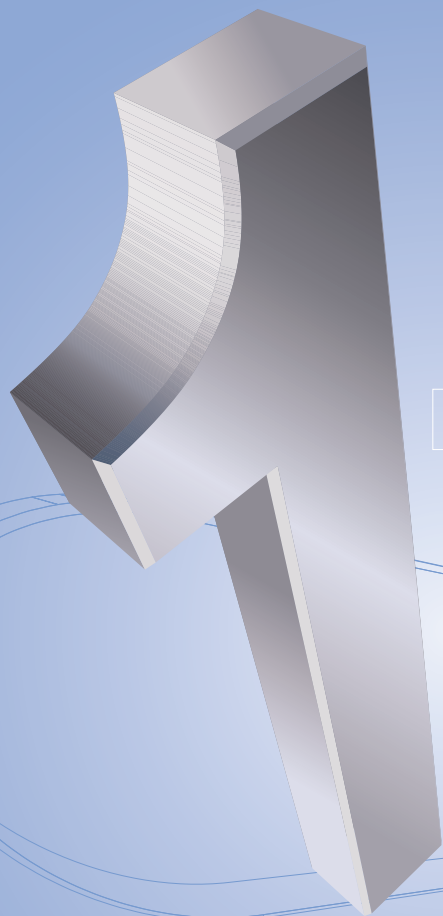


FIRST MOBILE GROUP HOLDINGS LIMITED

第一電訊集團有限公司



Mastering the Mobile Arena



THIRD QUARTERLY REPORT 2002
二零零二年第三季度業績報告

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

HIGHLIGHTS

For the nine months ended 30th September, 2002, First Mobile Group Holdings Limited and its subsidiaries have performed satisfactorily under a competitive market environment. Highlights of the nine months' performance are as follows:

- The Group achieved a turnover of approximately HK\$4,793 million, representing an increase of 25% over the same period of 2001
- Gross profit was approximately HK\$281 million, an increase of 9% over the same period of 2001
- Profit attributable to shareholders was approximately HK\$115 million, an increase of 20% over the same period of 2001
- Basic earnings per share was HK6.3 cents, an increase of 15% over the same period of 2001
- Sold approximately 3.4 million units of mobile phones
- Acquired distribution rights for five new models from LG and Sewon

RESULTS

The directors (the "Directors") of First Mobile Group Holdings Limited (the "Company") are pleased to announce the unaudited results of the Company and its subsidiaries (collectively the "Group") for the three months and the nine months ended 30th September, 2002 (the "Periods") together with the unaudited comparative figures in 2001:

Unaudited Consolidated Profit and Loss Account

For the three months and the nine months ended 30th September, 2002

	Note	Three months ended 30th September,		Nine months ended 30th September,	
		2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover	2	1,815,380	1,440,786	4,792,551	3,821,105
Cost of sales		(1,725,941)	(1,334,889)	(4,511,378)	(3,562,489)
Gross profit		89,439	105,897	281,173	258,616
Other revenues	2	1,162	1,380	3,874	3,940
Selling and distribution expenses		(13,024)	(11,259)	(36,301)	(30,249)
General and administrative expenses		(37,733)	(36,828)	(94,458)	(90,248)
Other operating income/ (expenses), net	3	1,792	(13,874)	13,915	(6,795)
Operating profit		41,636	45,316	168,203	135,264
Finance costs		(9,652)	(4,131)	(21,591)	(9,407)
Share of profits less losses of jointly controlled entities		769	-	884	-
Profit before taxation		32,753	41,185	147,496	125,857
Taxation	4	(9,782)	(13,855)	(35,547)	(31,755)
Profit after taxation		22,971	27,330	111,949	94,102
Minority interests		419	2,779	3,373	2,337
Profit attributable to shareholders		23,390	30,109	115,322	96,439
Dividend	5	-	-	19,457	17,500
Basic earnings per share	6	HK1.2 cents	HK1.7 cents	HK6.3 cents	HK5.5 cents

Unaudited Consolidated Net Tangible Assets

As at 30th September, 2002

		As at 30th September,	
	Note	2002 HK\$'000	2001 HK\$'000
Net tangible assets	8	702,383	434,273

Notes:

1. Basis of preparation

The unaudited consolidated profit and loss account and the unaudited consolidated net tangible assets have been prepared in accordance with the principal accounting policies of the Group which conform with accounting principles generally accepted in Hong Kong.

