長遠電信網絡集團有限公司
FORTUNE TELECOM HOLDINGS LIMITED

Annual Report

2000-2001

http://www.fortunetele.com

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This document, for which the directors (the "Directors") of Fortune Telecom Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with The Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Fortune Telecom Holdings Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:- (1) the information contained in this document is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CORPORATE CULTURE

- **注重長遠，天天進步**
- **人為本，企業為家**

- **Corporate Culture**
  Results Oriented
  Disciplined
  Customer Satisfaction
  Great Place to Work

- **Corporate Development Strategy**
  Industry Concentration; Product Diversification

- **Corporate Operation Strategy**
  Market Oriented
  Customer Caring
  Invest in Technology
  Centralised Management

NOKIA 8250

科技以人爲本

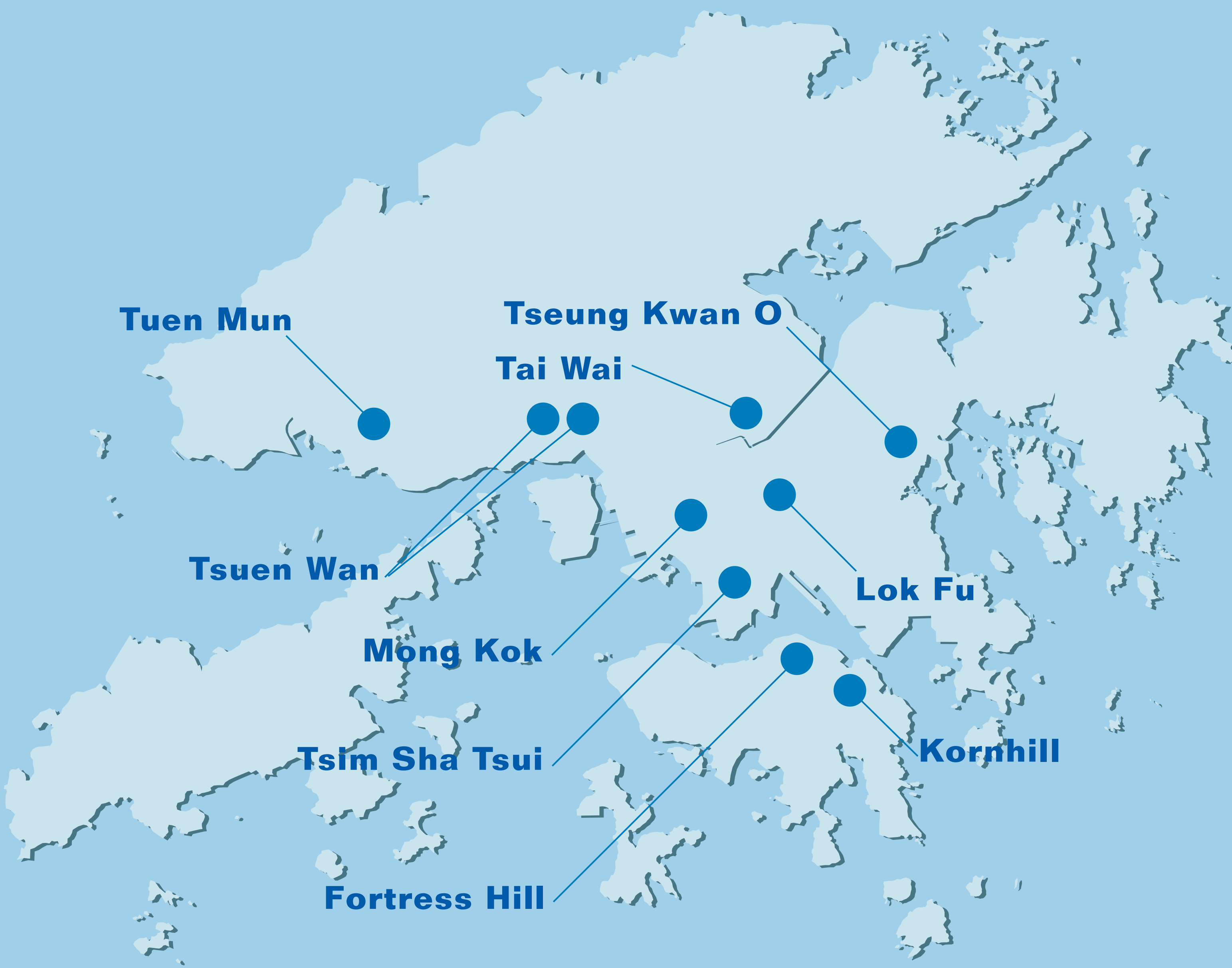
型出於藍

WALK ON THE BLUE SIDE

NOKIA
CONNECTING PEOPLE

FORTUNE TELECOM DISTRIBUTION COVERAGE IN THE PRC

TELECOM-PORT STORES LOCATION IN HONG KONG



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CORPORATE PROFILE

Fortune Telecom Holdings Limited ("Fortune" or the "Group"), is the leading distributor, retailer and value added services provider of mobile phones, personal digital assistants ("PDAs") and wireless broadband communication solutions in the People Republic of China (the "PRC") and Hong Kong. Fortune distributes products manufactured by world-class telecom and technology companies such as 3Com, Alcatel, HandEra (TRG), Kodak, Lucent, Motorola, NCR, NEC, Netgear, Nokia, Palm, Philips, Ramp, Ubinetics and Vadem.

Fortune was established in Hong Kong in 1992 and was listed on the Growth Enterprise Market ("GEM") of Stock Exchange of Hong Kong on 16 February 2000.

Customers and major business partners include leading network operators in the PRC and Hong Kong such as China Mobile, China Telecom, China Unicom, China Jitong, CSL, Orange, Sunday, wholesalers, resellers, retailers, ISPs and various government institutions and corporate customers.

The Group provides integrated distribution services which include sourcing, warehousing, promotional marketing, wholesale, direct selling, retailing and express delivery of mobile phones, PDAs, Wireless LAN and all related accessories.

The Group also provides innovative value added services to network operators and manufacturers which include support for prepaid SIM programmes, SIM Lock programmes, inventory management, fulfillment, telemarketing, product warranty, repair and refurbishment.

Fortune possesses an extensive distribution and services network, with operations in Hong Kong, Beijing, Shanghai, Guangzhou, Chengdu and over 15 sales operations in province/city levels across the PRC. The Group has over 300 active customers and supply directly to over 3,000 mobile and IT retail shops in Hong Kong and the PRC.

The Group's corporate culture rests on the integration of the West and the East, modern and traditional management philosophy, with an aim to build up "A Long Term Faster Learning Organisation". The corporate spirit of Fortune focuses on "Human Enterprise". Under the leadership of its aspiring and energetic management, Fortune's staff will team up and move towards the Group's goal of ranking amongst one of the largest wireless communications and data products and services providers in the region.

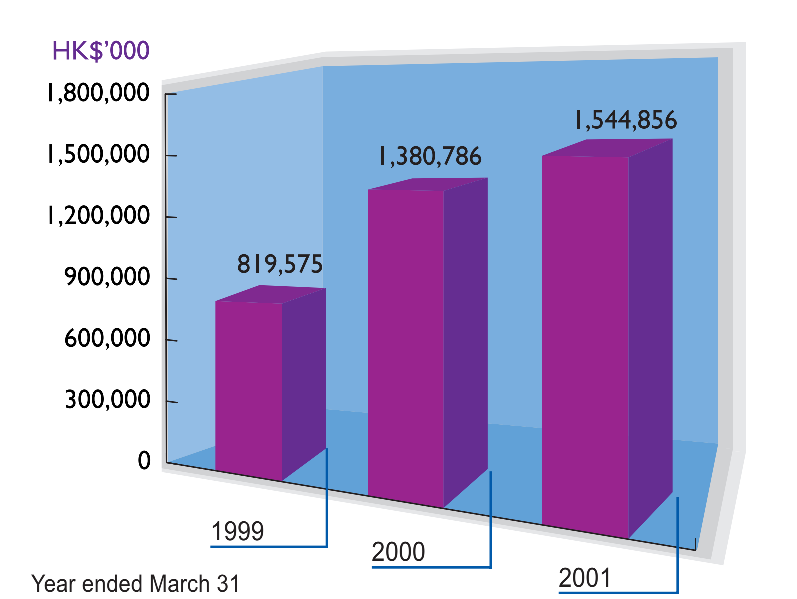
CORPORATE PROFILE

Business Structure

- **Fortune Telecom Holdings Ltd.** **(SEHK Code: 8040)**
  - Mobile Business
    - Mobile Phone Distribution & After Sales Services
      - Handset
      - SIM, Prepaid SIM
      - Accessories
    - Retail Operation
      - Retail Chain in Hong Kong
      - Authorized Retail Chain in China
    - Mobile Value-Added Services
      - SMS Platform in China
    - Wireless Data & Broadband Communication
      - PDA
      - Wireless LAN
      - Networking Products
  - E-Business
    - Logistics System
      - Procurement
      - Fulfillment
      - Electronic Payment
    - System Integration
      - Telecommunications Industry
      - Finance Industry
      - Retail Industry
    - Investment Holdings
      - PacificNet.com (NASDAQ: PACT) (9%)
      - Amonic (30%)
      - Talentsoft (2%)
  - Multimedia Communications Business
    - Multimedia Communication Products Distribution
      - Multimedia Payphone
      - Prepaid Card Vending Machine
    - VoIP Operation
      - Prepaid IP Calling Card
      - IDD 1522

FINANCIAL HIGHLIGHTS

Turnover



Profit attributable to shareholders

1999	2000	2001
22,302	50,842	17,982

Year ended March 31

CORPORATE MILESTONES

1992.2.18	The Group's former trading arm — Express Fortune Ltd ("EFL") was founded by Lau & brothers in Hong Kong.
1992 – 94	EFL became one of Nokia's earliest authorised distributors in the PRC.
1994	Established EFL Guangzhou Regional Headquarter.
1996	EFL restructured & became wholly owned subsidiary of Fortune Telecom Group ("FTG").
1997	FTG obtained the distribution right for Philips handset in the PRC.
	FTG established its wholly owned subsidiary in Shanghai – Fortune (Shanghai) International Trading Co., Ltd. ("FSH").
	Commenced Fortune Telecom franchise retail business in the PRC.
1998	FTG opened Beijing representative office.
	FTG obtained the distribution right for Alcatel handset in the PRC.
1999	FTG restructured and renamed as "Fortune Tele.com Holdings Ltd" and applied for IPO on GEM board in Hong Kong.
2000	Invested in the US based E-Commerce Solutions Provider – PacificNet.com LLC.
2000.2.16	**Listed on GEM board in Hong Kong (Stock Code: 8040)**

SIGNIFICANT EVENTS

Year 2000

April

Started delivery of Nokia N7110 (WAP) and N8850 (dual band).

Acquired Top Success 100% equity interest and rolled out “Telecom-port” retail network in Hong Kong.

Granted with the non-exclusive distribution rights for NEC SB1000 and DB3300 by NEC in the PRC.

May

Nokia (Fortune) Professional Centre in Jiangmen, Guangdong commenced operation.

June

Nokia (Dao Wei Er) Professional Centre in Ganzhou, Jiangxi commenced operation.

July

NPC in Shaoxing, Zhejiang commenced operation. This new operation became the 12th NPC jointly developed by the Group and Nokia in the PRC.

PacificNet.com was successfully listed in NASDAQ under the stock code PACT. The Group holds a 9% interest in Pacific.com.

Acquired a 30% shareholding in Amonic Solutions Limited.

August

Established a 50-50 equity interest company, MobileRex Technology Limited with Mobilemode, a mobile internet technology company in Finland. MobileRex will provide comprehensive wireless telecommunications solutions for the PRC market, including mobile SMS and value-added services.

September

Launched Nokia 3310 (dual band) mobile phone in China.

October

The flagship store of Telecom-port retail network commenced operation in Tsimshatsui, Hong Kong.

November

Launched prepaid Calling Card under “Fortune Multimedia” in Hong Kong. Philippines and Indonesia were designated as the initial target markets.

SIGNIFICANT EVENTS

December

Launched Nokia 8250 (dual band) mobile phone in the PRC.

A US$12 million transferable syndicated loan was signed with an international syndication led by Fleet National Bank. This loan serves as working capital to expand the Group's mobile phone distribution business in the PRC.

Year 2001

January

- The Company changed its English name from "Fortune Tele.com Holdings Limited" to "Fortune Telecom Holdings Limited". This demonstrates the Group's focus on its telecommunications business.

- Rolled out Nokia 3310 promotional campaign in Shanghai and selected cities among Eastern China with slogan of "Nokia 3310 – 祝您 "袋袋" 平安" to offer free G2000 Executive Brief Case for each 3310 sales.

February

- In Hong Kong, the first franchise shop of Telecom-port commenced operation in Tsuen Wan.

- Launched "Buy Nokia 8250, Get U2 Travel Bag" promotional campaign across Northern, Eastern and Southern China.

March

Turnover during the last quarter of the financial year increased over 100% when compared with the third quarter.

CHAIRMAN'S STATEMENT

For and on behalf of the Board of Directors (the "Board") of Fortune Telecom Holdings Limited (the "Company" or "Fortune") together with its subsidiaries (the "Group" or "Fortune Group"), I am pleased to announce the audited consolidated results for the year ended 31 March 2001.

The Group underwent consolidation and experienced steady growth in 2000/01 after our listing in 2000. Despite the challenging market circumstances, the Group was able to report encouraging results as both turnover and market share increased during the year.

2000 was a year full of challenge and rapid change for the global telecommunications market. The slowdown of the global economy and the drastic downturn of Internet businesses adversely affected many IT industries and telecommunications companies. A number of multinational mobile phone operators and manufacturers recorded declining results, lower profits or even reported losses. In addition, with the restructuring of the Ministry of Information Industry ("MII"), anti-smuggling by the Central Government, the emergence of foreign and local mobile communications manufacturers in the PRC as well as the keen market competition, the PRC telecommunications market has seen a radical impact during the year.

For the 2000/01 fiscal year, the Group recorded a turnover of HK$1,545,000,000, increasing 12% when compared to HK$1,381,000,000 in the previous year. Net profit attributable to shareholders amounted to HK$18,000,000. Profits were mainly generated from the Group's core business.

The Board recommends the payment of a final dividend of HK1 cent per share for the year ended 31 March 2001. This is in line with the Group's policy to declare a dividend when profit is recorded.

