



FORTUNE TELECOM HOLDINGS LIMITED

長遠電信網絡集團有限公司*

(Incorporated in Bermuda with limited liability)

RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST MARCH 2002

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This announcement, for which the directors (the “Directors”) of Fortune Telecom Holdings Limited (the “Company”) 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 (the “GEM Listing Rules “) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification only

HIGHLIGHTS

- The Group's turnover for the year ended 31st March, 2002 was approximately HK\$3,461 million, representing an increase of approximately 124% as compared with the previous year.
- The Group's profit from operations for the year ended 31st March, 2002 was approximately HK\$81 million, representing an increase of approximately 142% as compared with the previous year.
- The earnings per Share was 16.7 HK cents for the year ended 31st March, 2002.
- The Board recommended a final dividend of 5 HK cents per Share for the year ended 31st March, 2002.

RESULTS

The board (the "Board") of Directors of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31st March, 2002, together with the audited comparative figures for the year ended 31st March, 2001 as follows:

		Year ended 31st March,	
	<i>Notes</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Turnover	2, 8	3,461,182	1,544,856
Cost of sales		<u>(3,316,149)</u>	<u>(1,474,031)</u>
Gross profit		145,033	70,825
Other revenue		11,377	6,911
Distribution costs		(35,753)	(20,235)
Administrative expenses		(36,900)	(23,938)
Other operating expenses		<u>(2,683)</u>	<u>–</u>
Profit from operations	3, 8	81,074	33,563
Finance costs		(10,893)	(4,721)
Deficit on revaluation of an investment property		(1,000)	(2,500)
Unrealised gain on investment securities		–	39,458
Unrealised holding loss on other investments		(8,292)	(41,448)
Impairment loss on goodwill of an associate		(704)	–
Gain on disposal of subsidiaries		1,187	–
Share of results of associates		<u>(211)</u>	<u>(261)</u>
Profit before taxation		61,161	24,091
Taxation	4	<u>(9,222)</u>	<u>(6,109)</u>
Profit before minority interests		51,939	17,982
Minority interests		<u>(1,624)</u>	<u>–</u>
Net profit for the year		<u>50,315</u>	<u>17,982</u>
Dividends paid during the year	5	<u>3,021</u>	<u>15,000</u>
Earnings per Share – Basic	6	<u>16.7 HK cents</u>	<u>6.0 HK cents</u>

Notes:

1. Basis of preparation and accounting policies

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31st March, 2002.

All significant inter-company transactions and balances amongst members of the Group are eliminated on consolidation.

The accounting policies and methods of computation used in the preparation of the financial statements are consistent with those used in the annual financial statements for the year ended 31st March 2001 except that in the current year, the Group has adopted for the first time the following new or revised Statements of Standard Accounting Practice (“SSAP”s) issued by the Hong Kong Society of Accountants:

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) *Events after the Balance Sheet Date*, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment which increases the accumulated profits as at 1st April, 2000 by HK\$15,000,000 and as at 1st April, 2001 by HK\$3,021,000.

As a result of the revision of SSAP 9 (Revised) *Events after the Balance Sheet Date*, SSAP 18 *Revenue* has also been revised. Accordingly, the dividends proposed or declared after balance sheet date by the subsidiaries are not recognised by the Company at the balance sheet date. This change in accounting policy has also been applied retrospectively, resulting in a prior period adjustment which has decreased the accumulated profits of the Company as at 1st April, 2000 by HK\$16,000,000 and as at 1st April, 2001 by HK\$10,000,000.

Goodwill

In the current year, the Group has adopted SSAP 30 *Business Combinations* and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisition prior to 1st April, 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1st April, 2001 is capitalised and amortised over its estimated useful life.

2. Turnover

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

3. Profit from operations

The Group's profit from operations is arrived at after charging:

	Year ended 31st March,	
	2002 HK\$'000	2001 HK\$'000
Amortization of goodwill	<u>661</u>	<u>–</u>
Depreciation and amortisation	<u>2,358</u>	<u>1,415</u>

4. Taxation

	Year ended 31st March,	
	2002 HK\$'000	2001 HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit		
Current period	147	510
Overprovision in prior year	<u>(1,707)</u>	<u>–</u>
	(1,560)	510
The People's Republic of China ("PRC") income tax	10,839	5,599
Deferred tax	<u>(57)</u>	<u>–</u>
	<u>9,222</u>	<u>6,109</u>

PRC income tax represents taxation charges on the assessable profits of the Company's wholly owned subsidiary, Fortune (Shanghai) International Trading Co., Ltd. ("Fortune Shanghai") at a rate of 15% for the year ended 31st March, 2002 (2001: 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.

