continued)*

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable profits tax rate prevailing in the main country in which the Group operates and the difference is set out as follows:

	2003	2002
	HK$'000	HK$'000
Profit before taxation	**83,831**	145,456
Calculated at a tax rate of 17.5% (2002: 16%)	**14,670**	23,273
Effect of different taxation rates in other countries	**7,569**	2,265
Income not subject to taxation	**(407)**	(698)
Expenses not deductible for taxation purposes	**7,486**	2,558
Utilisation of previously unrecognised tax losses	**(2,991)**	(22)
Over-provision in prior years	**(2,371)**	(206)
Tax losses not recognised	**2,287**	9,662
Taxation charge	**26,243**	36,832

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK$411,000 (2002: HK$40,772,000).

8 DIVIDENDS

	2003	2002
	HK$'000	HK$'000
2002 interim, paid, of HK1 cent per share	**–**	19,457
2002 final, paid, of HK1 cent per share (note)	**–**	19,457
	–	38,914

The Directors do not recommend the payment of a final dividend for the year ended 31st December, 2003.

Note:

The 2002 final dividend was not reflected as a dividend payable as at 31st December, 2002, but was reflected as an appropriation of retained earnings for the year ended 31st December, 2003.

9 EARNINGS PER SHARE

Basic earnings per share for the year is calculated based on the profit attributable to shareholders of HK$55,444,000 (2002: HK$108,469,000) and on the weighted average number of 1,945,696,565 (2002: 1,850,895,791) shares in issue during the year.

Diluted earnings per share is not presented as the Company has no dilutive potential shares as at 31st December, 2003 (2002: Not applicable).

10 RETIREMENT BENEFIT COSTS

	2003 HK$'000	2002 HK$'000
Retirement benefit costs	**4,934**	3,277

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated by the governments of respective countries and the defined contribution schemes operated in the U.K. and Hong Kong (collectively the "Retirement Schemes"). Contributions totalling approximately HK$640,000 (2002: HK$384,000) payable to the Retirement Schemes at the year end are included in other payables and accrued charges.

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to the Directors during the year are as follows:

	2003 HK$'000	2002 HK$'000
Fees	**900**	900
Salaries, allowances and benefits in kind	**10,639**	10,420
Bonuses	**1,800**	1,900
Retirement benefit costs	**142**	142
	13,481	13,362

Each of the three independent non-executive Directors of the Company received only Directors' fees for the year ended 31st December, 2003 of approximately HK$300,000 (2002: HK$300,000).

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(a) Directors' emoluments *(continued)*

The three executive Directors received individual emoluments for the year ended 31st December, 2003 of approximately HK$6,134,000 (2002: HK$5,978,000), HK$3,812,000 (2002: HK$3,849,000) and HK$2,635,000 (2002: HK$2,635,000).

The quarters provided to two executive Directors are included as part of their emoluments.

132,125,000 share options were granted to the three executive Directors under the pre-listing share option plan ("Pre-Listing Share Option Plan") approved and adopted by the written resolutions of the shareholders of the Company dated 15th December, 2000. Under the Pre-Listing Share Option Plan, each option holder entitles to subscribe for the specified number of shares in the Company at HK$0.82 each in stages commencing six months from 29th December, 2000 (the "Listing Date") and in any stages, no later than three years from the date of the exercise of the options. During the year, no options had been exercised by the Directors.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group are as follows:

	2003	2002
	HK$'000	HK$'000
Directors	**12,581**	12,462
Employees	**5,159**	4,032
	17,740	16,494

Details of the aggregate emoluments paid and payable to the employees are as follows:

	2003	2002
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,731**	2,738
Bonuses	**30**	1,150
Retirement benefit costs	**965**	144
Compensation for loss of office (non-contractual payments)	**433**	–
	5,159	4,032

11 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals *(continued)*

The emoluments of employees fell within the following bands:

	Number of individuals	
Emolument bands	**2003**	2002
HK$1,500,001 to HK$2,000,000	**–**	1
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**1**	–
	2	2

Save as disclosed above, during the year, no other emoluments had been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

12 INTANGIBLE ASSETS

	Group		
	Goodwill (note i)	Distribution right (note ii)	Total
	HK$'000	HK$'000	HK$'000
Cost			
At 1st January, 2003	19,384	–	19,384
Addition	–	12,300	12,300
At 31st December, 2003	19,384	12,300	31,684
Accumulated amortisation			
At 1st January, 2003	1,938	–	1,938
Charge for the year	3,877	1,794	5,671
At 31st December, 2003	5,815	1,794	7,609
Net book value			
At 31st December, 2003	13,569	10,506	24,075
At 31st December, 2002	17,446	–	17,446

Notes:

(i) It represents goodwill arising from acquisition of Chi Telecom Pty Ltd and Chi Tel Limited (note 14(ii)) and is amortised over a period of 5 years on a straight-line basis.