During the fiscal year, mobile phone distribution remained the Group's core business, representing approximately 98% of the Group's total turnover. Business recovered in the last quarter despite the global economic downturn and the consolidations in the telecommunications industry. The Group was able to negotiate with our major supplier to secure exclusive wholesale distribution right for the new model Nokia 8250 (dual band) in the PRC. The increase in sales has further enhanced our strong market position and market share. Together with our rapid expansion in the distribution network, we have become a long-term strategic channel partner for Nokia in the PRC.

Steve Lau

Chairman and CEO

Aiming for widespread market coverage from the major cities to 2nd and 3rd tier cities to establish a strong distribution platform in the PRC, we have set our focus on extensively developing sales channels and enlarging the sales team to cover the PRC market. Currently, the Group has developed 120 authorised distributor shops and 130 authorised dealer shop in the PRC. This comprehensive distribution network spread out nearly 100 cities across over 28 provinces.

In Hong Kong, Telecom-port retail chain is positioned to be a leading mobile communications, computers retailer and value-added services provider. There are 10 Telecom-port retail chain stores in prime areas in Hong Kong and the Jusco stores. In addition, we launched our prepaid IDD calling services under "Fortune Multimedia" in November 2000.

Subsequent to the end of this financial year in May 2001, the Group entered a purchase agreement to acquire a 51% equity interest in Synergy Pacific (Holdings) Ltd ("Synergy"), a company engaged in the provision of wireless communications solutions and e-business infrastructure, systems integration, and distribution of wide area networks (WAN), PDA and point of sales (POS) solutions, at a total consideration of HK$12.3 million.

Looking ahead, the Group believes that the wireless telecommunications and data market in the PRC will continue to grow rapidly to become the world's largest handset market in 2002. Fortune will continue to focus on the PRC market, leveraging our leading distribution network and building a strong foothold.

The Group strongly believes that "Industry Concentration, Products Diversification" is our core development strategy. The Group's competitive edge is mainly attributable to the ability of our management to introduce management theory and experience from the West, integrating these modern business practices with the unique culture of the Chinese to formulate a set of effective development strategies. In the coming year, the Group will introduce an e-commerce and logistic operation system into the distribution network in the PRC, aiming to enhance the technology levels of the distribution platform to further unify capital and logistics management. At the same time, the Group will develop new businesses, such as Short Messaging Services ("SMS") and Wireless Data Communications, in order to provide customer with more value added services as well as to create profit growth for our continuous development. The overall strategy is to accelerate our business growth to become one of the "Giants" in the industry in the PRC.

The Group experienced severe competition in our early development stage, growing with a sense of competition and peril. A visionary corporate culture has been a crucial factor for our outperformance of competitors as we move forward. We will continue to develop a series of innovative development strategies which suit our corporate culture, focusing on "Human Enterprise" and "A Long Term Faster Learning Organisation" as core concepts, highlighting the responsibility of staff in the corporate, business partnership and social environment.

I would like to extend my sincere thanks to our shareholders and investors for their support in the past year. The Board and our management are all confident in the Group's future development.

Lau Siu-ying, Steve

Chairman and CEO

28 June 2001

FINANCIAL REVIEW

In January 2001, the Group changed its English name from "Fortune Tele.com Holdings Limited" to "Fortune Telecom Holdings Limited", with the Chinese name remaining unchanged. The action is to emphasise the Group's leading position in wireless telecommunications and the data industry. The change of name is aimed at minimising any public confusion towards the Group's core business which is different from only "dotcom".

Revenue and Profitability

Turnover increased by HK$164,000,000, or 12% to HK$1,545,000,000 for the year. In addition to sales revenues from the PRC mobile phone distribution operation, turnover also consisted of revenues from new business operations launched during the year. The Hong Kong retail operation and the prepaid IDD operation, launched in July 2000 and December 2000 respectively, generated revenue amounting to HK$11,464,000 (2000: nil) and HK$3,077,000 (2000: nil) respectively. While these new operations did not contribute significant revenues and profits to the Group during the year, they are growing rapidly and will make more contributions in the future.

During the year, the Group experienced severe industrial and seasonal impacts on its core mobile phone distribution business. As reported in the third quarter report, the Group recorded a drop in sales by HK$99,000,000 for the nine months ended 31 December, 2000, or 10% compared with the same period in the previous year. This was mostly due to the gradually ceasing supply by the Group's major supplier for Hong Kong delivery, as well as a drop in demand for the Group's products due to increased competition and lack of new models. Expecting an eventual cessation of Hong Kong delivery, Fortune extended its distribution network into the PRC and acquired additional financial resources to expand its PRC operation. The Group obtained the exclusive wholesale distribution rights for the Nokia 8250 in January 2001. As a result of the extensive sales and marketing activities and a strong demand for the new model, the Group achieved sales of HK$633,000,000 for the last quarter, representing a substantial increase of HK$265,000,000, or 72% compared with the same quarter in the previous year, and a surge of 108% compared with the average sales per quarter of HK$304,000,000 for the preceding three quarters.

The Group recorded a slightly drop in gross profit ratio from 5.8% to 4.6%, which was mainly due to the increasing competition during the year from manufacturers and distributors, as well as the Group's further investment in selling and marketing. Also since the Group was in a transition period to wait for new models in the first three quarters the profit margin was affected. Furthermore, the Group adopted a penetration strategy to speed up the expansion of its distribution network in the PRC during the year, particularly in the last quarter.

During the year, the Group recorded a substantial increase in distribution costs, general expenses and finance costs. The increase in distribution costs was in line with the Group's expansion of its PRC distribution network. Fortune also increased its promotional activities, either on its own or jointly with its major suppliers. The increase in general expenses was mainly due to the increase in staff and rental costs relating to the expansion of the PRC operation, as well as the increase in professional and statutory expenditures relating directly or indirectly to the Group's listing on GEM. The increase in finance costs was due to the requisition of RMB borrowings to finance the PRC operation and the requisition of the US$12,000,000 Transferrable Loan Certificate serves as the additional working capital required for the expansion of the Group's PRC operations. The Group also financed its PRC operation by RMB borrowings secured by Hong Kong Dollars cash deposits to minimise exchange risks as well as to enhance the feasibility of cash withdrawal from the PRC operation. The interest expenses incurred for the RMB borrowings were mostly offset by the interest income generated from the deposits pledged to banks as securities.

FINANCIAL REVIEW

The Group recorded net unrealised holding loss of HK$2,000,000 on its investment in PacificNet.com LLC ("PacificNet.com"), a company incorporated in the USA and listed on NASDAQ. During the year, the Group changed its investment philosophy in PacificNet.com from a strategic holding to an investment holding. The investment in PacificNet.com therefore transferred to other investments and carried at fair value since 30 June 2000. Subsequently to PacificNet.com listing on NASDAQ in July 2000, the fair value of its investment in PacificNet.com was decided by its closing share price. Due to the significant drop in PacificNet's share price lately, the fair value of the Group's investment dropped correspondingly, the resulting deficit has been recorded as an unrealised loss. However this loss, being unrealised, has no real impact on the Group's liquidity and operation.

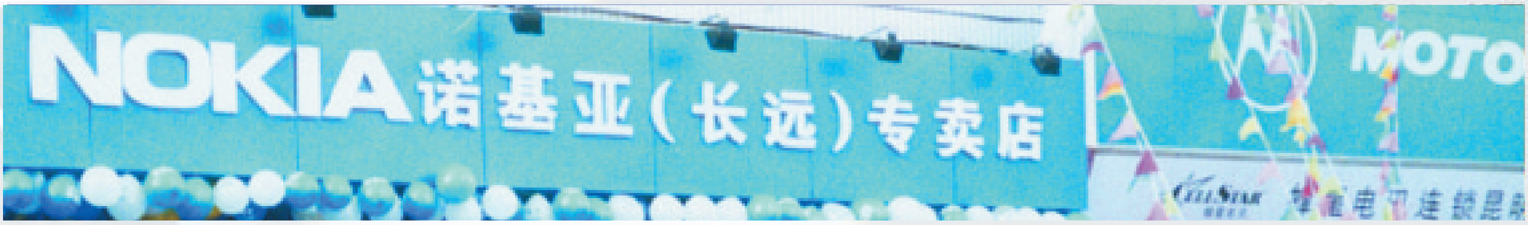
Assets and Liquidity

Inventories increased significantly from HK$61,000,000 to HK$181,000,000. The significant increase in inventories was mainly due to the Group expanded its operation in the last quarter of the financial year. It was also due to the shifting of the Group's distribution from Hong Kong delivery to PRC delivery. The average monthly sales for the last quarter of the year was HK$211,000,000, representing a 72% increase as compared with the monthly sales of HK$123,000,000 for the same quarter of the previous year. Based on these monthly sales, the inventories turnover period was 26 days and 15 days respectively. For Hong Kong delivery, the Group maintains a centralised logistic centre with relatively low level of inventories. For PRC delivery, the Group has warehouses in Beijing, Shanghai, Guangzhou and over 10 warehouses/Distribution Centres in other provinces to ensure timely delivery to customers. In addition, the Group also placed bulk purchases for cost and effective advantages in consideration of the inventories protection offered by its major suppliers and the marketability of the goods.

With effective financial control and tight credit policies, the Group maintained strong liquidity throughout the year. As at the balance sheet date for the year under review, the Group managed to keep a current ratio of approximately 2.0. During the year, the Group continued to tighten its credit policy, with the majority of the sales continued to be settled by cash on delivery. With reference to the monthly sales of HK$211,000,000 for the last quarter of the year and the monthly sales of HK$123,000,000 for the same quarter of the previous year, the turnover period for trade receivables, as well as the trade balance due from a related company decreased from 13 days to 10 days.

In December 2000, Fortune obtained a 2-year term floating rate syndication loan for financing the working capital required for expanding its PRC operation. The loan principal is repayable upon maturity and the loan interest is repayable every six months. The annual interest cost arising from this loan will be around HK$7,000,000, representing approximately 21% of the Group's profit from operations this year.

Throughout the year, the Group maintained a strong cash position. As at the balance sheet date, the Group had total cash balance of HK$185,000,000, of which HK$106,000,000 was unpledged and free from any lien. The strong cash position allows higher flexibility for the Group's business planning, and also allows the Group to grasp business opportunities.



MANAGEMENT DISCUSSION AND ANALYSIS

i) Market Overview

The Wireless Telecommunications and Data Industry

Rapid changes in technology standards and market trends can be described as the major characteristics of the wireless telecommunications and data industry. Such changes are driven by:

- The convergence of mobile multimedia
- Industry consolidation among network operators, manufacturers, distributors and retailers
- The increasing affordability of wireless airtime
- Increasing popularity of e-commerce

At the end of 2000, wireless penetration was estimated at more than 50% of the population in Finland and was still, on average, less than 12% of the population globally. From 1999 to 2000, the number of worldwide mobile subscribers increased by approximately 236 million, or 49%, to approximately 716 million. The number of worldwide mobile subscribers is expected to grow to approximately 1.4 billion users by the end of 2003. The Group believes that the handset replacement market is vast with a replacement average of 15-20% per annum.

Technology Convergence

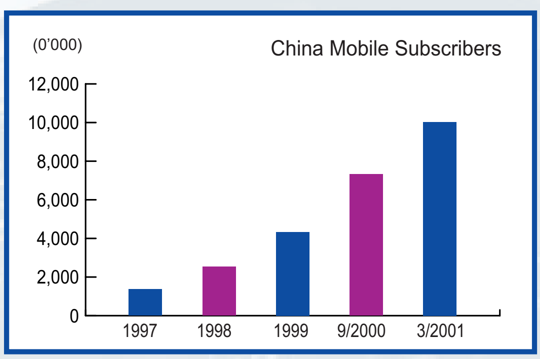
The continuing conversion of subscribers from analog to digital technologies has had a positive impact on the growth of mobile phone demand. Together with the growth in demand, technology convergence will drive the adoption of new standards such as Bluetooth, 802.11b/Wireless Local Area Network and 3G.

As a result of this convergence, mobile phone users may increasingly use their devices to send and receive e-mails, browse the Internet, effect mobile commerce transactions and access other information and services available via the Internet. All of these developments are expected to contribute to future subscriber growth.

Industry Consolidation

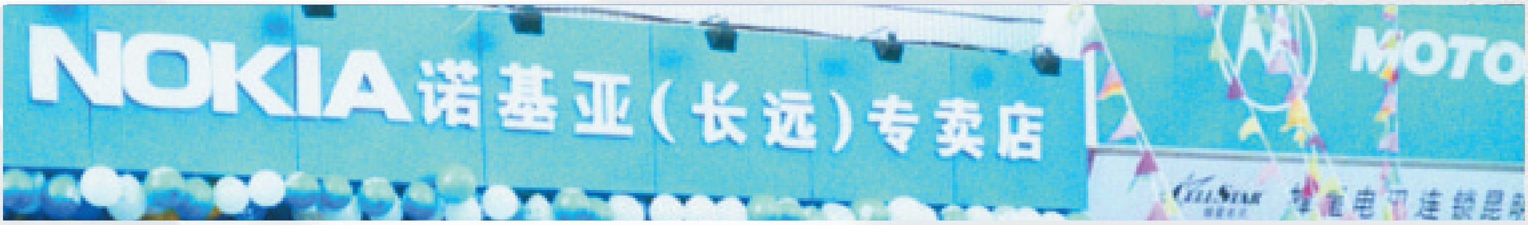
Year 2000 has been an volatile and dynamic year in wireless telecommunication and data industry. Merger and acquisition activities within the network operators and manufacturers are increasingly popular.

A number of historical successful consumer electronic players and IT players are entering into the industry. To name a few, SONY, Panasonic, Samsung, Compaq and Microsoft has been very aggressive and influential. They provide consumers with more features at lower prices with fashionable designs and new market channels. Although manufacturers like SONY and Ericsson are forming strategic alliances while many other brands are aggressively capturing market shares, the Group believes that the top five handset manufacturers – Nokia, Motorola, Ericsson, Siemens and Samsung – will dominate over 70% of the total market. The Group believes that the current market leader Nokia will maintain the largest market share for the foreseeable future at over 35%, followed by Motorola.



The PRC Market Review

According to Sino-market research, the PRC has the largest mobile population in Asia and is the second largest mobile telecommunications market in the



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

world. The PRC is expected to become the world's largest mobile telecommunications market in 2002 with the total mobile population reaching 300 million in 2005. In March 2001, the number of China Mobile's subscribers has reached 100 million with 3 to 4 million net increase every month.

