長遠電信網絡集團有限公司

FORTUNE TELE.COM HOLDINGS LIMITED

First Quarter Report 2000

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This announcement, for which the directors (the "Directors") of Fortune Tele.com 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 Tele.com 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 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.

HIGHLIGHTS

- Turnover increased to approximately HK$365 million, representing a growth of approximately 15% as compared with the corresponding period in the previous year.
- Profit from operations increased to approximately HK$5.9 million.
- A substantial unrealised gain on investment holding of approximately HK$39.4 million was recorded.
- The earnings per share increased to 14.2 HK cents, representing a surge of 788% as compared with the 1.6 HK cents for the corresponding period in the previous year.

RESULTS

The directors (the "Directors") of Fortune Tele.com Holdings Limited (the "Company") are pleased to announce the unaudited results of the Company and its subsidiaries (collectively the "Group") for the three months ended 30th June, 2000, together with the unaudited comparative figures for the corresponding period in 1999 as follows:-

		Three months ended 30th June,	
	NOTES	**2000**	1999
		HK$'000	HK$'000
		(Note 1)	*(Note 1)*
Turnover	2	**365,395**	316,878
Cost of sales		**(355,805)**	(309,529)
Gross profit		**9,590**	7,349
Other revenue		**2,122**	979
Distribution costs		**(2,369)**	(1,071)
Administrative expenses		**(3,445)**	(1,466)
Profit from operations		**5,898**	5,791
Finance costs		**(1,678)**	(427)
Unrealised gain on investment holding	3	**39,418**	--
Share of results of an associate		**(18)**	--
Profit before taxation		**43,620**	5,364
Income tax expense	4	**996**	1,479
Net profit for the period		**42,624**	3,885
Earnings per share	5	**14.2 cents**	1.6 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 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 period ended 30th June, 2000 and 30th June, 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 period ended 30th June 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 on investment holding

The amount represents the surplus 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 strategically 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 in-house specialist team, the Group had substantially reduced reliance on PacificNet.com for e-business solutions. At the same time, the Group became increasingly concerned about the future returns from its 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 during the period and carried at fair value in the balance sheet as at 30th June, 2000. The fair value of PacificNet.com was determined with reference to the subscription price of one million shares in PacificNet subscribed by an independent investor in May 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 arising on the revaluation of the investment in PacificNet.com was recorded as a holding gain in the Group's income statement for the three months ended 30th June, 2000.

4. Income tax expense

		Three months ended 30th June,	
	NOTES	**2000**	1999
		HK$'000	HK$'000
		(Note 1)	*(Note 1)*
The charge comprises:			
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit		**305**	1,479
People's Republic of China other than Hong Kong ("PRC") income tax at 15% of the assessable profit		**691**	--
		996	1,479

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 ended 30th June, 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 three months ended 30th June, 2000 as Fortune Shanghai had not made any export sales.

The Group did not share any taxation of the associate as the associate did not incur any taxation charge post acquisition by the Group

5. Earnings per share

The calculation of the basic earnings per share is based on the unaudited net profit for three months of HK$42,624,000 *(1999: HK$3,885,000)* and on the number of 300,000,000 *(1999: 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 a quarterly dividend for the three months ended 30th June, 2000 (1999: nil).

REVIEW AND OUTLOOK

Financial review

The turnover of the Group increased to HK$365 million for the period ended 30th June, 2000, representing growth of approximately 15% as compared to the corresponding period in the previous year. The profit from operations increased slightly by 2% to approximately HK$5.9 million. During the period under review, although the Group was exposed to increasing competition from different manufacturers and distributors in the PRC, the Group's solid customer base and established presence in the industry enabled the Group to maintain steady growth in both turnover and profit from operations.

The gross profit ratio for the period was 2.6% when compared to 2.3% for the corresponding period in the previous year. This improvement was a result of the Group's efforts to expand the PRC retail network, as profit margins for sales directly to the Group's authorised distributor shops are higher than that for sales to other distributors/resellers.

Mobile phone suppliers usually introduce new products around late summer and early autumn each year. New models stimulate sales and generate higher profit margins. Following the introduction of new models by Nokia and the introduction of new brands by the Group in the forthcoming quarters, the directors expect to achieve more promising growth in the remaining year.

The net profit for the Group was HK$42.6 million for the three months ended 30th June, 2000. Included in the net profit was a holding gain of HK$39.4 million arising from the valuation 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 its e-business, the investment in PacificNet.com was strategically 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 specialist team, the Group has substantially reduced its reliance on PacificNet.com for e-business solutions. At the same time, the Group has become increasingly concerned about future returns from its investment in PacificNet.com. As a result of this change in intention, it is more appropriate to classify the investment in PacificNet.com as other investments. According to the benchmark treatment under the HKSSAP 24, the investment was carried at fair value in the Group's balance sheet as at 30th June, 2000 and the surplus arising on the valuation was recorded as holding gain in the Group's income statement for the period.