(ii) It represents acquired distribution right of mobile phones and is amortised over a period of 4 years on a straight-line basis.

13 FIXED ASSETS

	Group					
	Freehold properties HK$'000	Leasehold properties HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost or valuation						
At 1st January, 2003	10,865	32,750	4,166	10,763	40,128	98,672
Exchange adjustment	–	–	7	151	4,249	4,407
Additions	5,894	2,240	921	2,862	8,838	20,755
Disposals	–	–	(265)	(1,521)	(7,910)	(9,696)
Revaluation	–	(1,880)	–	–	–	(1,880)
At 31st December, 2003	**16,759**	**33,110**	**4,829**	**12,255**	**45,305**	**112,258**
Accumulated depreciation and impairment losses						
At 1st January, 2003	–	–	2,847	4,661	12,155	19,663
Exchange adjustment	15	–	8	34	1,131	1,188
Charge for the year	171	1,127	690	2,182	7,770	11,940
Disposals	–	–	(163)	(796)	(2,895)	(3,854)
Revaluation	(186)	(1,127)	–	–	–	(1,313)
At 31st December, 2003	**–**	**–**	**3,382**	**6,081**	**18,161**	**27,624**
Net book value						
At 31st December, 2003	**16,759**	**33,110**	**1,447**	**6,174**	**27,144**	**84,634**
At 31st December, 2002	10,865	32,750	1,319	6,102	27,973	79,009

13 FIXED ASSETS *(continued)*

	Group					
	Freehold properties HK$'000	Leasehold properties HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
The analysis of the cost or valuation at 31st December, 2003 and 2002 of the above assets is as follows:						
At cost	**–**	**–**	**4,829**	**12,255**	**45,305**	**62,389**
At 2003 professional valuation	**16,759**	**33,110**	**–**	**–**	**–**	**49,869**
At 31st December, 2003	**16,759**	**33,110**	**4,829**	**12,255**	**45,305**	**112,258**
At cost	–	–	4,166	10,763	40,128	55,057
At 2002 professional valuation	10,865	32,750	–	–	–	43,615
At 31st December, 2002	10,865	32,750	4,166	10,763	40,128	98,672
Net book value of assets under finance leases:						
At 31st December, 2003	**–**	**–**	**–**	**3,684**	**–**	**3,684**
At 31st December, 2002	–	–	–	3,938	–	3,938

13 FIXED ASSETS *(continued)*

The Group's interests in freehold properties and leasehold properties, which located in and outside Hong Kong, are analysed at their net book values as follows:

	Group			
	Freehold properties		Leasehold properties	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
In Hong Kong				
Leases between 10 to 50 years	**–**	–	**33,110**	32,750
Outside Hong Kong				
Freehold	**16,759**	10,865	**–**	–
At 31st December	**16,759**	10,865	**33,110**	32,750

The Group's leasehold properties and freehold properties were revalued by Sallmanns (Far East) Limited for the leasehold properties located in Hong Kong, Khong & Jaafar Sdn. Bhd. and Northern Suburbs Valuations for the freehold properties located outside Hong Kong, all of them are independent professional valuers, on the basis of their open market values as at 31st December, 2003.

The carrying value of leasehold properties and freehold properties as at 31st December, 2003 would have been approximately HK$37,820,000 (2002: HK$37,046,000) and HK$16,875,000 (2002: HK$11,167,000) respectively had these properties been stated at cost less accumulated depreciation.

At 31st December, 2003, certain properties and a motor vehicle with an aggregate net book value of approximately HK$47,802,000 (2002: HK$43,797,000) have been pledged to banks to secure the Group's banking facilities (note 24(d)).

14 INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	HK$'000
Unlisted shares, at cost	**159,823**	159,822
Amounts due from subsidiaries (note (i))	**354,434**	316,870
	514,257	476,692

Notes:

(i) The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayments.

(ii) In June 2002, the Group acquired 70% equity interest in Chi Telecom Pty Ltd and Chi Tel Limited from China Huge International Limited (the "Seller") pursuant to a shares sale agreement dated 4th April, 2002 (the "Agreement") at total considerations of HK$22,159,000, comprising consideration shares of HK$9,912,000 (note 22(a)) and cash considerations of HK$12,247,000 which were settled by 5 instalments up to June 2003. These subsidiaries are principally engaged in the provision of inter-city/international telecommunication services using VoIP technology.

Pursuant to the Agreement, the Seller and one of its directors (the "Parties") have provided profit guarantees to the Group for the two years ending 31st December, 2003 (the "Profit Guarantee"). Any shortfall to or excess over the amounts of the Profit Guarantee will be an adjustment to the goodwill, which is calculated based on terms of the Agreement.

In March 2004, the Group and the Parties entered into a supplemental agreement pursuant to which both parties agreed to waive the obligations arising from the Profit Guarantee. Accordingly, there was no adjustment to the goodwill as a result of the waiver.