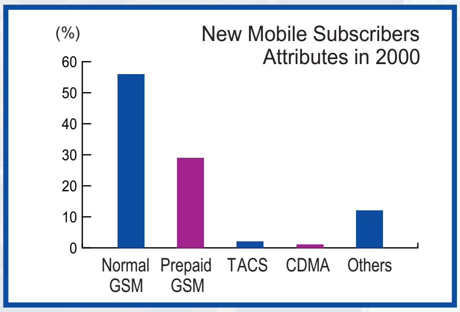
This tremendous growth is largely due to the following major driving forces:

Year	Connection Fee	Monthly Rental	Airtime
1994	¥5000	¥150	¥0.5/minute
1996	¥3000	¥50	¥0.4/minute
1999	¥500-1500	¥50	¥0.4/minute
2000	¥100-300	¥50	¥0.4/minute

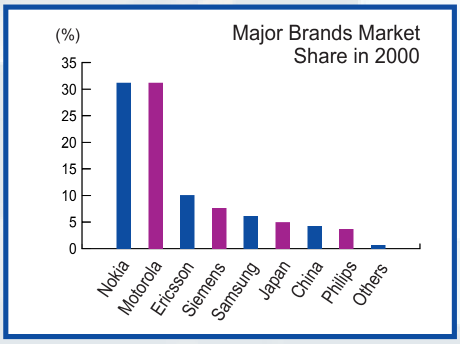
1. The overwhelming economic growth has resulted in a great enhancement in public living standards. Today, mobile phone is no longer a symbol of personal status. Instead, they have become a part of everyday life for many people even they may not earn much. Besides, mid-range and low-end models have also been launched by different vendors.

2. The popularity of mobile phone usage for people living in the 1st and 2nd tier cities such as Beijing, Shanghai, Guangzhou, etc.

3. Entry costs for individual mobile users have reduced sharply in the past three years, stimulating potential users to become part of the mobile user family. In 1999, mobile connection fees in major cities were still charged at between RMB 500 - 1500. Currently, connection fees have been reduced to RMB 100 - 300 only and expected to be eliminated very soon.



4. Different service plans offered by China Mobile and China Unicom provide choices to end users according to their different usage patterns. Additionally, in late 1999, both operators introduced prepaid services to the market with extensive promotional campaigns stimulating strong demand among middle to low income families and attracting a vast segment of the population to subscribe to the service. Currently, this service has obtained 29% of the total mobile market share.



5. Local handset manufacturers such as TCL, Haier, etc. are competing with foreign mobile brands to capture the low-end and mid-range handset market. They are supported by the State and have obtained about 4.9% of the total mobile market share in 2000. The market share of these local brands are expected to increase in 2001.

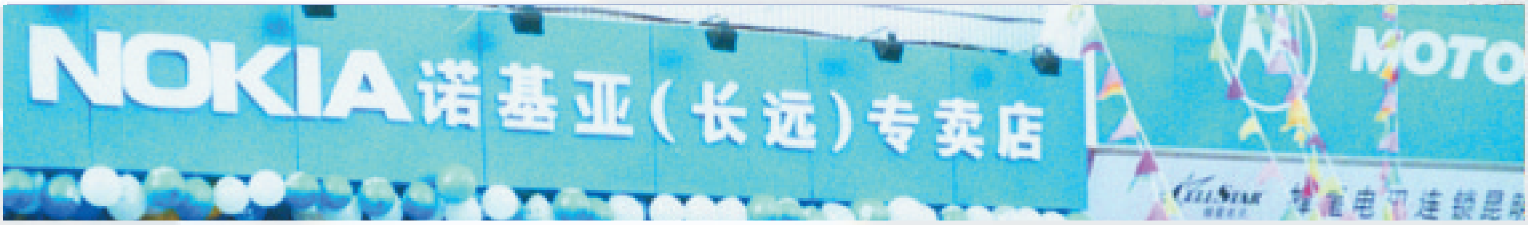
ii) Opportunity and Growth Strategy

It is obvious that manufacturers and network operators are targeting the growing consumer segment through mass retail channels, thus requiring greater levels of warehousing and fulfilment services. As a value added distributor, we will adopt the latest technology and invest in the distribution infrastructure to capture these opportunities. Therefore, the Group has decided to make the following commitments to enhance its value:

- **Distribution infrastructure:**

  The distribution infrastructure means the sales channel, sales branches, representative offices, warehouses, virtual warehouses, promotional marketing team, retail outlets and other facilities which are capable of handling the distribution of mobile phones in mass volumes and covering the most important channels and retail outlets efficiently.

  Fortune is therefore constantly investing substantial resources to set up this infrastructure in order to cope with the growth of volumes handled. Currently, the Group's infrastructure covers most of the provinces and major capital cities in the PRC with a sales and marketing team of over 500 people.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

- **Expansion of Supply chain**

  The higher volume of products that flow onto the Group's distribution platform, the lower the running cost to maintain its infrastructure. The Group's long term strategy is to expand its supplier base and broaden its product portfolio while enlarging revenue base and improving profit margins at the same time. The Group will seek to accomplish this goal by mergers and acquisitions, diversified product lines, well-known brands and advanced technologies.

- **Technology**

  Functionality, design, performance and application of the information system are attributed to a powerful distribution infrastructure. The Group is implementing application systems throughout the country, aiming to provide the customers with distribution and service convenience. These systems include B2B e-commerce solutions, web-based email, order entry, delivery status, inventory tracking, daily market reports and sell outs from the different provinces and cities. Branches and customers will receive sales, delivery and others messages through Fortune SMS systems and PDA solutions. Fortune is investing over $5 million in building these systems and will invest a total of around $10 million in capital expenditure over the next two years.

(iii) Business Review

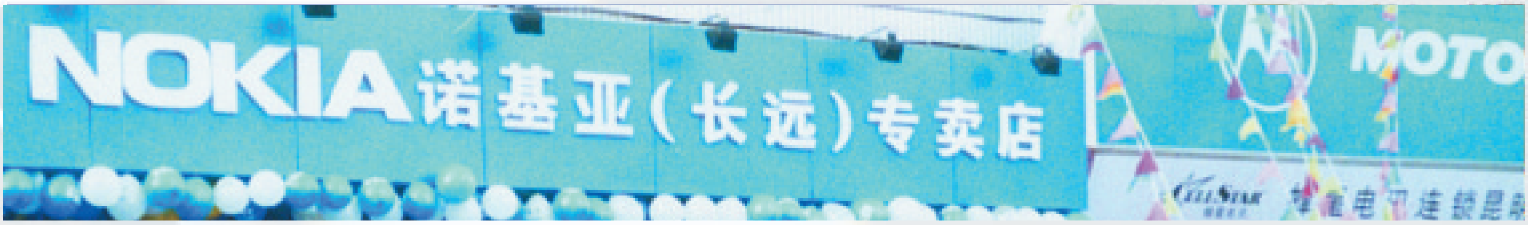
Mobile Business
Mobile Phone Distribution

Mobile phone distribution continued to be the Group's core business which accounts for over 98% of the Group's turnover for the year. During the first 3 quarters of the year the Group experienced a drop in sales due to increase in competition and delay of new products launched by the Group's major supplier. The launch of Nokia 3310 and Nokia 8250 by the Group's major supplier Nokia, at the end of September 2000 and early January 2001 respectively, restored the Group's competitive product edge, particularly when the Group acquired the wholesale exclusive wholesale distribution right in the Nokia 8250 in the PRC. During the last quarter of the year, the Group's average monthly sales achieved 100% increase as compared with the average monthly sales in the preceding third quarters.

Distribution network in the PRC

During the year, the Group's major supplier had been gradually ceasing its supply for Hong Kong delivery. In view of an eventual cessation of Hong Kong delivery, the Group had been focusing on the expansion in its PRC operations throughout the year, particularly after the requisition of a transferable term loan in December 2000 for financing the rapid expansion. Currently the Group developed around 23 NPC in the PRC with its extensive distribution network consisting of 120 authorised distributor shops and 130 authorised dealer shops operating under the Group's trade name, spread out in nearly 100 cities across over 28 provinces and capital cities in the PRC. The number of authorised services centres developed by the Group also increased to 28 during the period. In the future, the Group will continue to work closely with Nokia and other major vendors to expand its distribution network in the PRC. The Group is also establishing a regional headquarter in Chengdu to extend the coverage of its distribution network in the western region of the PRC.

During the year, the Group conducted a number of marketing and promotional activities together with its major suppliers, local partners and retailers. Most of the activities were supported by the local operators including China Mobile and China Unicom in form of activation fee subsidy, roadshow and prepaid SIM promotions.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In January, 2001 Chinese Lunar New Year period, the Group rolled out a Nokia 3310 handset promotion plan in Shanghai and selected cities in Eastern China to offer : "3310 – 祝您 "袋袋" 平安". Customer can get a free original G2000 Executive Brief Case (worth RMB185/bag) when buying one set of 3310. The plan was very successful, sales volume increase 7,000 sets during the three weeks promotion and the selling price raised RMB80/set accordingly.

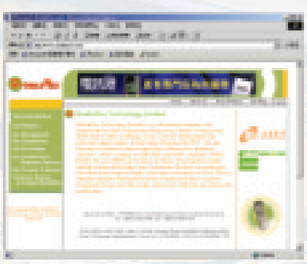
In February 2001, the Group launched a promotional program in over 15 cities in Northern, Eastern and Southern China to stimulate the demand for Nokia 8250. The program was "buy one get one free" which end customers of Nokia 8250 can get one free "U2" brand travel bag. These activities were broadly welcomed by consumers and the demand for Nokia 8250 had increased subsequently.

Telecom-Port Retail Chain

In June 2000, the Group acquired the entire equity shares of Top Success International Holdings, subsequently renamed Telecom-Port, to mark its entry into the retail operation. Telecom-Port is positioned to be a leading Communications and Computer (C&C) retailer and value added services provider in Hong Kong. In view of the continuous growth of the mobile phone replacement market and the emergence of increasing mobile business through wireless Internet applications, Telecom-port retail chain aims at providing customers with mobile service consultancy, activation and personal digital devices. Currently the Telecom-Port chain has expanded to a total of 10 retail outlets in prime areas in Hong Kong and the Jusco stores together with one franchise shop opened in Tsuen Wan in February 2001.

Mobile Commerce

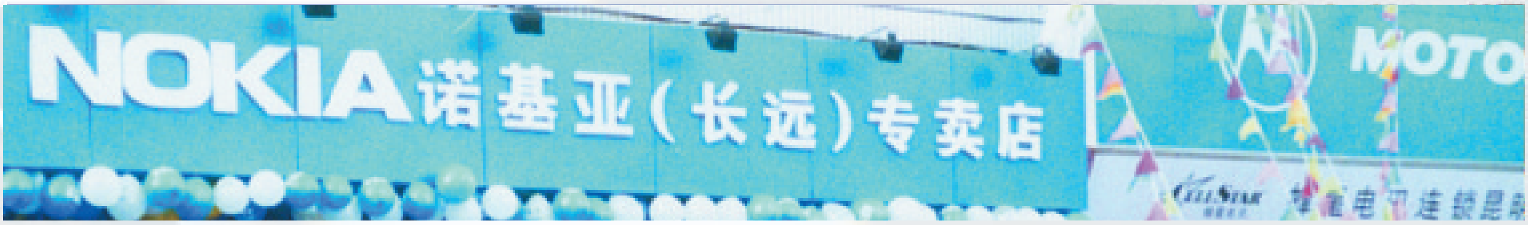
The Group achieved noticeable progress in finalizing the 50:50 joint venture (Mobilerex Technology Ltd.) with a Finnish partner. The joint venture aims at becoming a leading Wireless Solutions Provider (WSP) which will ultimately empower all the Group's Internet projects to be wireless ready, ultimately extending channel coverage to mobile phone users. With the cutting edge of Finnish technology from wireless platforms, applications and services to 3G technology, the Group will be able to provide vast amount of Chinese localised applications and platform with a full range of wireless solutions in the PRC.



E-BUSINESS
Investments

Amonic Solutions Limited

In July 2000, the Group acquired a 30% interest in Amonic Solutions Limited ("Amonic"), a Hong Kong based software company engaging in the provision of one-stop Internet solutions. Leveraging its strong technical background, Amonic became cnXML's premium partner in building commercial solutions for the private sectors in the PRC and is actively organising XML education programs in Hong Kong to promote this standard for programming language in website applications. During the year, Amonic has officially rolled out its new web design package, Amonic Express, for SMEs.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

PacificNet.com LLC

PacificNet.com was the Group's earliest investments in technology companies. It was incorporated in the USA and is engaged in the provision of e-commerce application site construction and site hosting management, support, maintenance and development services. On July 27, 2000, PacificNet.com was successfully listed in the NASDAQ of the USA, trading under the symbol "PACT". The Group has been holding approximately 9% of shares in PacificNet.com since its listing. The Group's shares in PacificNet.com are currently restricted from trade until expiry of the lockup period in July 2001.

E-Commerce Project Development

Telecom-port.com

Telecom-port.com is the online store of Telecom-port retail chain. In addition to its provision of up to date products and market news, it integrates three payment gateways – Aeon-Spot, Beenz and Visa Credit Card. It is one of the first local websites to provide e-shopping convenience, flexibility and security in the B2C online marketplace. Most customer online orders can be collected at Telecom-Port's retail outlets. During the year, Telecom-port.com also launched its membership card to provide a series of benefits to members.

FortuneTele.com

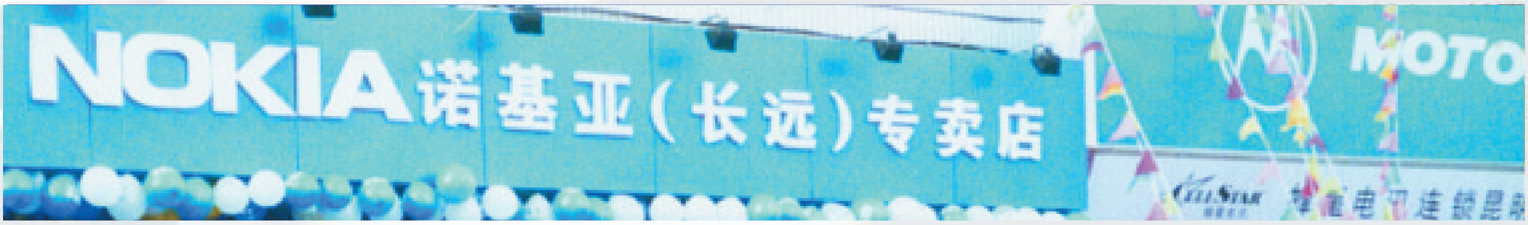
Fortunetele.com is the Group's corporate website providing corporate information and a mobile B2B marketplace. The website features hyperlinks to the Group's franchisees in the PRC, and also e-logistics, e-payments for enhancing the Group's distribution operations in the PRC.

