



長遠電信網絡集團有限公司  
**FORTUNE TELECOM HOLDINGS LIMITED**  
(FORMERLY FORTUNE TELE.COM HOLDINGS LIMITED)

# Third Quarter Report 2000



**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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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.*

## HIGHLIGHTS

For the nine months ended December 2000:

- Turnover was approximately HK\$913 million, representing a drop of approximately 10% as compared with the corresponding period in the previous year.
- Profit from operations was approximately HK\$10,688,000.
- An unrealised gain on investment holding of approximately HK\$6 million was recorded.
- The earnings per share was 2.8 HK cents.

## RESULTS

The directors (the "Directors") of Fortune Telecom Holdings Limited (the "Company") hereby announce the unaudited results of the Company and its subsidiaries (collectively the "Group") for the nine months and three months ended 31st December, 2000, together with the unaudited comparative figures for the corresponding periods in 1999 as follows:

	Notes	Nine months ended 31st December, 2000		Three months ended 31st December, 1999	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note 1)	(Note 1)	(Note 1)	(Note 1)
Turnover	2	<b>913,439</b>	1,012,683	<b>283,379</b>	304,735
Cost of sales		<b>(877,850)</b>	(976,566)	<b>(264,925)</b>	(286,479)
Gross profit		<b>35,589</b>	36,117	<b>18,454</b>	18,256
Other revenue		<b>5,134</b>	2,183	<b>1,234</b>	(290)
Distribution costs		<b>(11,899)</b>	(6,663)	<b>(8,915)</b>	(4,742)
Administrative expenses		<b>(18,136)</b>	(8,273)	<b>(8,762)</b>	(4,830)
Profit from operations		<b>10,688</b>	23,364	<b>2,011</b>	8,394
Finance costs		<b>(6,778)</b>	(1,781)	<b>(1,892)</b>	197
Unrealised gain/(loss) on investment holding	3	<b>6,044</b>	-	<b>(16,894)</b>	-
Share of results of associates		<b>(60)</b>	-	<b>(12)</b>	-
Profit/(Loss) before taxation		<b>9,894</b>	21,583	<b>(16,787)</b>	8,591
Income tax expense	4	<b>(1,626)</b>	(2,168)	<b>(238)</b>	(340)
Net profit/(loss) for the period		<b>8,268</b>	19,415	<b>(17,025)</b>	8,251
Earnings/(Loss) per share	5	<b>2.8 cents</b>	8.0 cents	<b>(5.7 cents)</b>	3.4 cents

**Notes:****1. Group reorganisation and basis of presentation**

The Company was incorporated on 22nd October, 1999 as an exempted company with limited liability in Bermuda under The Companies Act 1981 of Bermuda (as amended).

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 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 (the "Prospectus") dated 9th February, 2000. The Group Reorganisation principally involved the exchange of fully paid shares of the Company with the entire issued shares of Express Fortune Holdings Limited.

The Group resulting from the above Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared on the merger basis of accounting as if the Company had always been the holding company of the Group.

The consolidated income statements for each of the three months and nine months period ended 31st December, 2000 and 31st December, 1999 includes the results of the companies comprising the Group as if the current group structure had been in existence throughout the periods under review, or since the dates of incorporation of the companies where this is a shorter period.

*Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the three months and nine months period ended 31st December each year.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

*Investments in securities*

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

At subsequent reporting dates, debt securities that the Group intends to hold to maturity (held-to-maturity debt securities) are measured at amortised cost; less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium arising on

the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments in debt or equity securities that are intended to be held on a continuing basis and that are held for an identified, strategic, long term purposes (investment securities) are measured at cost, less provision for any diminution in value that is expected to be other than temporary.

Securities not classified as investment securities nor as held-to-maturity securities (other investments) are measured at fair value, with valuation movements included in net profit or loss for the period.