OPERATION REVIEW

DISTRIBUTION AND RETAIL BUSINESS

Mobile phone distribution

During the period, Nokia remained the major supplier for the Group. The Group has been able to maintain long term and stable relations with vendors. Other than exclusive distribution right for the Nokia 6150 dual band phone, the Group obtained the exclusive distributorship for the new models N7110 (WAP dual band) and N8850 (dual band) for taking delivery in Hong Kong since April 2000. Additionally, the Group obtained the non-exclusive distribution rights for NEC models such as SB1000 and DB3300 in April. These models were launched in April and May respectively.

In view of the keen competition among manufacturers and distributors which may result in thinner profit margins and less stable sales, the Group is considering various long term and short term business strategies to maintain the Group's continuing growth and increase in profitability. In short term, the Group will secure more brands models and a variety of telecom related products for exclusive distribution. With the expansion of the Group's distribution network, the diversification of brands models and products is essential to improve profitability and gain wider market coverage. In long term, the Group will diversify its core business to cover other technology related and more fast growing industries.

Distribution network in the PRC

Aiming to maintain its market leadership position and to enlarge its market share, the Group has been expanding its retail network in the PRC. On 16th July, 2000, the Group opened its first Nokia (Fortune) Mobile Shop in Shaoxing City, Zhejiang Province, the PRC. This is the twelfth Nokia Professional Centre ("NPC") developed jointly by the Group and Nokia (China) Investment Co Ltd in the PRC. During the period, Jiangmen Xinhui Nokia (Fortune) NPC and Jiangxi Gauzhou Nokia (Dao Wei Er) NPC were opened in May and June respectively.

The Group has been working closely with Nokia to expand the PRC retail network since 1998. The expansion of the retail network in 2nd and 3rd level cities is one of the Group's development focuses this year. Currently, the Group's extensive distribution network consists of 90 authorised distributor shops and 95 authorised dealer shops operating under the Group's trademark, spreading in over 50 cities across over 20 provinces in the PRC. The number of Authorised Services Centres ("ASC") also increased to 23 during the review period.

Distribution network in Hong Kong

The mobile phone penetration rate in Hong Kong is 50%. High replacement rates are expected in the next few years. Therefore, penetrating the Hong Kong retail market is vital to maintain the Group's competitive strengths.

During the review period, the Group acquired Top Success International Holdings Limited ("Top Success"), an authorised distributor of Hutchison Telecom for GSM/PCS and CDMA subscriptions. Top Success has four retail outlets in Hong Kong. The acquisition marks a milestone for the Group in its penetration into the mobile phone distribution business in Hong Kong. In July 2000, Top Success obtained the dealership for Sunday in addition to its existing dealership with Hutchison/ Orange. With the expansion of the retail network, the management will continue to seek additional opportunities by obtaining dealership rights from other operators in Hong Kong.

Telecom-port retail chain

Apart from the existing four outlets including a shop in Fortress Hill and three counters at Jusco Stores in Quarry Bay, Tsuen Wan and Tseung Kwan O, the Group is planning to have a total of eight self-owned retail outlets and four franchise stores in 2000 with an investment of approximately

HK$3 million. All the outlets, to be operated under the trade name "Telecom-port", will distribute a wide variety of mobile phones and provide activation services, prepaid SIM, IP and IDD cards, palm PDA and pocket-PCs. The annual turnover for the Telecom-port retail chain is expected to exceed HK$100 million. A new flagship "Telecom-port" store will be opened in Tsim Sha Tsui in September 2000. Another flagship store will also be opened later this year in Causeway Bay.

Increases stake in Telemax

The Group is negotiating with the shareholders of Telemax Services Limited ("Telemax") to exercise its options and increase its interest stake in Telemax in order to leverage its technical expertise and serve as the Group's service arm to provide: Advance level 2 repairs (Board and component level), Express level 1 repairs (Fast cosmetic repairs/swaps), mobile refurbishment (Comprehensive back end product support to both network operators and handset manufacturers), provision of spare parts and accessories, logistic consultants to retail chains and network operators.

E-BUSINESS

I Strategic Investments

Amonic Solutions Limited

In July 2000, the Group acquired a 30% interest in Amonic Solutions Limited ("Amonic Solutions") at a consideration of HK$800,000. The Group has options to subscribe further interest in Amonic Solutions up to aggregate shareholding of 50% at a total consideration of HK$6,934,000.

Amonic Solutions is a Hong Kong based company engaged in the provision of Internet Solutions including website design, e-commerce site development and maintenance, website hosting, payment processing, site traffic auditing and implementation of enterprises information technology infrastructure and applications. Amonic Solutions' flagship product: www.AuditRex.com will be launched soon to provide independent site traffic and statistic reports and monitoring. Amonic Solutions is also experienced in web based IP phone billing systems which will provide solid technical support to the Group during the launch of its VoIP services later this year.

V2 Technology Ltd

The Group is working on an agreement to invest in V2 Technology Ltd ("V2"), a company founded in Beijing Qinghua Technology Zone by a group of masters and researchers. V2 aims to be one of the leading companies in the field of Internet multimedia (voice and video streaming) technology. It supplies the online commodity and service providers with standard and custom-made Internet multimedia application solutions, such as V2communicator (Voice instant messaging); V2Mail (Voice mail); V2AOD (Voice banner) and V2E-support (Voice CRM).