MULTIMEDIA COMMUNICATIONS BUSINESS
Distribution of Multimedia/Telecom Products

In view of the rapid development in the PRC telecommunications industry, the Group has successfully obtained exclusive distribution rights for a variety of multimedia/telecom products including "Multimedia/Internet Payphone", "Prepaid-card Vending Machine", and "Calling Card Payphone" in Macau, Hong Kong and the PRC. The Group has been marketing these products to PRC telecom operators through its established distribution network and business connections.

Provision of VoIP IDD Services (1522)

The Group launched its prepaid IDD services in December 2000 under the "Fortune Multimedia" brand. Currently the Group is offering Phillipino and Indonesian prepaid IP calling cards. The Group has already soft launched its post paid IDD services in April 2001 and will officially launch the post paid IDD services in August 2001. For the provision of VoIP and Fax over IP package services in the future, the Group is currently applying for Private Pay Phone and Internet Service Provider ("ISP") licenses.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

(iv) Outlook

WTO Challenges

Upon the PRC accession into the WTO, the deregulations of telecommunications policy will create severe competition. However, the complexity, formality, bureaucracy and cultural difference in doing business in the PRC will form entry barriers for new foreign investors, network operators, manufacturers and retailers. Fortune will take advantage of its established distribution platform to serve as an effective medium for the international mobile and IT corporations entering into the PRC market.

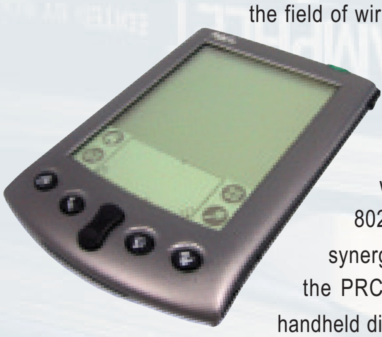
Distribution Infrastructure

Given the rapid increase in market size and business volume in the next few years, the Group intends to enlarge the investment in the PRC to strengthen its distribution and logistic network with advanced IT systems. Within one year, the Group will:

- expand sales operations from 15 to 25 within one year;
- enlarge sales and marketing team to over 1,000 people;
- extend total market coverage and direct supply to over 5,000 mobile and IT shops in the country.

Merger and Acquisition

In May 2001, the Group acquired 51% of the share capital of Synergy Pacific Holdings Ltd. ("Synergy"), a Hong Kong based company engaged in the provision of wireless data communications solutions and e-business infrastructure in Hong Kong and the PRC. Synergy is also a market leader in the systems integration business especially in WAN, wireless local area networks (WLAN), remote access systems (RAS), Internet service providing services (ISPS), personal digital assistants and point of sales solutions. This acquisition would provide strategic benefits to the Group, enabling the Group to enrich its product mix and enhance its capability to provide value-added services in the field of wireless data communications applications.



The acquisition of Synergy symbolises a milestone for both parties to leverage on each others' expertise and enhance their strengths in handling sophisticated wireless communications and data products. Synergy is the first Palm PDA distributor outside the US and has developed the world's first Chinese Palm Operating System – Dragon Pen. Synergy is also one of the largest Lucent 802.11 Wireless LAN distributor in Southeast Asia. The Group strongly believes that there will be a strong synergy effect in terms of technology and distribution in Hong Kong and in the PRC. The Group believes that the PRC will be the world's largest PDA market, thus the Group is positive to convence the distribution of handheld digital products in the PRC in the near future.

Product Diversification

The Group is considering to expand and re-engineer its existing authorised distributor shops and dealer shops in the PRC to handle more product lines including communications products and computers. Under the project, those shops will carry both wireless communications and computer/digital products including mobile phones, PDAs, pocket PCs, MP3 players, digital cameras, Wireless LAN and home networking products.

Conclusion

As the expectations of today's international investors revert to a focus on performance and demand for value, we believe that companies who can demonstrate genuine improvements in business results will be ultimately favoured. The Group is committed to enhancing shareholders' value and improving profitability in every aspect of its business.

MANAGEMENT'S CHAT ROOM

Q1: There are some other Hong Kong listed companies involved in China's mobile communications market. What is Fortune Telecom's edge to appeal to investor interest?

A: Based on the development history and the future direction of Fortune Telecom, the Group has an edge over its competitors. Unique benefits appreciated by investors are as follows:

1) The core business of Fortune Telecom is firmly rooted in China, with over 90% of its profit derived from China's telecommunications market, which is the most rapidly developing telecommunications market in the world. Therefore, the company, listed on the Growth Enterprise Market of Hong Kong, is a China concept stock. Investors can share the high returns derived from the high growth of the China telecommunications industry in the next decade by investing in Fortune Telecom.

2) Fortune Telecom established its presence in China very early on, and has invested tens of millions in capital and resources in the country. During the past 10 years, Fortune Telecom has developed hand-in-hand keeping pace with China's mobile communications market. The company has also built a extensive service and distribution network for its communications and digital products across the country. This distribution platform, across 28 provinces, cities and autonomous regions in China, will enter an era of promising returns from 2001.

3) Fortune Telecom's management team is very familiar with China. Most of the members of the management team maintain their roots in the PRC, and share their management expertise and philosophy of the industry which has been gained both abroad and in Hong Kong. Additionally, they do have an in-depth and thorough understanding of the China market. They are able to integrate the unique culture of China with the advanced management expertise and technology levels of the west. Mr. Steve Lau, the Founder and Chairman of Fortune Telecom, integrated the culture and the management expertise both of China and the west, by proposing the concept "the enterprising and cultural thinking of Fortune". This new thinking not only has presented a clear vision for the senior management, but also has trained the young, energetic, skilful middle management team and a vigorous sales team who have been so loyal to the company. Investors, through their investment in Fortune Telecom, can share the high returns of the company generated by the Fortune's hardworking management team in the next few years.

Q2: There was a drop of profit for Fortune Telecom last year. Does this imply that the results of the company will be going up and down in the next few years?

A: Last year, many competitors emerged in China's telecommunication market under a fierce competition. In view of this market situation, Fortune Telecom was confronted with two alternatives:

1) Reducing investment in the communications and digital products distribution network, and sustaining a certain level of profit, but the market share decreases.

2) Sustaining and expanding the investment in the services and distribution network in China, and further enhancing the sales team and logistic platform. As a result, profit may decrease, but the market share will increase significantly, and in this case, the company can keep up pace with the rapid development of the telecommunications market in China.

It is hard to achieve remarkable profit and market share at the same instance. Fortune Telecom chose the latter alternative after in-depth consideration. This is the only way the company can sustain an edge over other competitors, giving investors a chance to enjoy long-term and stable returns.

Q3: Other mobile communications distributors in China, listed in Hong Kong, indicated in their annual reports that inventory levels recorded an increase last year. Can you explain why Fortune Telecom has encountered the same situation?

A: As the turnover of Fortune Telecom recorded an increase last year; it is normal to have inventory go up accordingly. There are some unique reasons for inventory levels of this year being higher than last year. In January 2001, the Group's major handset supplier Nokia launched its 8250 dual band mobile phone and recorded huge demand in PRC. In order to maintain an adequate level of stock to cope with the demand arising in April, Fortune Telecom placed a one-time order in March 2001 to procure a large amount of 8250 mobile phones from Nokia; resulting in higher levels of inventory than normal. By the end of April, Fortune Telecom had sold a large proportion of the Nokia 8250 mobile phones ordered in March; leaving the inventory turnover under 20 days.

With the further improvement of Fortune Telecom's services and distribution network in China, our inventory turnover will be kept under a reasonable level in line with the growth of the business.

Q4: Competition for the mobile phone industry in China remains fierce. Manufacturers and distributors have to adjust their sales and channel strategies. Are there any unstable factors for Fortune Telecom as a distributor?

A: The Founder and Chairman of Fortune Telecom, Mr. Steve Lau, started his distribution business for Nokia mobile phones in 1993. With the further development of Fortune Telecom on the distribution platform in China, relations between Fortune Telecom and major suppliers have defied the test of time. Relations have grown and been enhanced quickly.

In the current Chinese market, there are over 30 handset manufacturers from both China and the overseas, with nearly a hundred models launched in the market. However, only 20 to 30 models have entered the market successfully. China is such a large country, there are tens of thousand of mobile communications product retail shops. Should any manufacturer try to capture the market quickly, they must sacrifice their profits, utilize the existing distribution network, logistic platform, established themselves within the short product cycle of handsets supplying to the market. This illustrates a distributor with a comprehensive and effective network is an essential element towards success in this dynamic China mobile market.

Q5: From some investors' points of view, Fortune Telecom is still a traditional mobile phone distributor. In what ways can Fortune Telecom develop into a first class value added distributor?

A: In the past year, Fortune Telecom has been experiencing consolidation and stable development. In order to be a first class value added distributor in China, the first requirement is to upgrade technology levels. During the past year, the establishment of MobileRex joint venture with our Finnish wireless internet technology partner and the acquisition of Synergy have proved the long term strategic development of Fortune Telecom to enhance its technology. In the coming year, investors will see an advancement in the level of digital communications technology, with Fortune Telecom providing more value added services and representing more digital communications products. Although the burst of the dotcom bubbles and despite the downfall of many so-called Hi-tech. companies, Fortune Telecom's distribution network has been fully supported by its solid business model and earnings performance. During the past year, Fortune Telecom started to shift the distribution network from an offline model to an online model. Since Fortune Telecom is equipped with an advanced B2B E-business and a logistic operation system, it can definitely surf the telecommunications and IT market in China to capture a better return for investors.

SENIOR MANAGEMENT PROFILE

Directors

Executive Directors

Mr. LAU Siu Ying, Steve, aged 37, is the founder, Chairman and Chief Executive Officer of the Group. He has been working in the telecommunications industry for over 14 years which gain him extensive experience and established business contacts in both Hong Kong and the PRC. Mr. Steve Lau has established excellent business contacts with international leading suppliers of mobile telephony technology and products. Prior to setting up his own business, Mr. Steve Lau worked for Hutchison Whampoa Group for over 5 years, in charge of the business development of the telecommunications in the PRC. In mid 2000, Mr. Lau was appointed as the director of China Mobile Communications Association (CMCA) in Beijing. Mr. Steve Lau holds a bachelor degree in Business Administration from the Chinese University of Hong Kong.

Mr. LAU Kin Ying, Ricky, aged 30, is the Executive Director of the Group and is responsible for the strategic business development for the Group in Hong Kong and PRC. He has over 7 years of experience in the field of the PRC trade for telecommunications and consumer electronic products. Mr. Ricky Lau joined the Group in 1995. He is the youngest brother of Mr. Steve Lau.

Mr. TSO Ming Sing, Barton, aged 35, is an Executive Director of the Group. Mr. Barton Tso graduated from the International Finance Department of Shanghai Fudan University in 1988 with a Bachelor of Economics degree. He has 12 years of experience in the banking business, information technology and the distribution of personal computers in the PRC, corporate managemement, securities and investment consulting. He joined the Group in September 2000. Prior to joining the Group, Mr. Barton Tso served as a Managing Director of South Capital Securities Limited in Hong Kong.

Non-executive Directors

Mr. FUNG Oi Ip, Alfonso, aged 43, owns and runs the leading Law Costs Draftsman firm in Hong Kong which was established in 1986. A pioneer in his profession, he taught himself computer programming, developed and published a specialist law costing software in 1986. The software was subsequently licensed to the Hong Kong Government for use in the Legal Aid Department. Mr. Fung is one of the angle investor and a shareholder of PacificNet.com Inc, Nasdaq: PACT.. He was appointed as a non-executive Director of the Company in October 1999.

Mr. HUI Wan Sang, Richard, aged 31, is the Group's information technology consultant and is the co-founder and Chief Technology Officer of PacificNet.com Inc (Nasdaq: PACT) and has over 11 years of experience in information technology development and e-commerce applications. He holds a bachelor degree in science majoring in Mathematics and Computer Science from the University of Minnesota. He was appointed as a non-executive Director of the Company in October 1999.

Mr. LO Wing Yat, Kelvin, aged 42, is the Director and Executive Vice President of CITIC Ka Wah Bank. Concurrently, Mr. Lo also holds directorships and senior executive positions in various subsidiaries of CITIC Ka Wah Bank. Mr. Lo graduated from the University of Hong Kong with a bachelor degree in Law. He was admitted as a Solicitor of the High Court of Hong Kong in 1984 and a Solicitor of the Supreme Court in England and Wales in 1989. Prior to joining CITIC Ka Wah Bank, Mr. Lo served as an in-house counsel of Bank of China Hong Kong-Macau Regional Office and then became a partner of Messrs. Kao, Lee & Yip Messrs. Linklaters & Paines. He was appointed as a non-executive Director of the Company in October 1999.

Independent Non-executive Directors

Mr. CHANG Wing Seng, aged 63, is currently the Managing Director of Asia Pacific Consulting Group Business Pte. Ltd. in Singapore. Prior to this job, he was the Managing Director of Singapore Technologies Telecommunications (Beijing) Pte Ltd. based in Beijing for 3 year. He had held various senior management positions in his 26 years with the Singapore Technologies Group. He is a graduate of the Royal Melbourne Institute of Technology, the Institute of Chartered Accountants in Australia, the Australian Society of Accountants, Harvard Programme Management Development and a Certified Public Accountant of Singapore. He was appointed as an independent non-executive Director of the Company in October 1999.

Mr. LIU Kwok Fai, Alvan, aged 38, is the senior partner of a law firm, Messrs. Alvan Liu & Partner. Mr. Liu has been appointed the legal adviser of a number of organizations and associations in Hong Kong, including the Hong Kong Small and Medium Business Association and Shun Tak Fraternal Association. Mr. Liu was an appointed member of the Wong Tai Sin District Board from 1997 to 1999 and is also an appointed member of a number of Hong Kong governmental committees including the Contractors Registration Committee of the Hong Kong Building Authority and Wong Tai Sin District Fight Crime Committee. Mr. Liu has a keen interest in the protection of intellectual property rights and he has presented seminars on topics of intellectual property rights from time to time. Mr. Liu holds a bachelor degree in arts majoring in Political Science and Economics from the University of Manitoba in Canada. He thereafter continued to pursue his legal qualification and completed the Law Society's Final Examination at Bristol Polytechnic in the United Kingdom in 1989. He was appointed as an independent non-executive Director of the Company in October 1999.