(iii) In 2002, the Group disposed of its entire interests in Viscocom Sdn. Bhd. which resulted in a gain of HK$491,000.

(iv) Particulars of principal subsidiaries are set out in note 29 to the accounts.

15 INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group	
	2003	2002
	HK$'000	HK$'000
Share of net assets	**–**	941
Unlisted shares, at cost	**–**	780

The following was the details of the jointly controlled entity indirectly held by the Company at 31st December, 2002. The jointly controlled entity was disposed of during the year.

Name	**Place of incorporation and operation**	**Principal activities**	**Percentage of interest in ownership/voting power/profit sharing**	
			2003	2002
廣州保税區菲斯特訊通設備有限公司	The People's Republic of China	Trading of mobile phones	**–**	50%

16 INVENTORIES

	Group	
	2003	2002
	HK$'000	HK$'000
Merchandises, at cost	**345,245**	257,549
Provision	**(9,298)**	(18,192)
	335,947	239,357

At 31st December, 2003, the carrying amount of inventories that are carried at net realisable value amounted to HK$62,991,000 (2002: HK$116,377,000).

17 OTHER SECURITIES

	Group	
	2003	2002
	HK$'000	HK$'000
Equity securities, at fair value		
– listed outside Hong Kong	**77**	55
Money market fund, at fair value		
– unlisted	**522**	424
	599	479
Market value of listed securities	**77**	55

18 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 31st December, 2003, the ageing analysis of the trade receivables was as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
1-30 days	**392,910**	431,680
31-60 days	**290,852**	270,103
61-90 days	**87,715**	72,931
91-120 days	**26,440**	98,739
Over 120 days	**60,476**	27,060
Less: provision	**(20,969)**	(19,881)
	837,424	880,632

19 BANK BALANCES AND CASH

(a) Bank balances and cash as at 31st December, 2003 of approximately HK$671,000 (2002: HK$30,018,000), HK$139,435,000 (2002: HK$77,530,000) and HK$2,453,000 (2002: HK$1,468,000) were denominated in Renminbi, Malaysia Ringgits and India Rupees respectively. These amounts are not freely convertible to other currencies except for settlement of purchase of goods and other provisions as stipulated in the exchange control policies of respective countries.

(b) Bank balances and cash as at 31st December, 2003 of approximately HK$337,589,000 (2002: HK$288,850,000) were fixed deposits pledged as collateral for the Group's short-term banking facilities.

20 TRADE PAYABLES

At 31st December, 2003, the ageing analysis of the trade payables was as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
1-30 days	**255,569**	187,254
31-60 days	**32,524**	18,660
61-90 days	**650**	19,601
91-120 days	**–**	2,965
Over 120 days	**6,035**	10,824
	294,778	239,304

21 OTHER PAYABLES AND ACCRUED CHARGES

Other payables and accrued charges as at 31st December, 2002 included amounts of approximately HK$5,045,000 due to a minority shareholder of a subsidiary, which was unsecured and interest-free.

22 SHARE CAPITAL

	Number of shares of HK$0.10 each	HK$'000
Authorised:		
At 31st December, 2003 and 2002	3,000,000,000	300,000
Issued and fully paid:		
At 1st January, 2002	1,750,000,000	175,000
Share issued for acquisition of subsidiaries (note(a))	12,872,565	1,287
Issue of shares by placing (note (b))	182,824,000	18,283
At 31st December, 2002 and 2003	1,945,696,565	194,570

Notes:

(a) In June 2002, 12,872,565 shares of HK$0.10 each were issued at HK$0.77 per share as part of the consideration for acquisition of two subsidiaries, namely Chi Telecom Pty Ltd and Chi Tel Limited. The excess over the par value of the shares issued was credited to the share premium account.

These newly issued shares rank pari passu with the existing shares.

(b) In June 2002, 182,824,000 shares of HK$0.10 each were issued at a price of HK$0.76 per share for cash pursuant to a placing and subscription agreement dated 18th June, 2002. The excess over the par value of the shares issued was credited to the share premium account.

These newly issued shares rank pari passu with the existing shares.

(c) 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.

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.

22 SHARE CAPITAL *(continued)*

(c) Share option schemes *(continued)*

(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 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 31st December, 2003, no options had been granted under the 2003 Share Option Scheme.

(ii) Pre-Listing Share Option Plan

On 15th December, 2000, the Company granted share options under the Pre-Listing Share Option Plan to the Directors and certain employees of the Group, which entitles them to subscribe for a total of 174,965,000 shares at HK$0.82 per share. Pursuant to the Pre-Listing Share Option Plan, the 3 executive Directors were granted options to subscribe for an aggregate of 132,125,000 shares in the Company and 11 senior management staff were granted options to subscribe for an aggregate of 37,502,500 shares in the Company and 56 employees were granted options to subscribe for an aggregate of 5,337,500 shares in the Company.

22 SHARE CAPITAL *(continued)*

(c) Share option schemes *(continued)*

(ii) Pre-Listing Share Option Plan (continued)

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

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.