5. Dividends paid during the year

	Year ended 31st March,	
	2002 HK\$'000	2001 HK\$'000
2001 final dividend of 1 HK cent per Share (2001 : 2000 final dividend of 5 HK cents per Share)	<u>3,021</u>	<u>15,000</u>

6. Earnings per share

The calculation of the basic earnings per share is based on the profit for the year of HK\$50,315,000 (2001: HK\$17,982,000) and on the weighted average number of 301,410,000 shares (2001: 300,000,000 shares) in issue during the year.

7. Transfer to and from Reserves

During the year, the following reserve movements were booked:

	2002 <i>HK\$'000</i>	Year ended 31st March, 2001 <i>HK\$'000</i>
Transfer to translation reserve due to exchange differences arising on translation of the financial statements of operation in the PRC	<u>16</u>	<u>275</u>
Goodwill arising on acquisition of an associate written off against reserves	<u>-</u>	<u>(704)</u>
Goodwill arising on acquisition of a subsidiary written off against reserves	<u>-</u>	<u>(152)</u>
Impairment loss in respect of goodwill arising on acquisition of an associate transferred to income statement	<u>705</u>	<u>-</u>
Transfer to PRC statutory reserve from income statement	<u>1,280</u>	<u>-</u>
Transfer to share premium account on issue of shares	<u>1,050</u>	<u>-</u>

8. Segment Information

The Group's operations are located in the PRC and Hong Kong. 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.

Segment information about these geographical markets for the year ended 31st March 2002 is presented below:

	2002 <i>HK\$'000</i>	Year ended 31st March, 2001 <i>HK\$'000</i>
Turnover		
The PRC	3,317,473	1,026,081
Hong Kong	<u>143,709</u>	<u>518,775</u>
Consolidated	<u>3,461,182</u>	<u>1,544,856</u>
Profit (Loss) from operations		
The PRC	106,442	33,322
Hong Kong	<u>(25,368)</u>	<u>241</u>
Consolidated	<u>81,074</u>	<u>33,563</u>

FINAL DIVIDEND

The Directors recommend the payment of a final dividend of 5 HK cents per Share for the financial year ended 31 March, 2002 (2001:1 HK cent).

Subject to the approval of Shareholders at the forthcoming annual general meeting, the dividend will be paid to Shareholders whose names appeared on the register of members of the Company on 27 August, 2002 (Tuesday).

The register of members of the Company will be closed from 23 August, 2002 (Friday) to 27 August, 2002 (Tuesday), both days inclusive during which period no transfer of shares will be effected. In order to qualify for the final dividend payable on 17 September, 2002 (Tuesday), all transfers accompanied by the relevant Share certificates must be lodged with the Company's share registrar, Abacus Share Registrars Limited at 6th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, not later than 4:00 p.m. on 22 August, 2002 (Thursday).

REVIEW AND OUTLOOK

1. Financial Review

The Group recorded a historical turnover of approximately HK\$3,461 million representing a sharp surge of 124% as compared with the previous year. The amount of gross profit also increased by 105% to approximately HK\$145 million. During the year under review, the gross profit margin was approximately 4.2%. Profit from operations amounted to approximately HK\$81 million which represented a sharp increase of 142% as compared with the previous year. The Group's net profit attributable to shareholders for the year under review amounted to approximately HK\$50.3 million as compared with approximately HK\$18 million for the previous year.

The encouraging performance for the year under review was largely attributable to the management's focus on distributions of Nokia mobile phones, particularly, the model 8250 which was distributed by the Group exclusively in the PRC market. During the year under review, the Group sold over two million mobile phone sets. In addition, the Group's distribution infrastructure in the PRC was further expanded and its customer base increased to over 1,000 during the year under review. The Group also implemented a very tight credit control policy whereby most of the sales would be on either cash basis or limited credit period of less than 30 days. The average monthly turnover of the Group was approximately HK\$288 million and the year end trade receivables only amounted to approximately HK\$72 million which represented approximately 8 days debtors' turnover period. Over 85% of the trade receivables aged less than 30 days.

Notwithstanding the sharp increase in turnover and business volume, the inventory level only increased by approximately 34% as compared with the previous year to approximately HK\$243.7 million as at 31st March, 2002. Such level represented approximately one month's inventory and mainly comprised current mobile phone models. The Directors understand the importance of inventory control in the fast moving mobile phone industry, and the Group would not keep excessive inventory so as to avoid the associated risks.