INVESTOR RELATIONS

The Group fully appreciates the importance of investor relations and is committed to providing quality services to investors. To strengthen investor relations, the Group places a high priority on transparency and on keeping investors informed. During the year, the Group organized investor-related activities with the assistance of external public relations professionals. Apart from distributing quality financial reports and making timely announcements, the Group also provided press releases to the media, and held press conferences to announce the Group's major corporate and business events. The Group invited the media to participate in the opening ceremony of its flagship retail store in Hong Kong, and to attend the opening ceremony of an authorized distributor shop in ShaoXing, Zhejiang. In August 2000, the Group organized an investor luncheon presentation in which over 30 financial analysts participated. During the year, the Group's senior management attended a number of interviews with the media, financial analysts and fund managers. The corporate website, www.fortunetele.com, which is currently in the final stages of redevelopment, will be launched soon to facilitate higher levels of communications with investors.

WIRELESS TELECOMMUNICATIONS AND DATA TECHNOLOGY

Nothing has changed and evolved as rapidly as communications technology. Who would have thought 5 years ago that the children of today would be walking around with miniature mobile phones, surfing the Internet with WAP and chatting with friends via SMS? Who would have dreamed that our mobiles would soon be our multimedia terminals, with high-speed, broadband Internet access that will let us watch real time films or show our friends live video footage from our holidays? Who could have imagined that one day our phones will be our watches, our earrings or even our jackets? The pace of change over the past few years has been breathtaking. The changes themselves, incredible! And those still to come, absolutely astounding!

The clear evolutionary path is clearly mapped out from today's GSM through GPRS (2.5G) to Third Generation (3G), bringing with it many possibilities in sophisticated data and multimedia applications. The future Third Generation (3G) network will evolve with wireless, satellite and cordless systems offering greatly expanded services. These will include high speed, multimedia data services, inbuilt support for parallel use of such services and seamless integration with the Internet and wire line networks.

GPRS

GPRS (General Packet Radio Service) utilises packet switching technology where information is transmitted in short bursts of data over an IP-based network.

With GPRS-enabled mobile phones, services are received faster than traditional GSM phones. GPRS offers an increase in data throughput rates, so information retrieval and database access will be faster, more usable and more convenient. At its best, GPRS allows users to concentrate on the task in hand rather than on the technology. It implies that user needs of mobile service will increase and operators, service providers, enterprises as well as application developers will have more business opportunities.

HSCSD

HSCSD (High Speed Circuit Switched Data) is an upgrade to GSM networks, enabling data rates to increase to 57.6kbps. HSCSD was introduced in 1999 to upgrade the GSM data rate from the previous maximum of 14.4kbps. With HSCSD, subscribers can download data much faster and are able to send large files over mobile links. Usage on an HSCSD mobile terminal is as easy as on today's phones.

HSCSD will bring user benefits and exciting new applications, such as mobile videophony, that feed on high bandwidth. On top of this, existing applications will be faster to use and become much more attractive.

Bluetooth

Bluetooth is a new worldwide standard for wireless connectivity. Based on a low-cost, short-range radio link, Bluetooth cuts the cords that tie up digital devices. When two Bluetooth-equipped devices come within a 10 meter range of each other, they can establish a mutual connection. Since Bluetooth utilises a radio-based link, it does not require a line-of-sight connection for communication. Your laptop can send information to a printer in the next room, or your microwave can send a message to your mobile phone telling you that your meal is ready.

Value-Added Services

Value-added services have been a major revenue drive in the mobile industry. Operators are coordinating with application service providers to offer a variety of choices for end users. No one would have expected that the function of call forwarding voicemail has become an essential application to mobile users. Apparently, SMS has tremendous potential as they are sucessing the use for M-Commerce. These services allow security transactions, utility bill payments, theater ticket booking, etc. on their mobiles. In the near future, consumers can receive different customised information according to their personal preferences and their existing locations. They can browse information on restaurants, cinemas, and shopping malls and make seat reservations as well as transaction details. Mobile banking is another area that both bankers and telecom operators are working on. With substantial security facilities, we are handling more and more banking services via the mobile network.

WIRELESS TELECOMMUNICATIONS AND DATA TECHNOLOGY

Personal Digital Assistants (PDAs)

A new form of computing focused on helping people to manage and access information, at any time, in any location, is emerging. Palm/Win CE Powered handheld is the way that people can manage their personal information, apply corporate applications and data and surf the richness of the web.

In the future, handhelds will become the common tools that people use to manage information, conduct transactions, and communicate with one-another.

802.11b Wireless LANs

The IEEE 802.11b High Rate (HR) Direct Sequence (DS) standard is the adoption of an agreed-upon standard for high-speed wireless local area networking.

Support of the deployment of products built by this new standard will help ensure global, seamless, high-speed wireless connections for enterprises, small offices and home markets. The market for high-speed wireless LAN-based voice, data and multimedia systems is expected to grow at an accelerating rate over the next few years.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the Group's business objectives as set out in the prospectus dated 9th February, 2000 to actual business progress to date:

Business Objectives	Actual Business Progress
In respect of Fortune Telecom Limited (related businesses are now under "M-Business"):	
For six months ended 31st March, 2001	
• Increase monthly mobile phone sales target to about 150,000 – 200,000 sets	• Monthly mobile phone sales reached 150,000 sets. The Group incurred about HK$2 Million in costs as estimated.
• Development of fulfilment facility	• The establishment of this fulfilment facility has not yet commenced.
• Increase authorised distributor shops and dealer shops to 250	• Total distributor shops and dealer shops reached 250, spreading over 100 cities and across 28 provinces. The Group has incurred about HK$1 million cost to date.
• Increase after-sales facilities along its distribution network in the PRC	• Mobile phone service centres increased to 28 as at March 2001. The Group incurred about HK$2 million in cost as estimated.
• Recruiting sufficient staff to support its distribution network in the PRC.	• The Group recruited the necessary staff to support its distribution network and after-sales service in the PRC. Costs incurred are about HK$3 million to date.
In respect of Fortune E-Commerce Limited (related businesses are now under "E-Business"):	
For the six months ended 31 March 2001	
• Continuous technical support, maintenance and enhancement on e-commerce facilities	The Group has upgraded the corporate site on www.fortunetele.com to enhance its e-commerce facilities and other value-added features. The Group has incurred costs of about HK$5 million to date.
In respect of Fortune Internet Communications Limited (related businesses are now under "Multimedia Business"):	
For the six months ended 31st March, 2001	
• Launch of IP services in Hong Kong, thereby provide "voice over IP" IDD services to subscribers in Hong Kong	The Group launched prepaid IP Calling services under the international "Fortune Multimedia" Brand using the latest VIP technology in early November 2000. The Group has incurred costs of about HK$5 million to date.

CORPORATE INFORMATION

BOARD OF DIRECTOR
Chairman
Lau Siu Ying, Steve

Executive Directors
Lau Kin Ying, Ricky
Tso Ming Sing, Barton

Non-Executive Directors
Fung Oi Ip, Alfonso
Hui Wan Sang, Richard
Lo Wing Yat, Kelvin

Independent Non-Executive Directors
Chang Wing Seng, Victor
Liu Kwok Fai, Alvan

COMPANY SECRETARY
Ng Kai Cheung, Martin

QUALIFIED ACCOUNTANT
Ng Kai Cheung, Martin

COMPLIANCE OFFICER
Lau Siu Ying, Steve

AUDIT COMMITTEE
Chang Wing Seng, Victor
Liu Kwok Fai, Alvan

AUTHORISED REPRESENTATIVES
Lau Siu Ying, Steve
Ng Kai Cheung, Martin

REGISTERED OFFICE
Clarendon House
2 Church Street, Hamilton HM 11, Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS
Room 1502-7, 15/F., Tower A, Regent Centre,
63 Wo Yi Hop Road, Kwai Chung,
New Territories, Hong Kong
Telephone : (852) 2422 0811
Facsimile : (852) 2428 0988

PRINCIPAL BANKERS
CITIC Ka Wah Bank Limited
Hang Seng Bank Limited
Fleet National Bank, Hong Kong Branch

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE
The Bank of Bermuda Limited
Bank of Bermuda Building
6 Front Street, Hamilton HM 11, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Abacus Share Registrars Limited
2401, Price's Building, Central, Hong Kong

PUBLIC RELATIONS CONSULTANT
Strategic Financial Relations Limited

SPONSOR
DBS Asia Capital Limited

COMPANY HOMEPAGE / WEBSITE
www.fortunetele.com
www.telecom-port.com

The directors present their annual report and the audited financial statements for the year ended 31st March, 2001.

CHANGE OF NAME

Pursuant to a special resolution passed at a special general meeting held on 8th January, 2001, the name of the Company was changed from Fortune Tele.com Holdings Limited to Fortune Telecom Holdings Limited.

PRINCIPAL ACTIVITIES

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

RESULTS

The results of the Group for the year ended 31st March, 2001 are set out in the consolidated income statement on page 38 of the annual report.

The directors now recommend the payment of a final dividend of HK1 cent per share amounting to HK$3 million, be paid to the shareholders recorded on the register of members on 27th August, 2001 and the retention of the remaining profit for the year.

FINANCIAL SUMMARY

A summary of the results of the Group for each of the four years ended 31st March, 2001 is set out on page 67 of the annual report.

SHARE CAPITAL AND SHARE OPTIONS

Details of the share capital and share option scheme of the Company are set out in notes 19 and 20, respectively, to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company are set out in note 21 to the financial statements.

INVESTMENT PROPERTY

At 31st March, 2001, the Group's investment property was revalued by an independent property valuer on an open market value existing use basis. The revaluation resulted in a deficit of HK$2,500,000 which has been charged to the income statement. Details are set out in note 9 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment at a cost of approximately HK$3,938,000 to expand the operations of the Group.

Details of this and other movements in the property, plant and equipment of the Group during the year are set out in note 10 to the financial statements.

SEGMENT INFORMATION

An analysis of the Group's segment information is set out in note 35 to the financial statements.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:
Mr. Lau Siu Ying, Steve (Chairman)
Mr. Lau Kin Ying, Ricky
Mr. Tso Ming Sing, Barton (appointed on 24th October, 2000)
Ms. Ng Siu Hing, Shirley (resigned on 30th April, 2000)

Non-executive directors:
Mr. Fung Oi Ip, Alfonso
Mr. Hui Wan Sang, Richard
Mr. Lo Wing Yat, Kelvin

Independent non-executive directors:
Mr. Chang Wing Seng, Victor
Mr. Liu Kwok Fai, Alvan

In accordance with clauses 86(2) and 87 of the Company's bye-laws, Messrs. Tso Ming Sing, Barton, Hui Wan Sang, Richard and Liu Kwok Fai, Alvan retire and, being eligible, offer themselves for re-election.

Messrs. Lau Siu Ying, Steve and Lau Kin Ying, Ricky entered into service contracts with the Company commencing on 1st November, 1999 which will continue thereafter unless and until terminated by either party by not less than three months' prior written notice. Ms. Ng Siu Hing, Shirley entered into a service contract with the Company commencing on 1st November, 1999 which was terminated on 30th April, 2000 upon her resignation as a director.

Save as disclosed above, none of the directors 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 by the Group within one year without payment of compensation, other than statutory compensation.

The term of office of each of the non-executive directors and independent non-executive directors is the period up to his retirement by rotation in accordance with the Company's bye-laws.

DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2001	2000
	HK$'000	*HK$'000*
Non-executive directors		
Fees	**150**	–
Independent non-executive directors		
Fees	**100**	–
Executive directors		
Fees	**–**	–
Other emoluments		
Salaries and allowances	**1,826**	1,497
Bonuses	**–**	97
	2,076	1,594

DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The emoluments of the directors were within the following bands:

	2001	2000
	Number of directors	Number of directors
Up to HK$1,000,000	**8**	8
HK$1,000,001 to HK$1,500,000	**1**	–

For the year ended 31st March, 2001, the directors received emoluments of approximately HK$1,235,000, HK$304,000, HK$260,000, HK$50,000, HK$50,000, HK$50,000, HK$50,000, HK$50,000 and HK$27,000 respectively. There were three directors who received emoluments of approximately HK$924,000, HK$360,000 and HK$310,000 respectively for the year ended 31st March, 2000. The other directors did not receive any emoluments during the year ended 31st March, 2000.

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

(b) Employees' emoluments

The five highest paid individuals of the Group included one director for the year ended 31st March, 2001 (2000: three directors), details of whose emoluments are set out in (a) above. The emoluments of the remaining four (2000: two) individuals are as follows:

	2001	2000
	HK$'000	*HK$'000*
Salaries and allowances	**1,789**	423
Bonus	**–**	120
	1,789	543

The aggregate emoluments of each of the highest paid individuals were less than HK$1,000,000 for each of the two years ended 31st March, 2001.

DIRECTORS' INTERESTS IN SECURITIES

At 31st March, 2001, the interests of the directors and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

	Number of ordinary shares held as other interest
Lau Siu Ying, Steve	211,500,013

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

Save as disclosed above and other than certain nominee shares in the subsidiaries held by certain directors in trust for the Company, none of the directors or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance at 31st March, 2001.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from the share option scheme as detailed in note 20 to the financial statements, at no time during the year was the Company or its holding company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate. None of the directors, their spouses or children under the age of 18 had any rights to subscribe for the securities of the Company or had exercised any such rights during the year.

CONNECTED TRANSACTIONS

(a) Sales to Guangzhou Fortune

Guangzhou Fortune Telecom Development Co., Ltd. ("Guangzhou Fortune"), a limited liability company established in the People's Republic of China other than Hong Kong ("PRC"), is currently owned as to 99% by Mr. Lau Ye Buo and as to 1% by an independent PRC party who is not connected to any of the directors, chief executive or substantial shareholders of the Company or their respective associates (as defined in the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM") of the Stock Exchange ("the GEM Listing Rules")). Mr. Lau Ye Buo is a cousin of Messrs. Lau Siu Ying, Steve and Lau Kin Ying, Ricky. Other than this family relationship, Mr. Lau Ye Buo confirms that he does not have any shareholding interests in the Company or any of its subsidiaries. Mr. Lau Ye Buo has been categorised as a connected person of the Company under the GEM Listing Rules and any transactions between the Company and Mr. Lau Ye Buo subsequent to the listing of the shares on GEM constitute connected transactions for the purposes of the GEM Listing Rules.