Share options outstanding at the end of the year have the following terms:

		Number of options				
Final expiry date	**Exercise price** HK$	**Outstanding at 1st January 2003**	**Lapsed during the year**	**Outstanding at 31st December 2003**	**Vested percentage at 31st December 2003**	Vested percentage at 31st December 2002
Directors 30th June, 2006	HK$0.82	**132,125,000**	**–**	**132,125,000**	**100%**	80%
Senior management staff 30th June, 2006	HK$0.82	**32,375,000**	**(23,625,000)**	**8,750,000**	**100%**	80%
Other employees 30th June, 2006	HK$0.82	**4,103,750**	**(455,000)**	**3,648,750**	**100%**	80%
		168,603,750	**(24,080,000)**	**144,523,750**		

No options (2002: Nil) had been exercised or cancelled during the year ended 31st December, 2003.

23 RESERVES

	Group							
	Share premium HK$'000	Properties revaluation reserve HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Reserve fund (note (i)) HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1st January, 2003	**127,258**	**3,067**	**3,994**	**162**	**4,872**	**63**	**379,665**	**519,081**
Exchange differences	**–**	**–**	**–**	**–**	**–**	**(296)**	**–**	**(296)**
Net surplus on revaluation of properties	**–**	**53**	**–**	**–**	**–**	**–**	**–**	**53**
Profit attributable to shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**55,444**	**55,444**
2002 final dividend (note 8)	**–**	**–**	**–**	**–**	**–**	**–**	**(19,457)**	**(19,457)**
Balance at 31st December, 2003	**127,258**	**3,120**	**3,994**	**162**	**4,872**	**(233)**	**415,652**	**554,825**
Retained by:								
Company and subsidiaries	**127,258**	**3,120**	**3,994**	**162**	**4,872**	**(233)**	**415,652**	**554,825**
Balance at 1st January, 2002	6,655	4,638	3,994	162	1,950	548	310,929	328,876
Exchange differences	–	–	–	–	–	(485)	–	(485)
Deficit on revaluation of properties	–	(1,425)	–	–	–	–	–	(1,425)
Profit attributable to shareholders	–	–	–	–	–	–	108,469	108,469
Release of reserve upon disposal of a property (note (ii))	–	(146)	–	–	–	–	146	–
Issue of shares	129,289	–	–	–	–	–	–	129,289
Share issue expenses	(8,686)	–	–	–	–	–	–	(8,686)
Transfer between reserves	–	–	–	–	2,922	–	(2,922)	–
2001 final dividend	–	–	–	–	–	–	(17,500)	(17,500)
2002 interim dividend (note 8)	–	–	–	–	–	–	(19,457)	(19,457)
Balance at 31st December, 2002	127,258	3,067	3,994	162	4,872	63	379,665	519,081
Representing:								
Reserves	127,258	3,067	3,994	162	4,872	63	360,208	499,624
2002 final dividend (note 8)	–	–	–	–	–	–	19,457	19,457
	127,258	3,067	3,994	162	4,872	63	379,665	519,081
Retained by:								
Company and subsidiaries	127,258	3,067	3,994	162	4,872	63	379,504	518,920
Jointly controlled entity	–	–	–	–	–	–	161	161
	127,258	3,067	3,994	162	4,872	63	379,665	519,081

23 RESERVES *(continued)*

	Company		
	Share premium (note (iii)) HK$'000	Retained earnings HK$'000	Total HK$'000
At 1st January, 2003	**287,000**	**51,010**	**338,010**
Profit for the year	**–**	**411**	**411**
2002 final dividend (note 8)	**–**	**(19,457)**	**(19,457)**
At 31st December, 2003	**287,000**	**31,964**	**318,964**
At 1st January, 2002	166,397	47,195	213,592
Profit for the year	–	40,772	40,772
2001 final dividend	–	(17,500)	(17,500)
2002 interim dividend (note 8)	–	(19,457)	(19,457)
Issue of shares	129,289	–	129,289
Share issue expenses	(8,686)	–	(8,686)
At 31st December, 2002	287,000	51,010	338,010
Representing:			
Reserves	287,000	31,553	318,553
2002 final dividend (note 8)	–	19,457	19,457
	287,000	51,010	338,010

23 RESERVES *(continued)*

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 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 the year end.

(ii) Included in the properties revaluation reserve as at 1st January, 2002 was a revaluation surplus of approximately HK$146,000 attributable to a freehold property which was reclassified as an investment property in 2001. The property was disposed of in 2002 and the revaluation surplus was transferred to retained earnings as a movement in reserves.

(iii) Pursuant to the Companies Law (1998 Revision) of the Cayman Islands and the Company's Articles of Association, the share premium of the Company is distributable to the shareholders. At 31st December, 2003, in the opinion of the directors, the Company's reserves available for distribution to shareholders comprising share premium account and retained earnings, amounted in total to approximately HK$318,964,000 (2002: HK$338,010,000).