## 2. Turnover

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

## 3. Unrealised gain/(loss) on investment holding

The amount represents the surplus/(deficit) arising on the revaluation of the Group's investment in PacificNet.com LLC ("PacificNet.com")

Since the Group relied heavily on PacificNet.com's expertise in the early development of e-business, the investment in PacificNet.com was considered strategic oriented. Accordingly the investment was classified as investment securities and was carried at cost in the Group's balance sheet as at 31st March, 2000. Following the increase in maturity of the Group's e-business and the establishment of an in-house expert team, the Group had substantially reduced its reliance on PacificNet.com for e-business solutions. On the other hand, the Group became increasingly concerned about the future returns from the investment in PacificNet.com. 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 since 30th June, 2000 and up to now. Also, the fair value of PacificNet.com in the balance sheet as at 31st December, 2000 was determined with reference to the closing share price of PacificNet.com in the NASAQ of USA as at 31st December, 2000.

Pursuant to the benchmark treatment under the HKSSAP 24, the change in valuation of others investments should be included in the net profit or loss for the relevant period. Accordingly, the surplus/(deficit) arising on the revaluation of the investment in PacificNet.com was recorded as a holding gain/(loss) in the Group's income statement for the nine months and three months ended 31st December, 2000.

#### 4. Income tax expense

	Nine months ended		Three months ended	
	31st December, 2000	1999	31st December, 2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Note 1)	(Note 1)	(Note 1)	(Note 1)	(Note 1)
The charge comprises:				
Hong Kong Profits Tax calculated at 16%				
of the estimated assessable profit	<b>558</b>		1,412	<b>79</b>
People's Republic of China other than				
Hong Kong ("PRC") income tax at 15%				
of the assessable profit	<b>1,068</b>	756	<b>159</b>	128
	<b>1,626</b>	2,168	<b>238</b>	340

PRC income tax represents taxation charges on the assessable profits of the Company's wholly owned subsidiary ("Fortune Shanghai") at a rate of 15% for the three months and nine months ended 31st December, 2000 (1999: 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 ending 31st December, 2000 provided that the export sales of Fortune Shanghai accounts for not less than 15% of the total sales of the company. No tax refund had been received during the nine months ended 31st December, 2000 as Fortune Shanghai had not made any export sales.

The Group did not share any taxation of associated companies, as the associated companies did not incur any taxation charge post acquisition by the Group.

#### 5. Earnings/(Loss) per share

The calculation of the basic earnings/(loss) per share for the nine months and the three months ended 31st December, 2000 is based on the unaudited net profit of HK\$8,268,000 and unaudited net loss of HK\$17,025,000 respectively and on the number of 300,000,000 shares in issue.

The calculation of the basic earnings per share for the nine months and three months ended 31st December, 1999 is based on the unaudited net profit of HK\$19,415,000 and HK\$8,251,000 respectively and on the number of 243,000,000 shares that would have been in issue throughout the period on the assumption that the Group Reorganisation has been completed as at 1st April, 1999.

## DIVIDEND

The directors do not propose the payment of an interim dividend for the nine months ended 31st December, 2000 (1999: Nil).

## CHANGE OF NAME

Pursuant to a special resolution passed in 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".

## REVIEW AND OUTLOOK

### Financial Review

Due to keen market competition and the late launching of new models by the Group's major supplier, turnover for the Group decreased to HK\$913 million for the nine months ended December 2000, representing a drop of approximately 10% as compared to the same period in the previous year. Profit from operations decreased to approximately HK\$10.7 million.

During the period under review, the Group recorded an unrealised holding gain of HK\$6 million according to the HKSSAP adopted by the Group. The unrealised holding gain is attributable to the surplus of the market value of shares in PacificNet.com, listed on NASDAQ in the United States, over the cost of investment.

## **Operations Review**

### ***General***

During the period under review, mobile phone distribution continued to be the Group's core business, generating approximately 98% of the Group's total turnover. Apart from the mobile phone distribution business, the Group is developing a variety of telecommunication and wireless communication related businesses aimed primarily at the PRC market.