For the year ended 31st March, 2001, the Group's sales of mobile phones and related accessories to Guangzhou Fortune accounted for approximately HK$261 million, representing approximately 17% of the Group's total turnover.

The independent non-executive directors have reviewed the connected transactions set out above and in their opinion, these transactions entered into by the Group were:

(i) in the ordinary and usual course of business of the Group,

(ii) on normal commercial terms or on terms no less favourable to the Company than terms available to or from independent third parties, and

(iii) in accordance with the terms of the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

(b) Acquisition of 3% equity interest in PacificNet.com Inc. ("PacificNet.com") (formerly known as PacificNet.com LLC) from Mr. Hui Wan Sang, Richard

On 7th April, 2000, the shareholders approved the acquisition of 270,000 shares of PacificNet.com, representing 3% of the issued share capital of PacificNet.com at that time, from Mr. Hui Wan Sang, Richard, a non-executive director of the Company, for an aggregate consideration of HK$8,800,000.

Save as disclosed therein, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in the section headed "Connected Transactions" above, there were no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisting at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 31st March, 2001, other than the interests disclosed in the section headed "Directors' interests in securities" above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital.

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

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 46% of the Group's total sales and the sales attributable to the Group's largest customer, being Guangzhou Fortune, were approximately 17%.

The aggregate purchases attributable to the Group's five largest suppliers during the year comprised approximately 99% of the Group's total purchases and the purchases attributable to the Group's largest supplier were approximately 97%.

Except for Guangzhou Fortune, whose relationship with the Group has been further explained above in the section headed "Connected Transactions", none of the directors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital, had a beneficial interest in one of the five largest suppliers or customers of the Group.

DONATIONS

During the year, the Group made donations of approximately HK$210,000.

POST BALANCE SHEET EVENT

Details of significant post balance sheet event are set out in note 36 to the financial statements.

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 which competes or may compete with the business of the Group.

SPONSOR'S INTERESTS

None of the Company's sponsor, DBS Asia Capital Limited ("DBS"), its directors, employees or associates had any interest in the securities of the Company or any right to subscribe for or to nominate persons to subscribe for the securities of the Company as at 31st March, 2001.

Pursuant to the agreement dated 8th February, 2000 entered into between the Company and DBS, DBS has received an advisory fee for acting as the Company's retained sponsor for the period from 16th February, 2000 to 31st March, 2002.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

AUDIT COMMITTEE

The audit committee comprises Messrs. Chang Wing Seng, Victor and Liu Kwok Fai, Alvan. A minimum of two meetings are held annually. The duties of the audit committee are mainly:

- to discuss with the auditors the nature and the scope of the audit before the commencement of the audit process;
- to review the Group financial reporting process and internal control systems; and
- to review the Company's annual report, half-yearly reports, quarterly reports and accounts.

The First and the Second audit committee meetings, held on 10th August, 2000 and 28th June, 2001, discussed the results, financial position, and major accounting issues of the Group for the period ended 30th June, 2000 and the year ended 31st March, 2001, respectively.

AUDITORS

Messrs. Deloitte Touche Tohmatsu were appointed as statutory auditors of the Company at a special general meeting on 14th June, 2000 after Messrs. PricewaterhouseCoopers have fulfilled their engagement as the reporting accountants for the Company's listing on GEM in February 2000 and as the auditors of a special audit for the purpose of the listing.

A resolution will be submitted to the annual general meeting of the Company to re-appoint the auditors, Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

Lau Siu Ying, Steve
Chairman
Hong Kong, 28th June, 2001

TO THE SHAREHOLDERS OF FORTUNE TELECOM HOLDINGS LIMITED

(FORMERLY KNOWN AS FORTUNE TELE.COM HOLDINGS LIMITED)
長遠電信網絡集團有限公司
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 38 to 66 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 financial statements which give a true and fair view. In preparing financial statements 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 statements and to report our opinion to you.

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31st March, 2001 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 28th June, 2001

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March, 2001

	Notes	2001 *HK$'000*	2000 *HK$'000*
Turnover		**1,544,856**	1,380,786
Cost of sales		**(1,474,031)**	(1,301,335)
Gross profit		**70,825**	79,451
Other revenue		**6,911**	4,376
Distribution costs		**(20,235)**	(7,623)
Administrative expenses		**(23,938)**	(13,784)
Profit from operations	*3*	**33,563**	62,420
Deficit on revaluation of an investment property		**(2,500)**	(200)
Unrealised gain on investment securities	*14*	**39,458**	–
Unrealised holding loss on other investments		**(41,448)**	–
Finance costs	*4*	**(4,721)**	(1,609)
Share of results of associates		**(261)**	(9)
Profit before taxation		**24,091**	60,602
Taxation	*5*	**(6,109)**	(9,760)
Profit for the year	*6*	**17,982**	50,842
Dividends	*7*	**3,000**	15,000
Earnings per share	*8*	**6.0 cents**	20.3 cents

CONSOLIDATED BALANCE SHEET

At 31st March, 2001

	Notes	2001 HK$'000	2000 HK$'000
Non-Current Assets			
Investment property	9	8,000	10,500
Property, plant and equipment	10	4,210	1,334
Interest in associates	13	1,129	399
Investment securities	14	–	3,100
		13,339	15,333
Current Assets			
Inventories	15	181,372	60,936
Trade and other receivables	16	102,067	55,041
Amounts due from related parties	17	28,132	35,507
Other investments	14	10,420	–
Tax recoverable		656	815
Pledged bank deposits		79,118	53,223
Bank deposits		47,742	86,028
Bank balances and cash		57,794	27,534
		507,301	319,084
Current Liabilities			
Trade and other payables	18	120,259	38,221
Proposed dividend		3,000	15,000
Tax liabilities		6,235	7,947
Bank and other borrowings	23	124,371	80,781
Obligations under a finance lease and a hire purchase contract	24	170	175
		254,035	142,124
Net Current Assets		253,266	176,960
		266,605	192,293

CONSOLIDATED BALANCE SHEET

At 31st March, 2001

	Notes	2001 HK$'000	2000 HK$'000
Capital and Reserves			
Share capital	19	**30,000**	30,000
Reserves	21	**176,428**	162,027
		206,428	192,027
Non-Current Liabilities			
Bank and other borrowings	23	**60,080**	–
Obligations under a finance lease and a hire purchase contract	24	**40**	209
Deferred tax liabilities	25	**57**	57
		60,177	266
		266,605	192,293

The financial statements on pages 38 to 66 were approved by the Board of Directors on 28th June, 2001 and are signed on its behalf by:

Lau Siu Ying, Steve
Chairman

Lau Kin Ying, Ricky
Director

BALANCE SHEET

At 31st March, 2001

	Notes	2001 HK$'000	2000 HK$'000
Non-Current Assets			
Investment in a subsidiary	11	**41,148**	41,148
Amounts due from subsidiaries	12	**220,834**	131,395
		261,982	172,543
Current Assets			
Prepayment and other receivables		**2**	281
Dividend receivable		**10,000**	16,000
Bank balance		**145**	–
		10,147	16,281
Current Liabilities			
Accrued charges and other payables		**2,972**	350
Proposed dividend		**3,000**	15,000
		5,972	15,350
Net Current Assets		**4,175**	931
		266,157	173,474
Capital and Reserves			
Share capital	19	**30,000**	30,000
Reserves	21	**145,077**	143,474
		175,077	173,474
Non-current Liabilities			
Loan from a subsidiary	22	**31,000**	–
Bank and other borrowings	23	**60,080**	–
		91,080	–
		266,157	173,474

The financial statements on pages 38 to 66 were approved by the Board of Directors on 28th June, 2001 and are signed on its behalf by:

Lau Siu Ying, Steve
Chairman

Lau Kin Ying, Ricky
Director

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended 31st March, 2001

	2001	2000
	HK$'000	*HK$'000*
Exchange differences arising on translation of operations in the Mainland China not recognised in the income statement	**275**	5
Profit for the year	**17,982**	50,842
Total recognised gains	**18,257**	50,847
(Goodwill) capital reserve arising on acquisition of an associate	**(704)**	8
Goodwill arising on acquisition of a subsidiary	**(152)**	–
	17,401	50,855

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2001

	Notes	2001 HK$'000	2000 HK$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	26	**(54,234)**	(76,531)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Dividends paid		**(15,000)**	(14,000)
Interest paid		**(4,392)**	(1,559)
Interest on obligations under a finance lease and a hire purchase contract		**(49)**	(50)
Interest received		**6,480**	3,815
Rental income received		**343**	350
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**(12,618)**	(11,444)
TAXATION			
Hong Kong Profits Tax paid		**(781)**	(3,759)
Overseas tax paid		**(6,903)**	(885)
TAX PAID		**(7,684)**	(4,644)
INVESTING ACTIVITIES			
Increase in pledged bank deposits		**(25,895)**	(29,552)
Purchase of investment securities		**(4,910)**	(3,100)
Purchase of property, plant and equipment		**(3,938)**	(423)
Acquisition of a subsidiary (net of cash and cash equivalents acquired)	27	**(1,057)**	–
Acquisition of interest in an associate		**(815)**	(400)
Proceeds on disposal of property, plant and equipment		**3**	–
Deposit paid for acquisition of investment securities		**–**	(4,400)
Repayment from related companies		**–**	38,854
Repayment from a director		**–**	2,185
NET CASH (OUTFLOW) INFLOW FROM INVESTING ACTIVITIES		**(36,612)**	3,164
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		**(111,148)**	(89,455)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2001

	Notes	2001 HK$'000	2000 HK$'000
FINANCING ACTIVITIES	28		
Bank and other borrowings raised		**106,214**	49,717
Bank and other borrowings repaid		**(48,265)**	(19,001)
Repayment of obligations under a finance lease and a hire purchase contract		**(174)**	(172)
Proceeds from issue of shares		**–**	142,500
Expenses incurred in connection with the issue of shares		**–**	(10,475)
Repayment to a director		**–**	(9,189)
NET CASH INFLOW FROM FINANCING ACTIVITIES		**57,775**	153,380
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(53,373)**	63,925
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**82,498**	18,568
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**47**	5
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	29	**29,172**	82,498

1. GENERAL

The Company is an exempted company with limited liability incorporated in Bermuda under The Companies Act 1981 of Bermuda (as amended) with its shares listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Fortune 2000 Limited, a company incorporated in the British Virgin Islands.

Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on GEM, the Company became the holding company of the Group on 10th December, 1999. The shares of the Company were listed on the GEM of the Stock Exchange on 16th February, 2000. Details of the Group Reorganisation are set out in the prospectus of the Company dated 9th February, 2000.

The consolidated income statement and the consolidated cash flow statement for the year ended 31st March, 2000, were prepared in accordance with Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" issued by Hong Kong Society of Accountants, and include the results and the cash flows of the companies comprising the Group as if the current group structure had been in existence throughout the year under review, or since the dates of incorporation of the companies where this is a shorter period.

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

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

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

All significant intercompany transactions and balances between group companies are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary or an associate and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess over the purchase consideration of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary or an associate is credited to reserves.

On disposal of an investment in a subsidiary or an associate, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Turnover

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income from investment property under operating leases is recognised on a straight line basis over the term of the relevant lease.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

Associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interests in associate are stated at the Group's share of the net assets of the associate.

When the Group transacts with its associate, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance of the investment property revaluation reserve attributable to that property is credited to the income statement.

No depreciation is provided in respect of investment properties except where the unexpired term of the relevant lease is 20 years or less.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation at the balance sheet date. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment other than investment property over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold improvements	20% or over the term of the relevant lease whichever is shorter
Furniture, fixtures and equipment	25%
Motor vehicles	25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

Leased assets/Assets held under hire purchase contacts

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases and hire purchase contracts are capitalised at their fair values at the date of acquisition. The corresponding liabilities to the lessor or hirer, net of interest charges, are included in the balance sheet as a finance lease hire purchase obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the term of the relevant lease.

Investment in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities or other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories represent goods held for resale and are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchases, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs necessary to make the sale.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Borrowing costs

Borrowing costs comprise borrowing expenses and other incidental costs incurred in connection with the borrowing of funds and is amortised on a straight line basis over the term of respective borrowings.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas operations which are denominated in currencies other than the Hong Kong dollars are translated at the rates ruling on the balance sheet date. Exchange differences are classified as equity and are recognized as income or as expenses in the period in which the operations are disposed.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks which are repayable within three months from the date of the advances.

3. PROFIT FROM OPERATIONS

	2001	2000
	HK$'000	*HK$'000*
Profit from operations has been arrived at after charging:		
Auditors' remuneration		
– current year	720	510
– underprovision in prior year	108	–
Depreciation and amortisation on		
– owned assets	1,237	416
– assets held under a finance lease and a hire purchase contract	178	178
Rental payments in respect of premises under operating leases	2,981	1,706
Staff costs including directors' emoluments of HK$2,076,000 (2000: HK$1,594,000)	12,302	4,702
and after crediting:		
Bank interest income	6,480	2,745
Other interest income	–	1,070
Rental income from letting properties under operating leases, net of outgoings of HK$21,000 (2000: HK$11,000)	322	339

4. FINANCE COSTS

	2001	2000
	HK$'000	*HK$'000*
Interest on:		
Bank borrowings wholly repayable within five years	4,392	489
Bank borrowings not wholly repayable within five years	–	1,070
Obligations under a finance lease and a hire purchase contract	49	50
Amortisation of borrowing costs	280	–
	4,721	1,609

5. TAXATION

	2001 HK$'000	2000 HK$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the year		
Current year	**510**	1,949
Overprovision in prior years	**–**	(108)
	510	1,841
Mainland China ("PRC") income tax	**5,599**	7,770
Overseas tax	**–**	100
Deferred tax *(note 25)*	**–**	49
	6,109	9,760

PRC income tax represents taxation charges on the assessable profits of the Company's subsidiary, Fortune (Shanghai) International Trading Co., Ltd. ("Fortune Shanghai") established in the PRC at a rate of 15% for the year ended 31st March, 2001 (2000: 15%). Pursuant to the Income Tax Law of the PRC, Fortune Shanghai is subject to PRC income tax at a rate of 33%. However, Fortune Shanghai is entitled to a preferential PRC income tax rate of 15% which is granted to companies established in Shanghai Waigaoqiao Free Trade Zone. In addition, according to a preferential tax arrangement granted by the Tax Bureau and Finance Bureau of Shanghai Pudong New District, Fortune Shanghai is further entitled to refunds of 100% of PRC income tax for the tax year ended 31st December, 1999 and 50% of PRC income tax for the tax year ended 31st December, 2000 provided that the export sales of Fortune Shanghai accounted for not less than 15% of the total sales of the Company. No tax refund had been received by the Group during the two years ended 31st March, 2001.