During the year under review, the Group closed down under-performed business units, such as Voice IP Operation. It did not perform well because of the general slowdown in e-business and Internet-related business. In addition, the Group took a very cautious approach in assessing any investment opportunity. During the year under review, an unrealized loss of approximately HK\$8.3 million was recorded to write down the investment in PacificNet Inc. to its market price at the Nasdaq SmallCap Market in the United States.

To cope with the expanded business volume, the Group has established new relationship with reputable financial institutions in both Hong Kong and the PRC. The total bank borrowings of the Group as at 31 March, 2002 amounted to approximately HK\$242 million, of which approximately HK\$198.3 million was denominated in Renminbi and the balance was denominated in United States dollars or Hong Kong dollars. The banking facilities arranged by the Group reflected our strategy to fund the Group's operations in local trading currencies. The Group's total bank borrowing was secured by bank deposits of approximately HK\$126 million. As a result of increase in such bank borrowing as compared with the previous year, the finance cost of the Group for the year under review increased to approximately HK\$10.9 million from approximately HK\$4.7 million for the financial year ended 31st March, 2001.

As at 31st March, 2002, the Group maintained a cash balance of approximately HK\$303.9 million with a current ratio of approximately 1.61 times. As at 31st March, 2002, the Group did not have any long term debt.

The net asset value of the Group as at 31st March, 2002 amounted to approximately HK\$ 267 million or approximately HK\$0.89 per Share. The earnings per Share for the year under review is HK\$0.167. The return on average capital employed for the year under review is 21.5%.

2. Market Overview

Telecommunication market

During the year under review, there was significant growth in the number of mobile phone users in the PRC and has now reached approximately 167 million users, being the largest mobile phone markets in the world. It was also reported that the number of mobile phone users is growing at approximately 4 to 5 million every month. According to the Ministry of Information Industry of the PRC, it is estimated that by the year 2005, the number of mobile phone users would reach approximately 275 million. In a separate research report, it is expected that in the year 2005, almost one third of the global mobile phone production, currently estimated at approximately 233 million sets, will be manufactured and delivered from the PRC. On 8th January, 2002, China Unicom officially launched the long waited code division multiple access ("CDMA") mobile phone network. Up to now, however, the number of CDMA users is lower than expected, but Unicom Horizon, a subsidiary of China Unicom, is confident that the total number of CDMA users will reach 7 million by the end of year 2002. China Unicom expected that with the operation of CDMA network, it will enlarge its market share to approximately 100 million users by the year 2005 or approximately 36% of the mobile telecommunication market in the PRC.

In Japan, the second largest mobile telecommunication operator, KDDI Corp., launched an advanced CDMA network, the CDMA2000-1X, in April 2002. The general market response was better than expected and approximately 330,000 new users were recorded which is reported to be more than the 105,500 users of NTT DoCoMo's 3G W-CDMA network. CDMA2000-1X has higher transmission rate, up to 153.6 kbit/second, more mature in terms of new service carrying and can provide more new service at medium and high rates than General Packet Radio Service ("GPRS") standard. It is also one of the targets of Unicom Horizon to change from the existing IS-95A (2G) to CDMA2000-1X (2.5 G) in the year 2002. By then, it will enable CDMA users to receive and send varied multimedia information including voice, data and dynamic image freely at any time and in any place. Nevertheless, the PRC mobile phone market was currently dominated by low-end users with less demand on sophisticated functions. Thus, the anticipated high-end 2.5G CDMA mobile phone sets and the current inability to transfer phone numbers between different network providers have created uncertainty as to the time required to make CDMA popular.

Currently, global system for mobile communication ("GSM") standard enjoys wider acceptance in the PRC, and GSM users enjoy wider global network access by way of international roaming. China Mobile, being the largest GSM network operator in the PRC, focused on the establishment of 2.5G GPRS network. In May 2002, China Mobile announced the application of GPRS technology to commercial usage in 160 cities in the PRC and targeted to expand its customer base to 120,000 users by the year 2003. Major mobile phone suppliers, like Nokia, have already launched various GPRS mobile phone models, such as 6510, 6500, 8310 and the most recent announced 8910 (which is Bluetooth enabled). Ericsson also launched mobile phone models T65 and T68, both of which are Bluetooth enabled.