24 LONG-TERM LIABILITIES

	Group	
	2003	2002
	HK$'000	HK$'000
Bank loans (note (b))		
– secured (note (d))	**10,348**	9,744
– unsecured	**32,000**	80,000
	42,348	89,744
Obligations under finance leases (note (c))	**2,729**	3,222
	45,077	92,966
Current portion of long-term liabilities	**(36,050)**	(52,560)
	9,027	40,406

24 LONG-TERM LIABILITIES *(continued)*

Notes:

(a) The analysis of the above is as follows:

	2003	2002
	HK$'000	HK$'000
Bank loans		
Wholly repayable within five years	**42,348**	89,744
Obligations under finance leases		
Wholly repayable within five years	**2,712**	3,222
Not wholly repayable within five years	**17**	–
	45,077	92,966
Current portion of long-term liabilities	**(36,050)**	(52,560)
	9,027	40,406

(b) At 31st December, 2003, the Group's bank loans were repayable as follows:

	2003	2002
	HK$'000	HK$'000
Within one year	**35,171**	51,064
In the second year	**3,240**	35,168
In the third to fifth year	**3,937**	3,512
	42,348	89,744

24 LONG-TERM LIABILITIES *(continued)*

Notes: *(continued)*

(c) At 31st December, 2003, the Group's outstanding obligations under finance leases were repayable as follows:

	2003 HK$'000	2002 HK$'000
Within one year	**1,073**	1,783
In the second year	**999**	980
In the third to fifth year	**1,230**	1,129
After the fifth year	**20**	–
	3,322	3,892
Future finance charges on finance leases	**(593)**	(670)
Present value of finance lease liabilities	**2,729**	3,222

The present value of finance lease liabilities was analysed as follows:

	2003 HK$'000	2002 HK$'000
Within one year	**879**	1,496
In the second year	**833**	809
In the third to fifth year	**1,000**	917
After the fifth year	**17**	–
	2,729	3,222

Interest is charged on the outstanding obligations under finance leases at rates ranging from 3% to 5% (2002: 5% to 10%) per annum.

(d) At 31st December, 2003, certain properties and a motor vehicle of the Group with an aggregate net book value of approximately HK$47,802,000 (2002: HK$43,797,000) have been pledged to banks to secure the Group's banking facilities (note 13).

(e) All current and future assets of a subsidiary in Australia with a personal guarantee from a director of that subsidiary are also pledged as security for a general banking facility. The gross assets of the subsidiary as at 31st December, 2003 (including a freehold property with a net book value of approximately HK$5,894,000 (2002: Nil) in note (d) above) was approximately HK$23,898,000 and the related bank loan drawdown was approximately HK$3,665,000 (2002: Nil).

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash generated from/(used in) operations

	2003 HK$'000	2002 HK$'000
Operating profit	**117,048**	176,909
Depreciation	**11,940**	10,872
Amortisation of intangible assets	**5,671**	1,938
Interest income	**(4,652)**	(5,140)
Loss on disposal of fixed assets other than properties	**2,692**	1,214
Deficit on revaluation of properties	**620**	1,288
Unrealised gain on other securities	**(33)**	(21)
Realised gain on disposal of other securities	**–**	(4,291)
Gain on disposal of an investment property	**–**	(251)
Gain on deemed dilution of interest in a subsidiary	**–**	(278)
Gain on disposal of a jointly controlled entity	**(5)**	–
Gain on disposal of subsidiary	**–**	(491)
Operating profit before working capital changes	**133,281**	181,749
Increase in inventories	**(96,590)**	(29,743)
Decrease/(increase) in trade and other receivables and prepayments	**1,686**	(285,387)
Increase in bills payable	**81,414**	39,894
Increase/(decrease) in trade and other payables and accrued charges	**77,941**	(145,302)
Cash generated from/(used in) operations	**197,732**	(238,789)

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Share capital (including share premium)		Minority interests		Loans and obligations under finance leases	
	2003	2002	**2003**	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At 1st January	**321,828**	181,655	**4,685**	2,402	**656,649**	373,537
Exchange differences	**–**	–	**33**	(31)	**43**	206
Purchase of subsidiaries (note (c))	**–**	9,912	**–**	1,189	**–**	–
Minority's share of profits and exchange reserves	**–**	–	**2,144**	155	**–**	–
Capital contribution from a minority shareholder of a subsidiary	**–**	–	**410**	1,248	**–**	–
Proceeds from issue of shares by placing	**–**	138,947	**–**	–	**–**	–
Share issue expenses	**–**	(8,686)	**–**	–	**–**	–
Inception of finance leases (note (c))	**–**	–	**–**	–	**1,392**	615
Disposal of a subsidiary	**–**	–	**–**	–	**–**	(426)
Gain on deemed dilution of interest in a subsidiary	**–**	–	**–**	(278)	**–**	–
Cash (outflow)/inflow from financing	**–**	–	**–**	–	**(85,892)**	282,717
At 31st December	**321,828**	321,828	**7,272**	4,685	**572,192**	656,649

(c) Major non-cash transactions

During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the contracts of HK$1,392,000 (2002: HK$615,000).