Although these new business operations are still in the early development stages, the Group is highly encouraged, as some of these operations have begun to contribute satisfactory level of income to the Group. These new operations will soon be making a larger contribution to the Group's total turnover and the Directors have every confidence of their future development.

In January 2001, the Company changed its English name from "Fortune Tele.com Holdings Limited" to "Fortune Telecom Holdings Limited", with its Chinese name remaining unchanged. Although the Group has noticeable presence in the Internet industry, it would like to distinguish itself from being an Internet company in view of its established business in mobile phone distribution and other industries. The change of name is aimed at minimising any public confusion towards the Group.

The Group obtained a transferable term loan facility of US\$12,000,000 and by 29th December, 2000 had drawn down the full amount. This loan will expand the Group's mobile phone distribution in the PRC. The Group has not changed any of its business objectives and the proposed use of the proceeds from the IPO as set out in the Prospectus dated 9th February, 2000.

### ***M-Business***

#### ***Mobile Phone Distribution***

Not after the launch of the N3310 (dual band) and N8250 (dual band) at the end of September and December 2000 respectively by the Group's major supplier Nokia, the keen market competition led to a drop in the sale of mobile phones during the period under review. The launch of the new models will help to restore the Group's competitive product edge and the Directors expect a noticeable improvement in sales in the last quarter of the financial year 2000/2001.

*Distribution Network in the PRC*

2nd and 3rd level cities possess tremendous potential in mobile phone distribution development and the expansion of the retail network in these regions continues to be one of the Group's major development focuses this year. Currently the Group operates around 20 Nokia Professional Centres ("NPC") in the PRC with its extensive distribution network consisting of 95 authorised distributor shops and 95 authorised dealer shops operating under the Group's trade name, spread out in over 50 cities across over 20 provinces 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 to expand its distribution network in the PRC.

*Telecom-Port Retail Chain*

The continuous growth of the mobile phone replacement market creates a highly favourable business environment for the Telecom-Port retail chain. This situation is expected to continue in the next few years due to the development of new technologies (GPRS, 3G) and the emergence of increasing mobile business through wireless Internet applications. As an authorized dealer of Orange and Sunday, the Telecom-Port retail chain also benefits from the enormous promotion programs launched by these mobile phone network operators. Currently the Telecom-Port retail chain has expanded to a total of 8 retail outlets in prime areas in Hong Kong and the Jusco stores.

To expand retail network coverage more efficient and effectively, a franchise program has also been developed by Telecom-Port. The first Telecom-Port franchise shop will open in Tsuen Wan in February 2001, providing customers with mobile service consultancy, activation and personal digital devices.

Telecom-Port continues to explore new opportunities to increase its income and public awareness. Through its cooperation with Aeon-Spot, the Telecom-Port retail chain gained access to a particular customer segment that is accustomed to cross-media buying with retail support. Road shows, direct sales, and joint promotion campaigns with operators have also been planned and organized. A wide variety of personal digital products such as PDAs and MP3s, have also been included in the product mix. Convenient customer services such as free Internet access and email services are also provided at Telecom-Port's retail outlets.

**E-Business***Strategic Investments*

Amonic Solutions Limited ("Amonic"), a Hong Kong based software company engaging in the provision of one stop Internet solutions, has signed an official strategic partnership agreement with cnXML.org.cn, the official website of Chinese Academy of Sciences, in the areas of promotion, education, implementation, R&D of XML technology in Greater China. Leveraging its strong technical background, Amonic becomes cnXML's premium partner in building commercial solutions for the private sectors in the PRC and is actively organizing XML education programs in Hong Kong to promote this standard for programming language in website applications.

In view of the tremendous potential of Internet application services for small and medium enterprises (SMEs) market, Amonic is committed to exploring these blooming opportunity. During the period under review, Amonic has officially rolled out its new web design package, Amonic Express, for SMEs. Several seminars and direct sales will be organized to promote the product to the SMEs.