The PRC State Council has also announced plan to restructure its telecommunications industry to bring in competition to fixed line, mobile, data broadband and other basic services. In May 2002, a more competitive telecommunications market was created. The business of China Telecom was geographically divided into two parts. The northern part consists of 10 provinces in northern China merged with China Netcom and Jitong to form the new China Network Communications Corporation, and the southern and eastern parts will inherited the name of China Telecom Group maintaining its services to 21 provinces. After the restructuring, there will be two mobile carriers – China Mobile and China Unicom, three fixed line operators – China Telecom Group, the new China Network Communications Corporation, and China Railcom, and one satellite company, China Satcom.

Mobile phone market

The dream of providing “anywhere” global communication service and delivering high-speed, high-quality multimedia service with a single mobile terminal is expected to become realised with the emerging 2.5G and 3G standards. Mobile phone sets with GPRS and Bluetooth capabilities are already in the market with certain advance features, such as built-in camera, built-in MP3 player, enriched LCD color display, MIDI ring tones, internet access – Wireless Application Protocol (WAP) browser, short messaging services (“SMS”), etc. All these handsets meet customers’ need for compact communication device with multiple functionality at affordable price. There are also products which integrate personal digital assistant (“PDA”) into mobile phone sets, such as Nokia Communicators 9210, Motorola’s 388 model, Handspring Trio, etc. From the development of innovative content with new technologies, such as Java and Bluetooth, to the exploration of large-capacity multimedia contents, such as video, games and music that can take advantage of an environment of higher speed data transmission, it is anticipated that the increasing popularity of mobile multimedia messaging services (“MMS”) will grow in addition to SMS and the increasingly popularity of color display LCD mobile phones. Upon the progress into manufacturing of GPRS or 3G mobile phones, heavy research and development expenses are anticipated. In preparation for the intensified global competition, enterprises have teamed up to try to take a larger share of the global market.

Nokia continues to be one of the market leaders in the global mobile phone market with an estimated market share of approximately 35% as compare to the second largest supplier of approximately 14.8%. In the PRC, the aggregate market share of the two largest suppliers, including Nokia, amounted for approximately 65% of the PRC mobile phone market. The local brand handset manufacturers, such as TCL, Bodao and Kejian, continue to expand their market share. Nevertheless, it is expected that increasing price competition amongst the local mobile phone brands will lead to a further market consolidation.

In the PRC, mobile phones with a price range less than Rmb 2,500 are increasingly popular with a market share increased from approximately 76.5% at the beginning of this year to approximately 87.5%.

3. Business Review

a. Mobile phone distribution

In line with the Group’s long-term goal to become the largest mobile phone distributor in the PRC, the business of mobile phone continues to be the Group’s core business for the year under review, accounting for approximately 90% of the Group’s turnover. The Group sold approximately 1.75 million sets of Nokia 8250 mobile phone sets and approximately 213,000 sets of Nokia 3310 mobile phone sets during the year under review. During the year under review, the Group had added approximately 500 new active customers. In the last quarter alone, a total of 648,000 mobile phone sets were sold. The success was also attributable to the marketing strategy of offering promotional gifts, such as battery, fashionable mobile phone set cover, handsfree device, etc. According to the latest market research, Nokia 8250 mobile phone is one of the best selling mobile phone models in the PRC for unit price range between Rmb 1,500 to Rmb 2,500. In certain cities in southern China, such as Guangzhou, Dongguan and Zhongshan, Nokia 8250 mobile phone is one of the best selling models with market share of approximately 10%.

The Group successfully obtained the distribution right for new Nokia model 6510 in January 2002. Nokia 6510 series is equipped with the latest technology that can support both GPRS and High Speed Circuit Switched Data (HSCSD). FM radio capability is also installed with the mobile phone set. These features enable it to become not only a mobile phone set but also an integrated electronic wallet that allows online e-commerce transactions. The Directors are confident that such new model will be well received by the market. There will be more advance GPRS mobile phone sets launched by various suppliers in the remainder of the year 2002.

As one of the Unicom Horizon's authorised distributors of CDMA mobile phones, the Group has obtained CDMA mobile phone distribution rights from Motorola and Hisense. In the future, it is anticipated that dual band mobile phones, supporting both CDMA and the GPRS network, will appear in the market. Whilst the market response is not good as expected during the first few months after launching of the network, and the Group has only sourced and sold limited number of CDMA mobile phones during the last quarter, the future business opportunity of CDMA mobile phones cannot be underestimated.

b. Wireless local area network ("WLAN") and PDA distribution

(i) WLAN

During the year under review, the Group, through its subsidiary – Synergy, successfully extended the 802.11b wireless infrastructure to most of the universities and educational institutions in Hong Kong. Synergy also teamed with various famous internet services providers to build WLAN that covering most of the hot spots area including famous shopping malls, cafe shops and food outlets.