During the year ended 31st December, 2002, part of the consideration for the acquisition of subsidiaries comprised an issue of 12,872,565 shares in the Company of HK$0.10 each.

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(d) Acquisition of subsidiaries

	2002 HK$'000
Net assets acquired	
Fixed assets	8,041
Trade and other receivables	4,962
Bank balances and cash	4,121
Trade and other payables	(13,160)
Minority interests	(1,189)
	2,775
Goodwill	19,384
Total purchase consideration	22,159
Satisfied by:	
Issue of shares	9,912
Cash	12,247
	22,159
Analysis of the net cash outflow in respect of the acquisition of subsidiaries:	
Total cash consideration	(12,247)
Consideration payable included in other payables and accrued charges	4,389
Cash consideration paid	(7,858)
Bank balances and cash in hand acquired	4,121
Net cash on purchase of subsidiaries	(3,737)

The subsidiaries acquired during the year ended 31st December, 2002, contributed HK$1,641,000 to the Group's net operating cash flows and utilised HK$452,000 for investing activities.

25 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(e) Disposal of a subsidiary

	2002 HK$'000
Net liabilities disposed of:	
Fixed assets	1,166
Inventories	2,757
Trade and other receivables	1,108
Cash and bank balances	691
Obligations under finance leases	(426)
Trade and other payables	(5,504)
Tax payable	(283)
	(491)
Gain on disposal of a subsidiary	491
Cash consideration (note 14 (iii))	–
Analysis of the net cash outflow in respect of the disposal of a subsidiary is as follows:	
Cash and cash equivalents disposed of	(691)
Cash consideration	–
Net cash on the disposal of a subsidiary	(691)

The cash flows contributed by the subsidiary disposed of during 2002 were not material.

(f) Analysis of balances of cash and cash equivalents

	2003 HK$'000	2002 HK$'000
Bank balances and cash – non-pledged	**132,759**	174,105
Bank loans and overdrafts	**(529,873)**	(564,038)
Short-term bank loans	**527,115**	563,683
Bank overdrafts	**(2,758)**	(355)
	130,001	173,750

26 CONTINGENT LIABILITIES

	Company	
	2003	2002
	HK$'000	HK$'000
Facilities utilised under guarantees executed in favour of banks for securing banking facilities granted to subsidiaries	**728,861**	831,464

As at 31st December, 2003, the total guarantees executed in favour of banks for securing banking facilities granted to subsidiaries are HK$1,086,805,000 (2002: HK$978,480,000).

Management anticipate that no material liabilities will arise from the above bank guarantees which arose in the ordinary course of business.

27 COMMITMENTS

(a) Capital commitments for purchase of fixed assets

	Group	
	2003	2002
	HK$'000	HK$'000
Contracted but not provided for	**2,233**	60

(b) Commitments under operating leases

(i) At 31st December, 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Land and buildings		Office equipments	
	2003	2002	**2003**	2002
	HK$'000	HK$'000	**HK$'000**	HK$'000
Not later than one year	**9,586**	5,502	**22**	147
Later than one year and not later than five years	**13,481**	10,424	**92**	–
Later than five years	**39**	4,260	**–**	–
	23,106	20,186	**114**	147

27 COMMITMENTS *(continued)*

(b) Commitments under operating leases *(continued)*

(ii) At 31st December, 2003, the Group had future aggregate minimum lease payments receivable under non-cancellable operating leases as follows:

	2003	2002
	HK$'000	HK$'000
Land and buildings		
Not later than one year	**914**	151
Later than one year and not later than five years	**1,056**	–
	1,970	151

(c) Other commitments

At 31st December, 2003, the Group had approximately HK$141,963,000 (2002: HK$55,668,000) outstanding forward exchange contracts to hedge against outstanding purchase orders denominated in foreign currencies.

28 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%).

The movement on the net deferred tax assets account is as follows:

	Group	
	2003	2002
	HK$'000	HK$'000
At 1st January	**–**	–
Deferred taxation credited to profit and loss account (note 6)	**3,391**	–
Exchange difference	**196**	–
At 31st December	**3,587**	–

28 DEFERRED TAXATION *(continued)*

Deferred income tax assets are recognised for tax loss carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$19,358,000 (2002: HK$25,369,000) to carry forward against future taxable income.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

	Provisions		Accelerated tax depreciation		Tax losses		Others		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
	HK$	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$	**HK$**	HK$
At 1st January	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Charged/(credited) to profit and loss account	**5,272**	–	**(1,256)**	–	**2,981**	–	**(3,410)**	–	**3,587**	–
At 31st December	**5,272**	–	**(1,256)**	–	**2,981**	–	**(3,410)**	–	**3,587**	–

	2003	2002
	HK$'000	HK$'000
Deferred tax assets	**4,576**	–
Deferred tax liabilities	**(989)**	–
	3,587	–

The amounts shown in the balance sheet include the following:

Deferred tax assets to be recovered after more than 12 months	**4,576**	–
Deferred tax liabilities to be settled after more than 12 months	**(989)**	–

29 PRINCIPAL SUBSIDIARIES

The Directors are of the opinion that complete list of the particulars of all subsidiaries would be of excessive length and therefore the following list contains only the subsidiaries which principally affect the results or assets of the Group during the year.