II E-commerce project development

Telecom-port.com

Telecom-port.com is the core E-business project in our Group. It is an innovative hybrid vertical portal which will provide all telecommunication and related contents, E-commerce and M-commerce solutions for the Group. Other Internet business partners include retail and services outlets, E-logistic and distribution supports, E-payment and online ordering, wireless solutions including WAP and PDA access.

The integration of Telecom-port.com and Telecom-port retail chain is supplementary to each other such that real e-commerce becomes possible. With this solid business model, the Group plans to accelerate the development of Telecom-port.com project and spin off to be an independent business unit. Aggressive strategies including strategic alliances, merger and acquisition of related portals and mobile retail shops either locally or internationally will be adopted. Second version of telecom-port.com was launched and promoted in June 2000. The Group's in house R&D team is working on the third version which is planned to be launched before the fourth quarter. New features including virtual realities, communities, auctions, free email, membership zone, B2B, B2C market place will be introduced.

Bid5Bid.com

The Group believes that online auctions are popular in today's Internet industry. The establishment of an auction site is important to capture and leverage the Group's Internet members and customers. The Group is developing this project by its internal R&D team and a technical partner. The site will be launched in September 2000.

III Mobile-Commerce project development

A WAP joint venture

The Group is finalizing its 50:50 joint venture (MobileRex Technology Ltd.) agreement with a Finnish partner to form the wireless Internet technology joint venture. 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 in the PRC. Negotiations on the agreements with Chinese operators and content providers in the PRC will be carried out soon after the establishment of the joint venture.

Through the joint venture, a full range of wireless solutions (including WAP) and localized applications can be provided to the PRC. The Group plans to cooperate with several universities in the PRC to transfer and localise the applications. The mission of the joint venture is to become a leading Wireless Solutions Provider which will ultimately empower all the Group's Internet projects to be WAP or wireless ready, ultimately extending channel coverage to mobile phone users.

INTERNET COMMUNICATIONS BUSINESS

Provision of VoIP services

On 25th July, 2000, the Group obtained the PNET (ETS) license. The Group expects to invest HK$5 million in VoIP equipment and operations. After the installation of equipment in the third quarter, the Group plans to launch the Postpaid VoIP service, Pre-paid Calling card services and Fax over IP services by the end of the year. In order to build a strong market presence, the Group will form a close strategic alliances with major international VoIP service providers and carriers in Hong Kong, S.E Asia and the PRC.

Distribution of Multimedia/Internet products

With the exclusive distribution rights for 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 Macau, Hong Kong and the PRC, the Group is currently working on the introduction of the above products to PRC. The first contract with a leading telecom operator in South China is expected to be signed in September for the supply of 1000 sets of payphone under the "Fortune" brandname.

Also, a negotiation is undertaking with a PRC fixed network operator on the joint operation on the sales of telephone-card. This would be the first step-stone for the Group to enter the telecom operation in PRC in the near future.

E-CAPITAL VENTURES BUSINESS

PacificNet.com

PacificNet.com was the Group's earliest investments in technology companies. PacificNet.com was incorporated in the USA and engaged in the provision of e-commerce application site construction and site hosting management, support, maintenance and development services. PacificNet.com successfully listed in the NASDAQ of the USA on 27th July, 2000 and is now trading under the symbol "PACT". The Group holds approximately 9% of the shares in PacificNet.com at a total cost of approximately HK$12 million.

Talentsoft.com

In July, the Group completed the subscription of 25,000 shares in Talensoft.com, Inc ("Talensoft") at a total consideration of US$50,000. Talentsoft is a private company incorporated in the USA and is engaged in developing, marketing, and supporting web application development tools and e-commerce applications. Talentsoft's major products include the renowned Web+, one of the most popular Internet Application Development tool in the world. The Group started negotiation of subscription for Talentsoft and made a deposit of US$30,000 in the end of February 2000. In March 2000, the Sino Group, a prominent property developer in Hong Kong, has subscribed 12% of the shares in Talentsoft.

Regional expansion

In order to capture business opportunities in the region, the Group is conducting a feasibility study to set up operations in Malaysia and Chongqing City, the PRC.

CONCLUSION

The realm of telecommunication business continues to change rapidly. The application of Internet communication technology is definitely the international communications trend of the future. Through the Group's own R&D team together with the support of technical expertise from its strategic partners, the management is excited to capture market opportunities ahead.

Building on the Group's solid foundations in the mobile phone distribution business in the PRC, the Group is optimistic of its future development as well as strengthening its future revenues.

DIRECTORS' INTERESTS IN SECURITIES

At 30th June, 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:

	Number of ordinary shares held as family 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 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 30th June, 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 30th June, 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 30th June, 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 as at 30th June, 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 period, 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 comprises 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 Tele.com Holdings Limited

Lau Siu Ying, Steve

Chairman

Hong Kong, 10th August, 2000