Synergy has been the pioneer of deployment WLAN since 1998. The technology has gained wide popularity in Hong Kong when the IEEE802.11b product emerged in year 1999. WLAN products, especially Orinoco are being widely adopted and used by most of the universities, educational institutes, government, enterprises and public hot spots in Hong Kong. The Group has obtained master distribution right of Orinoco in WLAN for Greater China area (including Hong Kong).

Various exhibition and conference organizers have chosen Synergy as the official wireless internet infrastructure provider. This included the Hong Kong Information Infrastructure Expo & Conference, the Computer Expo 2001 and 2002, the Software Exhibition 2001, Asian IT Expo and the ITU TELECOM ASIA 2000. The Group sees this recognition of its capability and achievement as a reward of the hard work for the past years in the industry.

Synergy also introduces new Bluetooth products into the Hong Kong technology sector since early 2002. With its insight and years of experience in product development in the Hong Kong wireless technology market, the Group observes well the market needs of the territories and believes these products highly meet with the requirements of all the consumer and corporate users, whether large or small.

In the year 2002, increased adoption of WLAN in business and wireless personal area network for personal use in Hong Kong and the PRC will provide further business opportunity to the Group.

(ii) PDA Distribution

With the objective of sustaining the leading position as a one stop PDA solution distributor in Hong Kong and the PRC, the Group continues to extend and enrich the product range of PDA, mobile accessories and connectivity software carried.

Built on a solid foundation in distributing Palm OS based PDA such as Palm, HandEra etc., the Group successfully obtained the distribution right of various famous brand of PDA covering both Palm OS and Windows CE OS incorporating exciting features such as audio recording, MP3 playback, dual Memory Stick and versatile connector expansion capabilities-all in a highly integrated and extremely compact device that is also superbly styled.

With the expected growth of the market share of the Pocket PC, the Group also extends its carried PDA range to Pocket PC by starting to sell AudioVox Maestro Handheld Pocket PC starting from April 2002. AudioVox Maestro Handheld Pocket PC, with dual Compact Flash and SD expansion slot and WLAN and Bluetooth enabled capabilities, is an OEM product from Toshiba. The Group has also obtained the sole distribution right in Hong Kong for the first colour GPRS PDA mobile phone – the O₂xda.

The fast deployment of WLAN Hot Spots in the region thus provides a solid ground of growth for the PDA market. PDA equipped with WLAN Network Interface Card is expected to be widely used in the near future.

4. Prospect and Outlook

It is believed that Nokia will enlarge its share of the mobile phone market in the PRC in order to maintain its market leader position. The overall PRC mobile phone market will also be expanded by the growth in both new subscribers market and the replacement market.

With the well-established distribution infrastructure and its marketing expertise, the Group is optimistic that it will benefit from the growth of mobile phone market in the PRC. In the coming years, the Group is determined to increase further its distribution coverage to over 200 cities and counties all over China by penetrating further into third and fourth tier cities, while maintaining its leadership position in the first and second tier cities. Due to total coverage of approximately 6,000 retailers in the PRC and its good relationship with the business partner, the Group will continue to position itself as the main distribution partner of Nokia's mobile phones in the PRC.

The Group will also alert of the keen competition of the mobile phone market and the emerging of the expanding local brand handsets. The Group has always looked for opportunity to extend its business to other PRC mobile phone brands and the increasingly popular Korean models. The Board is confident that the Group will be able to continue to deliver good results to our shareholders.

COMPARISON OF BUSINESS OBJECTIVE AND ACTUAL BUSINESS PROGRESS

The comparison of the Group's business objectives as set out in the prospectus dated 9th February, 2000 to actual business progress for the six months ended 30th September, 2001 has been reported in the interim report during the year. The comparison for the six months ended 31st March, 2002 as follows:

Business Objectives

Actual Business Progress

In respect of Fortune Telecom Limited

Monthly sales target of mobile phones was approximately 200,000 to 230,000 sets during the period

The average monthly sales of mobilephones exceeded 210,000 per month during the fourth quarter ending 31st March, 2002. The Group has incurred cost of approximately HKD 10 million in promoting its sales of mobile phones.