	Company	Country/ place of incorporation/ registration	Place of operation	Issued and fully paid up share capital/ registered capital	Group equity interest 2003	Group equity interest 2002	Principal activities
	Direct subsidiary:						
	E-Tech Resources Limited	British Virgin Islands	British Virgin Islands	10,000 shares of US$1 each	**100%**	100%	Investment holding and provision of management services
	Indirect subsidiaries:						
	Chi Tel Global Holdings Limited (formerly ChiTel Global Holdings Limited)	British Virgin Islands	British Virgin Islands	200 shares of US$1 each	**70%**	70%	Investment holding
1	Chi Tel Canada Ltd.	Canada	Canada	100 shares of CAD0.01 each	**70%**	–	Provision of inter-city/international telecommunication services using VoIP technology
1	Chi Tel France SARL	France	France	500 shares of 15 Euro each	**70%**	–	Provision of inter-city/international telecommunication services using VoIP technology
1	Chi Tel USA Corp.	The U.S.	The U.S.	100 shares of no par value	**70%**	–	Provision of inter-city/international telecommunication services using VoIP technology

29 PRINCIPAL SUBSIDIARIES *(continued)*

	Company	Country/ place of incorporation/ registration	Place of operation	Issued and fully paid up share capital/ registered capital	Group equity interest 2003	Group equity interest 2002	Principal activities
	Indirect subsidiaries: ***(continued)***						
	Chi Telecom Pty Ltd	Australia	Australia	1,175,100 ordinary shares of AUD1 each	**70%**	70%	Provision of inter-city/international telecommunication services using VoIP technology
	Chi Tel Limited	Hong Kong	Hong Kong	100 shares of HK$1 each	**70%**	70%	Provision of inter-city/international telecommunication services using VoIP technology
	Chi Tel NZ Limited	New Zealand	New Zealand	100 ordinary shares of no par value	**70%**	70%	Provision of inter-city/international telecommunication services using VoIP technology
1	Chi-Tel UK Limited	The U.K.	The U.K.	1 ordinary share of GBP1	**70%**	70%	Provision of inter-city/international telecommunication services using VoIP technology
1	Contact Mobile Pte Ltd	Singapore	Singapore	10,000 ordinary shares of S$1 each	**100%**	100%	Sale of pre-pay cards for logo downloadings and trading of mobile phones
	East-Tel International Limited (formerly First Mobile Electronic Solutions Limited)	Hong Kong	Hong Kong	20,000 shares of HK$1 each	**100%**	100%	Trading of mobile phones

29 PRINCIPAL SUBSIDIARIES *(continued)*

	Company	Country/ place of incorporation/ registration	Place of operation	Issued and fully paid up share capital/ registered capital	Group equity interest 2003	Group equity interest 2002	Principal activities
	Indirect subsidiaries: ***(continued)***						
	Exquisite Model Sdn. Bhd.	Malaysia	Malaysia	1,000,000 ordinary shares of RM1 each	**100%**	100%	Trading of mobile phones
	Evertech (H.K.) Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	**100%**	–	After-sales service for mobile phones
	First Asia Mobile, Inc.	Republic of the Philippines	Republic of the Philippines	12,500,000 shares of P1 each	**100%**	100%	Trading and distribution of mobile phones
	First E-Pro Limited	Hong Kong	Hong Kong	10,000 shares of HK$1 each	**100%**	100%	Investment holding
	First Mobile Group Sdn. Bhd.	Malaysia	Malaysia	500,000 ordinary shares of RM1 each	**100%**	100%	Trading and distribution of mobile phones
	First Mobile (North China) Limited	Hong Kong	Hong Kong	15,000 shares of HK$1 each	**100%**	100%	Investment holding
[1]	First Mobile India Private Limited	India	India	548,690 equity shares of INR10 each	**100%**	100%	Trading and distribution of mobile phones
[1]	First Mobile Japan Co., Ltd.	Japan	Japan	1,900 shares of JPY50,000 each	**80%**	80%	Provision of inter-city/international telecommunication services using VoIP technology