Overseas tax is calculated at the rates prevailing in the relevant jurisdictions.

6. PROFIT FOR THE YEAR

Of the Group's profit for the year of HK$17,982,000 (2000: HK$50,842,000), a profit of HK$4,603,000 (2000: HK$15,301,000) is dealt with in the financial statements of the Company.

7. DIVIDENDS

	2001 HK$'000	2000 HK$'000
Proposed final dividend of HK1 cent (2000: HK5 cents) per share	**3,000**	15,000

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the year ended 31st March, 2001 is based on the profit for the year of HK$17,982,000 and on 300,000,000 shares in issue during the year.

The calculation of the basic earnings per share for the year ended 31st March, 2000 was based on the profit for the year of HK$50,842,000 and on the weighted average number of 250,319,672 shares that would have been in issue throughout the year on the assumption that the Group Reorganisation has been completed as at 1st April, 1999.

9. INVESTMENT PROPERTY

	HK$'000
THE GROUP	
AT VALUATION	
At 1st April, 2000	10,500
Deficit on revaluation	(2,500)
At 31st March, 2001	8,000

The investment property is held under a long lease in Hong Kong. It was revalued at 31st March, 2001 by K.T. Liu Surveyors Limited, an independent property valuer, on an open market existing use basis. This valuation resulted in a revaluation deficit of HK$2,500,000 which has been charged to the income statement.

The investment property is pledged to a bank to secure general banking facilities granted to a subsidiary and rented out under an operating lease.

The Company did not have any investment property at the balance sheet date.

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
THE GROUP				
COST				
At 1st April, 2000	662	1,274	673	2,609
Acquisition of a subsidiary	123	233	–	356
Additions	657	3,081	200	3,938
Disposals	–	(4)	–	(4)
At 31st March, 2001	1,442	4,584	873	6,899
DEPRECIATION AND AMORTISATION				
At 1st April, 2000	340	599	336	1,275
Provided for the year	367	850	198	1,415
Elimination on disposals	–	(1)	–	(1)
At 31st March, 2001	707	1,448	534	2,689
NET BOOK VALUES				
At 31st March, 2001	735	3,136	339	4,210
At 31st March, 2000	322	675	337	1,334

10. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of property, plant and equipment includes an amount of HK$179,000 (2000: HK$357,000) in respect of assets held under a finance lease and a hire purchase contract.

The Company did not have any property, plant and equipment at the balance sheet date.

11. INVESTMENT IN A SUBSIDIARY

	2001 & 2000
	HK$'000
THE COMPANY	
Unlisted shares, at cost	**41,148**

Details of the Company's principal subsidiaries at 31st March, 2001 are set out in note 34.

12. AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the amounts will not be demanded for repayment in the coming financial year, and therefore, they are classified as non-current.

13. INTEREST IN ASSOCIATES

	THE GROUP	
	2001	2000
	HK$'000	*HK$'000*
Share of net assets	**249**	399
Amount due from an associate	**880**	–
	1,129	399

The amount due from an associate is unsecured, non-interest bearing and has no fixed repayment terms. In the opinion of the directors, the amount will not be demanded for repayment in the coming financial year, and therefore, it is classified as non-current.

Details of the Group's associates at 31st March, 2001 are as follows:

Name of associate	**Place of incorporation**	**Attributable proportion of nominal value of issued capital held by the Group**	**Principal activities**
Tech Mobile Service Limited (formerly known as Telemax Services Limited)	Hong Kong	20%	Trading of mobile phones and provision of repair and maintenance services for mobile communication products and equipment
Amonic Solutions Limited	Hong Kong	30%	Development and trading of software

14. INVESTMENTS IN SECURITIES

THE GROUP

	Investment securities		Other investments		Total	
	2001	2000	**2001**	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Overseas equity securities:						
Listed	**–**	–	**10,032**	–	**10,032**	–
Unlisted	**–**	3,100	**388**	–	**388**	3,100
	–	3,100	**10,420**	–	**10,420**	3,100
Market value of listed securities	**–**	–	**10,032**	–	**10,032**	–
Carrying amount analysed for reporting purposes as:						
Current	**–**	–	**10,420**	–	**10,420**	–
Non-current	**–**	3,100	**–**	–	**–**	3,100
	–	3,100	**10,420**	–	**10,420**	3,100

As at 31st March, 2000, the investment securities represented a 11.76% membership interests in PacificNet.com Inc. (formerly known as Pacificnet.com LLC) ("PacificNet.com"), a company incorporated in the United States and engages in the provision of internet and e-business solution. During the year ended 31st March, 2000, the Group entered into an acquisition agreement with Mr. Hui Wan Sang, Richard, a non-executive director of the Company, to acquire from him 270,000 shares of PacificNet.com for an aggregate consideration of HK$8,800,000, of which HK$4,400,000 had been paid to him as a refundable down payment as at 31st March, 2000 (note 17). The acquisition was approved by the shareholders on 7th April, 2000 and completed during the year ended 31st March, 2001.

Since the Group previously relied on the expertise of PacificNet.com in the early development stage of e-business, the investment in PacificNet.com was classified as investment securities held for strategic purpose and was stated at cost as at 31st March, 2000.

During the year, the Group reduced the significance of PacificNet.com to its business by building up its own e-commerce team and due to the listing of the shares of PacificNet.com on the Nasdaq, the Group became increasingly concerned about the future returns from the investment. As a result of the Group's change of intention to hold the investment for long term capital return, the investment in PacificNet.com was transferred to other investments and carried at fair value.

The fair value of the investment in PacificNet.com at the date of transfer was determined with reference to the subscription price of 1,000,000 shares in PacificNet.com subscribed by an independent investor in May 2000. The unrealised gain at transfer of PacificNet.com from investment securities to other investments recognised in the consolidated income statements was approximately HK$39,458,000.

At 31st March, 2001, the overseas unlisted investment represents a less than 1% interest in Talentsoft, Inc., a company incorporated in the United States. In the opinion of the directors, the investment is worth at least its cost.

15. INVENTORIES

Included in inventories are goods held for resale of HK$61,308,000 (2000: HK$40,063,000) carried at net realisable value.

16. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing a credit period upto 30 days (2000: upto 30 days) to its trade customers. Included in trade and other receivables are trade receivables of HK$42,337,000 (2000: HK$21,635,000) and their aged analyses are as follows:

	THE GROUP	
	2001	2000
	HK$'000	*HK$'000*
Trade receivables		
0 to 30 days	**42,166**	21,635
31 to 90 days	**–**	–
More than 90 days	**171**	–
	42,337	21,635
Add: Value-added-tax receivables	**20,569**	2,686
Rebates receivables	**29,397**	24,353
Deposits and prepayments	**9,764**	6,367
	102,067	55,041

17. AMOUNTS DUE FROM RELATED PARTIES

Details of the amounts due from related parties are as follows:

	THE GROUP		
	Balance at 31.3.2001	**Balance at 1.4.2000**	**Maximum amount outstanding during the year**
	HK$'000	*HK$'000*	*HK$'000*
Guangzhou Fortune Telecom Development Co., Ltd. ("Guangzhou Fortune") *(note i)*	28,127	31,107	47,052
Mr. Hui Wan Sang, Richard *(note ii)*	5	4,400	4,440
	28,132	35,507	

Details of transactions with related companies are set out in note 33.

17. AMOUNTS DUE FROM RELATED PARTIES (Continued)

Notes:

i) The amount is unsecured, non-interest bearing and has no fixed terms of repayment. A relative of the directors, Messrs. Lau Siu Ying, Steve and Lau Kin Ying, Ricky, has beneficial interests in this company. It is regarded as a related company by virtue of the fact that the Company is controlled by a close family member of Messrs. Lau Siu Ying, Steve and Lau Kin Ying, Ricky.

ii) The amount is unsecured, non-interest bearing and has no fixed terms of repayment. At 1st April, 2000, the amount represented a down payment to Mr. Hui Wan Sang, Richard, a non-executive director of the Company, to acquire from him a 3% interest in PacificNet.com (note 14).

18. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$106,800,000 (2000: HK$31,270,000) and their aged analyses are as follows:

	THE GROUP	
	2001	2000
	HK$'000	*HK$'000*
Trade payables:		
0 to 30 days	**106,663**	31,270
31 to 90 days	**–**	–
More than 90 days	**137**	–
	106,800	31,270
Add: Accrued charges and other payables	**13,459**	6,951
	120,259	38,221

19. SHARE CAPITAL

	Number of ordinary shares	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
Upon incorporation on 22nd October, 1999	1,000,000	100
Increase on 10th December, 1999 pursuant to the group reorganization referred to in note 1	999,000,000	99,900
At 31st March, 2000 and at 31st March, 2001	1,000,000,000	100,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each		
Issue of shares to initial subscriber on 26th October, 1999	1,000,000	100
Issue of shares on acquisition of the entire share capital of the previous holding company of the Group	1,000,000	100
Issue of shares by capitalisation of share premium account	241,000,000	24,100
Issue of shares to the public on 14th February, 2001	57,000,000	5,700
At 31st March, 2000 and at 31st March, 2001	300,000,000	30,000

All shares issued by the Company during the period rank pari passu with the then existing shares in all respects.

20. SHARE OPTION SCHEME

Pursuant to the share option scheme of the Company adopted on 2nd February, 2000, the directors of the Company may grant to any executive directors or full time employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at any price but not less than the higher of (i) the nominal value of a share, (ii) the closing price of the shares on the Stock Exchange on the day of grant and (iii) the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

No options under the scheme were granted or exercised during the year and no options were outstanding at 31st March, 2001.

21. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000	Special reserve HK$'000	Goodwill HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
THE GROUP							
At 1st April, 1999	–	–	(21,619)	(1,133)	(1)	22,600	(153)
Premium arising from public issue of shares	136,800	–	–	–	–	–	136,800
Share issue expenses	(10,475)	–	–	–	–	–	(10,475)
Capitalisation of share premium account to pay up in full 241,000,000 shares	(24,100)	–	24,100	–	–	–	–
Reserve arising on acquisition of an associate	–	–	–	8	–	–	8
Exchange differences arising on translation of the financial statements of operations in the PRC	–	–	–	–	5	–	5
Profit for the year	–	–	–	–	–	50,842	50,842
Dividends *(Note 7)*	–	–	–	–	–	(15,000)	(15,000)
At 31st March, 2000 *(Note 1)*	102,225	–	2,481	(1,125)	4	58,442	162,027
Exchange differences arising on translation of the financial statements of operations in the PRC	–	–	–	–	275	–	275
Goodwill arising on acquisition of an associate	–	–	–	(704)	–	–	(704)
Goodwill arising on acquisition of a subsidiary	–	–	–	(152)	–	–	(152)
Profit for the year	–	–	–	–	–	17,982	17,982
Dividends *(Note 7)*	–	–	–	–	–	(3,000)	(3,000)
At 31st March, 2001	102,225	–	2,481	(1,981)	279	73,424	176,428
THE COMPANY							
Premium arising from public issue of shares	136,800	–	–	–	–	–	136,800
Share issue expenses	(10,475)	–	–	–	–	–	(10,475)
Capitalisation of share premium account to pay up in full 241,000,000 shares	(24,100)	–	–	–	–	–	(24,100)
Contributed surplus arising from the Group Reorganisation	–	40,948	–	–	–	–	40,948
Profit for the period	–	–	–	–	–	15,301	15,301
Dividends *(Note 7)*	–	–	–	–	–	(15,000)	(15,000)
At 31st March, 2000	102,225	40,948	–	–	–	301	143,474
Profit for the year	–	–	–	–	–	4,603	4,603
Dividends *(Note 7)*	–	–	–	–	–	(3,000)	(3,000)
At 31st March, 2001	102,225	40,948	–	–	–	1,904	145,077

The accumulated profits of the Group include losses of HK$270,000 (2000: HK$9,000) retained by associates of the Group.

21. RESERVES (Continued)

The special reserve represents the difference between the nominal value of the shares of the subsidiary acquired and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation referred to in note 1.

The contributed surplus represents the difference between the consolidated shareholder's funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation less the amount applied to pay up the 1,000,000 nil paid shares at the time of the group reorganisation.

Under the Companies Act 1981 of Bermuda, the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders at 31st March, 2001 consisted of contributed surplus plus accumulated profits totalling HK$42,852,000 (2000: HK$41,249,000).

22. LOAN FROM A SUBSIDIARY

The amount is unsecured, bears interest at LIBOR plus 2.25 per cent per annum and will be repayable in December 2002.

23. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank and other borrowings comprise:				
Trust receipt loans	**76,364**	31,064	**–**	
Bank loans	**106,905**	27,845	**62,000**	–
Other loans	**3,102**	21,872	**–**	–
	186,371	80,781	**62,000**	–
Borrowing costs:				
Incurred during the year	**2,200**	–	**2,200**	–
Amortised during the year	**(280)**	–	**(280)**	–
At 31st March	**1,920**	–	**1,920**	–
Carrying value at 31st March	**184,451**	80,781	**60,080**	–
Analysed as				
– secured	**61,189**	58,909	**–**	–
– unsecured	**123,262**	21,872	**60,080**	–
	184,451	80,781	**60,080**	–
The bank and other borrowings are repayable as follows:				
Within one year or on demand	**124,371**	80,781	**–**	–
More than one year, but not exceeding two years	**60,080**	–	**60,080**	–
	184,451	80,781	**60,080**	–
Less: Amount due within one year and shown under current liabilities	**(124,371)**	(80,781)	**–**	–
Amount due after one year	**60,080**	–	**60,080**	–

The Group's banking facilities are secured by the following:

(a) property of the Group; and

(b) fixed deposits of HK$79,118,000 (2000: HK$53,223,000) of the Group.