Development of fulfillment facility

The Group plans to increase its fulfilment capacity to an annual target of 3 million Nokia branded mobile phones

Due to increasingly competitive and changing market condition, the Directors are of the view that it is not the appropriate time for the Group to commence its investments in fulfillment facilities until such investment will be cost effectiveness for the business. No amount has been incurred for the period.

Development of distribution network in the PRC

Increase authorized distributors shops to 160 and authorized dealers shops to 170

Total distributor shops and dealer shops in the PRC has reached 300. The Group has incurred approximately HK\$1 million as set forth in the Prospectus.

After-sales service development

Increase after-sales service facilities

The number of mobile phone service centres in the PRC was 28 and the Group has incurred approximately HK\$ 0.5 million along its distribution network in the PRC

Recruitment of staff

To recruit sufficient staff to support its distribution network in the PRC

The Group recruited additional staff in Hong Kong and the PRC and the cost incurred was approximately HK\$0.5 million.

Business Objectives

Actual Business Progress

In respect of Fortune E-Commerce Limited

Continue to explore suitable investment opportunities with synergy

The Group will seek strategic partner with synergy to enhance its operations in e-commerce.

The Group has evaluated a number of e-commerce investment opportunities but due to the uncertainty on profitability and the pay-back period, the Group has decided to take a cautious approach and has not yet identified a suitable investment target.

In respect of Fortune Internet Communications Limited

Continuous enhancement in IP technology

The Group will continuously enhance and upgrade its IP telephony system to cope with advance in technology and to cater for increasing number of subscribers

Due to competitive telecommunications market, the Directors have decided not to expand the number of IP telephony gateways in different locations in the PRC. Also, it is not in the interest of the Group to invest further in additional IP telephony gateways in different locations in the PRC unless the market shows positive sign of recovery and that the Group is able to make profit there from.

Out of the net proceed of approximately HK\$133.38 million raised upon the listing of the shares of the Company on GEM in February 2000, the amount intended for specific business objectives was approximately HK\$98 million and the amount intended for general working capital was approximately HK\$35.38 million. As at 31st March, 2002, the Group applied approximately HK\$47 million for achieving the specific business objectives stated in the prospectus dated 9th February, 2000 (the "Prospectus") with the balance of the fund to be applied from time to time by the Group as its general working capital in order to meet the increasing funding requirement for the increasing sales volume of the mobile phone distribution business of the Group.

Due to the downturn in e-business and telecommunication businesses in Hong Kong and the increasing competitive market condition in the PRC, the Directors believe that the business strategy of the Group should maintain focus on its core business of mobile phone distribution in the PRC.

As at 31st March, 2002, an aggregate cash deposit of approximately HK\$130 million was placed with short-term deposit with financial institutions in Hong Kong and the PRC. The Company will continue to evaluate additional investment opportunity which may arise in the future and will apply such proceeds as appropriate. The Directors consider that the variance of the amount invested against the original business objectives set forth in the Prospectus, which was estimated before the downturn of the global internet market condition, demonstrates the correct and the prompt decision of the management of the Group. On this basis, the Directors

do not consider that any of these changes will have any material impact on the business objectives of the Group.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31st March, 2002, 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 family interest
Lau Siu Ying, Steve	211,500,013

These shares are held by Future 2000 Limited, a company incorporated in the British Virgin Islands which in turn is held by a trustee. 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 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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 since its adoption.

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

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

At 31st March, 2002, other than the interests disclosed in the section headed "Directors' interests in share capital" above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital.

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 Asia"), its directors, employees or associates had any interest in the securities of the Company as at 31st March, 2002.

Pursuant to the agreement dated 8th February, 2000 entered into between the Company and DBS Asia, DBS Asia is entitled to receive an advisory fee for acting as the Company's retained sponsor for the period from 16th February to 31st March, 2002. DBS Asia ceased to be the sponsor of the Company upon expiry of the agreement on 31st March, 2002.

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

During the period from 1st April, 2001 to 31st March, 2002, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

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

AUDIT COMMITTEE

The audit committee was formed on 10th December, 1999 and comprises independent non-executive directors, Messrs. Chang Wing Seng, Victor and Liu Kwok Fai, Alvan. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. During the year under review and up to the date hereof, six meetings were held for reviewing the Group's annual, interim and quarterly reports and results announcements, management accounts and the terms of the relevant connected transactions.

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

Hong Kong, 20th June, 2002

* *For identification purpose only*

This announcement will remain on the website of the GEM of the Stock Exchange with the domain name of www.hkgem.com on the "Latest Company Announcement" page for not less than seven days from the day of its posting.