*E-Commerce Project Development*

## Telecom-port.com

Telecom-port.com plays an important role in the Group's "Click and Mortar" business concept. The fourth version of Telecom-port.com was launched recently featuring the integration of three payment gateways – Aeon-Spot, Beenz and Visa Credit Card. It is the first local website 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.

Telecom-port.com's membership benefits have been strengthened with the provision of useful features such as free mail systems (@1522.net) as well as over 2,000 songs for mobile phone ring tone downloads.

## FortuneTele.com

Fortunetele.com, the Group's corporate website providing corporate information and a mobile B2B marketplace, is currently under redevelopment to improve its content, features

and presentation. New features will include the addition of hyperlinks to websites of Group franchisees in the PRC, e-logistics, e-payments and other enhancement to the Group's distribution operations in the PRC. English and simplified Chinese versions will be available after the enhancement.

### **Multimedia Business**

#### *Distribution of Multimedia/Telecom Products*

There is tremendous potential demand for multi-media/telecom products from PRC telecom operators. These include the "Multimedia/Internet Payphone", "Telephone-card Vending Machine", "Calling Card Payphone", "Internet Remote Smart Sign Display", "Coin/Token Exchange Machine" and "Auto Payment/Printing Machine". In view of the rapid development in the PRC telecommunications industry, the Group has successfully obtained exclusive distribution rights for these products in Macau, Hong Kong and the PRC and has been marketing the products to PRC telecom operators through its established distribution network and business connections.

#### *Provision of VoIP Services*

During the period under review, the Group launched prepaid IDD services under the international "Fortune Multimedia" brand in early November 2000 with an initial focus on the Philippino and Indonesian market. More than ten thousands cards have been sold as at the end of January 2001.

To provide comprehensive 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. Clear voice and top fax quality will be provided by the latest cost-effective VoIP technology and architecture, which are much cheaper than normal IDD and International Fax Services. Additionally, the Group is actively looking for strategic alliances with well-known international long distance and IP carriers to expand its services.

### **E-Capital Business**

During the period under review, the Group has maintained its investment in PacificNet.com. PacificNet.com is an e-commerce applications, site construction and site hosting

management, support, maintenance and development services provider. Despite the recent market downturn for technology companies, the Group is still optimistic of their future returns in view of its unmatched technical strength and solid business foundations.

### ***Conclusion***

Looking ahead, to capture the tremendous opportunities generated in the PRC telecommunications market, the Group is committed to developing its telecommunication and wireless communication related businesses, sourcing new mobile phone models from different suppliers and to the forging of alliances with strategic partners to create market synergies.

Leveraging the Group's solid foundations in the PRC mobile distribution business, the management is confident of the Group's future development, is committed to maximising benefits for the Group and to enhancing shareholder returns.

### **DIRECTORS' INTERESTS IN SHARE CAPITAL**

At 31st December, 2000, 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:

	<b>Number of ordinary shares held as family interest</b>
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 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 December, 2000.

## **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 during the period and no options were outstanding at 31st December, 2000.

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**

At 31st December, 2000, 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.

## **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 (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules) had any interest in the shares of the Company as at 31st December, 2000.

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.

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

During the nine months ended 31st December, 2000, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **YEAR 2000 COMPLIANCE**

The Group successfully made a smooth transition to 2000. All computer systems have been upgraded or replaced to ensure they are Year 2000 compliant and are now functioning normally.

## **AUDIT COMMITTEE**

The Company's audit committee was formed on 10th December, 1999 and comprise of both independent non-executive directors, Messrs. Chang Wing Seng, Victor and Liu Kwok Fai, Alvan. The terms of reference of the audit committee have been established with regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

By Order of the Board

**Fortune Telecom Holdings Limited**

**Lau Siu Ying, Steve**

*Chairman*

Hong Kong, 9th February, 2001

\* *For identification purpose only*