24. OBLIGATIONS UNDER A FINANCE LEASE AND A HIRE PURCHASE CONTRACT

The obligations under a finance lease and a hire purchase contract are repayable as follows:

	THE GROUP	
	2001	2000
	HK$'000	*HK$'000*
Within one year	**170**	175
More than one year but not exceeding two years	**40**	169
More than two years but not exceeding five years	**–**	40
	210	384
Less: Amount due within one year and shown under current liabilities	**(170)**	(175)
Amount due after one year	**40**	209

25. DEFERRED TAX LIABILITIES

	THE GROUP	
	2001	2000
	HK$'000	*HK$'000*
At beginning of the year	**57**	8
Charge for the year *(note 5)*	**–**	49
At end of the year	**57**	57

The deferred tax liabilities represent the taxation effect of timing difference attributable to the difference between tax allowances and depreciation charged in the financial statements.

Other than the above, the Group and the Company had no significant unprovided deferred tax liabilities for the year or at the balance sheet date.

26. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	2001	2000
	HK$'000	*HK$'000*
Profit before taxation	24,091	60,602
Unrealised gain on investment securities	(39,458)	–
Unrealised holding loss on other investments	41,448	–
Share of results of associates	261	9
Interest income	(6,480)	(3,815)
Interest expenses	4,441	1,609
Rental income	(343)	(350)
Amortisation of borrowing cost	280	–
Depreciation and amortisation	1,415	594
Deficit arising on revaluation of an investment property	2,500	200
Increase in amount due from an associate	(880)	–
Increase in inventories	(120,042)	(45,558)
Increase in trade and other receivables	(46,357)	(35,293)
Decrease in amounts due from related parties	2,986	10,153
Increase (decrease) in trade and other payables	81,904	(64,682)
Net cash outflow from operating activities	(54,234)	(76,531)

27. PURCHASE OF A SUBSIDIARY

	2001	2000
	HK$'000	*HK$'000*
Net assets acquired:		
Property, plant and equipment	356	–
Inventories	281	–
Trade and other receivables	380	–
Bank balances and cash	223	–
Trade and other payables	(112)	–
	1,128	–
Goodwill arising on acquisition of a subsidiary	152	–
	1,280	–
Satisfied by:		
Cash	1,280	–

27. PURCHASE OF A SUBSIDIARY (Continued)

Analysis of the net outflow of cash and cash equivalents in respect of the purchase of a subsidiary:

	2001	2000
	HK$'000	*HK$'000*
Cash consideration paid	**(1,280)**	–
Bank balances and cash acquired	**223**	–
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	**(1,057)**	–

The subsidiary acquired during the year did not have any significant impact on the Group's cash flows or operating results for the year.

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium	**Bank and other borrowings**	**Obligations under finance leases**	**Amounts due to a director**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1st April, 1999	24,300	19,001	556	9,189
Eliminated on Group Reorganisation	(24,300)	–	–	–
Issue of shares and application of contributed surplus to pay up nil paid shares pursuant to the Group Reorganisation	200	–	–	–
Proceeds from public issue of shares	142,500	–	–	–
Share issue expenses	(10,475)	–	–	–
Borrowings raised	–	49,717	–	–
Repayment during the year	–	(19,001)	(172)	(9,189)
Balance at 31st March, 2000	132,225	49,717	384	–
Exchange realignment	–	141	–	–
Borrowings raised	–	106,214	–	–
Amortisation of borrowing costs	–	280	–	–
Repayment during the year	–	(48,265)	(174)	–
Balance at 31st March, 2001	132,225	108,087	210	–

29. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001	2000
	HK$'000	*HK$'000*
Bank deposits	**47,742**	86,028
Bank balances and cash	**57,794**	27,534
Trust receipt loans	**(76,364)**	(31,064)
	29,172	82,498

30. LEASE COMMITMENTS

At the balance sheet date, the Group had commitments payable in the following year under non-cancellable operating leases in respect of rented premises as follows:

	THE GROUP	
	2001	2000
	HK$'000	*HK$'000*
Operating leases which expire:		
Within one year	**299**	343
In the second to fifth year inclusive	**3,050**	452
	3,349	795

The Company has no outstanding commitments under non-cancellable operating leases at the balance sheet date.

31. CAPITAL COMMITMENTS

At the balance sheet date, the Group had commitments for capital expenditure of approximately HK$252,000 in respect of purchase of property, plant and equipment contracted for but not provided in the financial statements.

The Company has no capital commitments at the balance sheet date.

32. RETIREMENT BENEFITS SCHEME

The Group operate defined contribution retirement benefits scheme for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the controls of trustees.

The retirement benefits cost charged to income statement represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contribution, the contributions payable by the Group are reduced by the amount of forfeited contributions.

At the balance sheet date, there was no significant forfeited contributions, which arose upon employees leaving the retirement benefits scheme and which are available to reduce the contributions payable in the future years.

32. RETIREMENT BENEFITS SCHEME (Continued)

With effective from 1st December, 2000, the Group has joined a Mandatory Provident Fund Scheme ("MPF Scheme"). The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Scheme Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce the contributions payable in future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the MPF Scheme.

A subsidiary of the Group in the PRC is a participant in a state-managed retirement plan in the PRC pursuant to which the subsidiary pays a fixed percentage of its qualifying staff's wages as contribution to the plan. During the year, contributions payable by the subsidiary pursuant to this arrangement were approximately HK$21,000 (2000: HK$11,000). There were no forfeited contributions available to reduce the subsidiary's future contributions during the year.

33. RELATED PARTY TRANSACTIONS

(a) During the year, the Group entered into the following transactions with related parties:

Name of party	**Nature of transactions**	**2001** ***HK$'000***	2000 *HK$'000*
Guangzhou Fortune *(note i)*	Sales of goods by the Company	**260,811**	316,756
Kinglene Limited *(note ii)*	Interest income received by the Group	**–**	315
Harvest Union Limited *(note ii)*	Interest income received by the Group	**–**	452
	Rental expenses paid by the Group	**780**	780
Million Ocean Limited *(note ii)*	Interest income received by the Group	**–**	303

The balances with related parties are set out in note 17.

Notes:

(i) The sales of goods were carried at market prices.

(ii) The interest income was charged at prevailing market rates. Rental expenses were charged in accordance with the relevant tenancy agreement and the prevailing rent is equivalent or approximate the open market rental.

(b) On 7th April, 2000, the shareholders approved the acquisition of 270,000 shares of PacificNet.com, representing 3% of the issued share capital of PacificNet.com at that time, from Mr. Hui Wan Sang, Richard, a non-executive director of the Company, for an aggregate consideration of HK$8,800,000.

34. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation/ establishment	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued share capital/ registered capital held by the Company	Principal activities
Express Fortune Holdings Limited	British Virgin Islands	Ordinary US$100	100	Investment holding
Express Fortune Limited	Hong Kong	Ordinary HK$10 Non-voting deferred HK$5,000,000	100	Trading of mobile phones
Express Fortune International Limited	Western Samoa	Ordinary US$100	100	Trading of mobile phones
Fortune (Shanghai) International Trading Co., Ltd.	People's Republic of China	US$200,000	100	Trading of mobile phones
Fortune E-Commerce Limited	British Virgin Islands	Ordinary US$100	100	Investment in e-commerce businesses
Fortune Multimedia (International) Limited	Hong Kong	Ordinary HK$100	100	Trading of international phone card
Telecom-port International Holdings Limited	Hong Kong	Ordinary HK$10,000	100	Retailing of mobile phones
Top Emperor Investments Limited	Hong Kong	Ordinary HK$10,000	100	Property holding

The Company directly holds the interest in Express Fortune Holdings Limited, all other interests shown above are indirectly held by the Company.

The principal activities are carried out in the place of incorporation/establishment.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

35. SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to profit from operations by geographical markets for the year ended 31st March, 2001 is as follows:

	Turnover		Contribution to profit from operations	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**1,026,081**	945,450	**41,005**	45,854
Hong Kong	**518,775**	435,336	**(7,442)**	16,566
	1,544,856	1,380,786	**33,563**	62,420
Deficit on revaluation of an investment property			**(2,500)**	(200)
Unrealised gain on investment securities			**39,458**	–
Unrealised holding loss on other investments			**(41,448)**	–
Finance costs			**(4,721)**	(1,609)
Share of results of associates			**(261)**	(9)
Profit before taxation			**24,091**	60,602

No activity analysis is provided as substantially all the Group's turnover and contribution to profit from operations were derived from the distribution and trading of mobile phones.

36. POST BALANCE SHEET EVENT

On 24th May, 2001, an agreement was entered into between the Company and independent third parties to acquire a 51% interest in Synergy Pacific (Holding) Limited ("Synergy"), a company incorporated in Hong Kong, at a consideration of HK$12,300,000, of which HK$8,100,000 will be settled in cash and the remaining balance of HK$4,200,000 will be settled by allotment of 2,100,000 shares of the Company. Synergy is engaged in the distribution and provision of wireless communications solutions and e-business infrastructure in Hong Kong and the PRC. The acquisition will be completed in July 2001.

FINANCIAL SUMMARY

RESULTS

	Year ended 31st March,			
	1998	1999	2000	**2001**
	HK$'000	*HK$'000*	*HK$'000*	***HK$'000***
Turnover	632,270	819,575	1,380,786	**1,544,856**
Cost of sales	(600,281)	(782,254)	(1,301,335)	**(1,474,031)**
Gross profit	31,989	37,321	79,451	**70,825**
Other revenue	2,815	6,932	4,376	**6,911**
Distribution costs	(8,660)	(6,590)	(7,623)	**(20,235)**
Administrative expenses	(6,011)	(9,536)	(13,784)	**(23,938)**
Profit from operations	20,133	28,127	62,420	**33,563**
Deficit on revaluation of an investment property	(2,124)	–	(200)	**(2,500)**
Unrealised gain on investment securities	–	–	–	**39,458**
Unrealised holding loss on other investments	–	–	–	**(41,448)**
Finance costs	(5,079)	(2,294)	(1,609)	**(4,721)**
Share of results of associates	–	–	(9)	**(261)**
Profit before taxation	12,930	25,833	60,602	**24,091**
Taxation	(2,191)	(3,531)	(9,760)	**(6,109)**
Profit for the year	10,739	22,302	50,842	**17,982**

ASSETS AND LIABILITIES

	At 31st March,		
	1999	2000	**2001**
	HK$'000	*HK$'000*	***HK$'000***
Total assets	198,831	334,417	**520,640**
Total liabilities	(174,684)	(142,390)	**(314,212)**
	24,147	192,027	**206,428**

Notes:

1. The Company was incorporated in Bermuda on 22nd October, 1999 and became the holding company of the Group with effect from 10th December, 1999 as a result of a corporate reorganisation. Accordingly, the only balance sheets for the Group that have been prepared are those set out above.

2. The results of the Group for each of the two years ended 31st March, 1999 presented above have been extracted from the Company's prospectus dated 9th February, 2000 when listing of the Company's shares was sought on the GEM. Certain figures have been reclassified to conform with current year's presentation.

3. The results for the two years ended 31st March, 2001 have been extracted from the audited consolidated income statement as set out on page 38 of the financial statements.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting of Fortune Telecom Holdings Limited (the "Company") will be held at Room 1502-7, 15/F, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, N.T., Hong Kong on 27th August, 2001 at 10:00 a.m. to transact the following ordinary business:

1. to receive and consider the audited consolidated financial statements and reports of the directors and auditors for the year ended 31st March, 2001;

2. to declare a final dividend for the year ended 31st March, 2001;

3. to re-elect directors;

4. to fix the directors' remuneration;

5. to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors and to authorise the directors to fix their remuneration;

and, as special business, to consider and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

6. **THAT:**

(a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market on The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to allot, issue and deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and the same is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

(c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights issue; or (ii) the exercise of any option under the share option scheme of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Bye-laws of the Company in force from time to time, shall not exceed the aggregate of:

(i) 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution; and

(ii) (if the Directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the nominal amount of any share capital of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10% of the aggregate nominal amount of the share capital of the Company in issue on the date of the passing of this Resolution), and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly; and

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company, the Companies Act 1981 of Bermuda or any other applicable law of Bermuda to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution;

"Rights Issue" means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors of the Company to holders of shares in the Company on the register on a fixed record date in proportion to their then holdings of shares (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction outside Hong Kong or any recognised regulatory body or any stock exchange outside Hong Kong).

7. **THAT:**

(a) the exercise by the Directors of the Company during the Relevant Period of all powers of the Company to purchase its shares on The Stock Exchange of Hong Kong Limited or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, The Stock Exchange of Hong Kong Limited, the Companies Act 1981 of Bermuda and all other applicable laws in this regard, be and the same is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of shares which may be purchased by the Company pursuant to the approval in paragraph (a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of the passing of this Resolution and the authority pursuant to paragraph (a) of this Resolution shall be limited accordingly;

(c) for the purposes of this Resolution, "Relevant Period" means the period from the date of the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company, the Companies Act 1981 of Bermuda or any other applicable law of Bermuda to be held; and

(iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.

8. **THAT** the Directors of the Company be and they are hereby authorised to exercise the authority referred to in paragraph (a) of Resolution no. 6 above in respect of the share capital of the Company referred to in sub-paragraph (ii) of paragraph (c) of such Resolution.

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

Hong Kong, 29th June, 2001

NOTICE OF ANNUAL GENERAL MEETING

Registered Office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Head Office and principal place of business:
Room 1502-7
15th Floor, Tower A
Regent Centre
63 Wo Yi Hop Road
Kwai Chung
New Territories
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the Bye-laws of the Company, vote in his stead. A proxy need not be a member of the Company.

2. To be valid, this form of proxy, together with the power of attorney (if any) or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the principal office of the Company at Room 1502-7, 15th Floor, Tower A, Regent Centre, 63 Wo Yi Hop Road, Kwai Chung, N.T., Hong Kong not less than 48 hours before the time for the holding of Meeting or adjourned meeting.

3. In relation to proposed Resolution no. 6 and 8 above, approval is being sought from the shareholders for the grant to the directors of a general mandate to authorise the allotment and issue of shares under the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The Directors have no immediate plans to issue any new shares of the Company other than shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by shareholders.

4. In relation to proposed Resolution no. 7 above, the Directors wish to state that they will exercise the powers conferred thereby to repurchase shares in circumstances with they deem appropriate for the benefit of the shareholders. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed resolution as required by the Rules Governing the Listing of Securities on the Growth Enterprise of the Stock Exchange of Hong Kong Limited will be set out in a separate document to be despatched to the shareholders with the annual report for the year ended 31st March, 2001.