29 PRINCIPAL SUBSIDIARIES *(continued)*

	Company	Country/ place of incorporation/ registration	Place of operation	Issued and fully paid up share capital/ registered capital	Group equity interest 2003	2002	Principal activities
	Indirect subsidiaries: ***(continued)***						
1	First Mobile UK Limited	The U.K.	The U.K.	10,500 ordinary shares of GBP1 each	**100%**	100%	Trading of mobile phones
	First Telecom International Limited	Hong Kong	Hong Kong	50,000,000 ordinary shares of HK$1 each	**100%**	100%	Trading and distribution of mobile phones
				3,019,944 non-voting deferred shares of HK$1 each	**–**	–	
	Lets Do Mobile Philippines Inc.	Republic of the Philippines	Republic of the Philippines	992,500 shares of P1 each	**100%**	100%	Trading of mobile phones
	Mobile Distribution (M) Sdn. Bhd.	Malaysia	Malaysia	200,000 ordinary shares of RM1 each	**100%**	100%	Trading and distribution of mobile phones
	Mobile Distribution Inc.	Republic of the Philippines	Republic of the Philippines	5,000 shares of P1 each	**100%**	100%	Trading and distribution of mobile phones
1	Mobileperformances SARL	France	France	850 shares of 10 Euro each	**100%**	100%	Trading of mobile phones
	Powercom (Hong Kong) Limited	Hong Kong	Hong Kong	2 shares of HK$1 each	**100%**	–	Trading and distribution of mobile phones
1	Precision SARL	France	France	850 shares of 10 Euro each	**100%**	100%	Trading of mobile phones

29 PRINCIPAL SUBSIDIARIES *(continued)*

Company	Country/ place of incorporation/ registration	Place of operation	Issued and fully paid up share capital/ registered capital	Group equity interest 2003	Group equity interest 2002	Principal activities
Indirect subsidiaries: ***(continued)***						
Shanghai Fast Telcon Equipment International Trading Co., Ltd.	The People's Republic of China	The People's Republic of China	US$1,250,000	**100%**	100%	Trading and distribution of mobile phones

Except for Shanghai Fast Telcon Equipment International Trading Co., Ltd. which is a wholly owned foreign enterprise established in the People's Republic of China and a company limited by the registered capital, all other subsidiaries are companies limited by shares.

[1] Subsidiaries not audited by PricewaterhouseCoopers

The aggregate net assets, turnover and (loss)/profit before taxation of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 9.2%, 6.1% and -12.45% (2002: 2.9%, 5.5% and 9.4%) of the Group's net assets, turnover and profit before taxation respectively.

30 APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 19th March, 2004.

FINANCIAL SUMMARY

COMBINED/CONSOLIDATED RESULTS

	1999 HK$'000	2000 HK$'000	2001 HK$'000	2002 HK$'000	**2003** **HK$'000**
Turnover	1,622,613	3,124,388	5,329,555	6,272,570	**6,191,951**
Operating profit	69,899	193,042	225,523	176,909	**117,048**
Finance costs	(11,772)	(11,011)	(15,823)	(31,643)	**(33,051)**
Share of (loss)/profit of a jointly controlled entity	–	–	–	190	**(166)**
Profit before taxation	58,127	182,031	209,700	145,456	**83,831**
Taxation	(3,332)	(35,984)	(49,109)	(36,832)	**(26,243)**
Profit after taxation	54,795	146,047	160,591	108,624	**57,588**
Minority interests	(3,420)	(1,632)	2,825	(155)	**(2,144)**
Profit attributable to shareholders	51,375	144,415	163,416	108,469	**55,444**
Dividends	–	(30,000)	(35,000)	(38,914)	**–**

COMBINED/CONSOLIDATED ASSETS AND LIABILITIES

	1999 HK$'000	2000 HK$'000	2001 HK$'000	2002 HK$'000	**2003** **HK$'000**
Non-current assets	53,614	67,738	65,414	97,396	**113,285**
Current assets	239,120	864,344	1,357,118	1,696,529	**1,805,026**
Current liabilities	211,736	565,037	821,968	1,035,183	**1,151,628**
Non-current liabilities	20,506	12,706	94,286	40,406	**10,016**
Shareholders' funds	56,716	349,112	503,876	713,651	**749,395**

Notes:

(i) The Company was incorporated in the Cayman Islands on 5th May, 2000 and became the holding company of the companies comprising the Group on 15th December, 2000 as a result of a group reorganisation. Accordingly, the combined results, assets and liabilities for the year ended 31st December, 1999 are prepared based on the audited accounts of the companies now comprising the Group as if the current group structure had been in existence throughout the year presented.

(ii) The above financial summary as of and for the years ended 31st December, 2002 and 2003 have been extracted from the audited accounts of the Group as set out on pages 35 to 37 of the annual report.

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

香港新界沙田安平街8號
偉達中心西翼119樓1919-1923室
電話:(852) 23760233
傳真:(852) 23760210

Suite 1919-1923, 19/F.,
West Wing, Grandtech Centre,
8 On Ping Street,
Shatin, N.T. Hong Kong
Tel:(852) 23760233
Fax:(852) 23760210

www.firstmobile.com