2. Turnover and revenues

The Group is principally engaged in the trading and distribution of mobile phones and accessories, sale of pre-pay airtime and airtime using Voice-over-IP ("VoIP"). Turnover represents invoiced value of sales of mobile phones and accessories, pre-pay airtime and airtime using VoIP to customers, net of returns, discounts allowed or value-added tax where applicable. Revenues recognised during the Periods are as follows:

	Three months ended 30th September,		Nine months ended 30th September,	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover				
Revenue from sale of mobile phones and accessories, net	1,796,277	1,440,786	4,767,870	3,821,105
Revenue from sale of pre-pay airtime using e-pay Terminals, net	370	–	5,948	–
Revenue from sale of airtime using VoIP, net	18,733	–	18,733	–
	1,815,380	1,440,786	4,792,551	3,821,105
Other revenues				
Interest income	755	1,362	2,949	3,886
Gross rental income from investment properties	109	18	371	54
Other rental income	226	–	482	–
Others	72	–	72	–
	1,162	1,380	3,874	3,940
Total revenues	1,816,542	1,442,166	4,796,425	3,825,045

3. Other operating income/(expenses), net

Other operating income/(expenses), net for the nine months ended 30th September, 2002 mainly comprised exchange differences and realised gain on disposals of other securities.

4. Taxation

The amount of taxation charged to the consolidated profit and loss account represents:

	Three months ended 30th September,		Nine months ended 30th September,	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Hong Kong profits tax (note (i))	5,826	7,502	22,532	14,156
Overseas taxation (note (ii))	3,841	5,311	12,882	17,599
Deferred taxation (note (iii))	–	1,042	–	–
	<u>9,667</u>	<u>13,855</u>	<u>35,414</u>	<u>31,755</u>
Share of taxation attributable to a jointly controlled entity	115	–	133	–
	<u>9,782</u>	<u>13,855</u>	<u>35,547</u>	<u>31,755</u>

Notes:

- (i) Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits for the Periods.
- (ii) Taxation on overseas profits has been calculated on the estimated assessable profits for the Periods at the rates of taxation prevailing in the countries in which the Group operates.
- (iii) There is no material unprovided deferred taxation for the Periods.

5. Dividend

An interim dividend of HK1 cent per share or a total of HK\$19,456,966 for the six months ended 30th June, 2002 was declared on 13th August, 2002 and paid on 25th October, 2002.

The Directors of the Company do not recommend the payment of other interim dividend for the Periods.

6. Earnings per share

Basic earnings per share for the three months and the nine months ended 30th September, 2002 are calculated based on the profit attributable to shareholders of HK\$23,390,000 and HK\$115,322,000 respectively (2001: HK\$30,109,000 and HK\$96,439,000 respectively) and on the weighted average number of 1,945,696,565 shares and 1,818,948,278 shares respectively (2001: 1,750,000,000 shares and 1,750,000,000 shares respectively) in issue during the Periods.

Diluted earnings per share is not presented for the three months and the nine months ended 30th September, 2002 and 2001 as there were no dilutive potential ordinary shares in existence during the periods.

7. Movements in reserves

Movements in the reserves of the Group during the three months ended 30th September, 2002 and 2001 are set out below:

	Share premium	Other properties revaluation reserve	Investments revaluation reserve	Merger reserve	Capital reserve	Reserve fund (note (ii))	Exchange reserve	Retained earnings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st July, 2001	6,655	1,111	(4,747)	3,994	162	1,868	780	231,425	241,248
Exchange differences	-	-	-	-	-	-	669	-	669
Deficit on revaluation of non-trading securities realised upon disposal (note (ii))	-	-	4,747	-	-	-	-	-	4,747
Interim dividend proposed	-	-	-	-	-	-	-	(17,500)	(17,500)
Profit for the period	-	-	-	-	-	-	-	30,109	30,109
At 30th September, 2001	<u>6,655</u>	<u>1,111</u>	<u>-</u>	<u>3,994</u>	<u>162</u>	<u>1,868</u>	<u>1,449</u>	<u>244,034</u>	<u>259,273</u>
At 1st July, 2002	127,258	4,638	-	3,994	162	1,950	(255)	385,361	523,108
Exchange differences	-	-	-	-	-	-	398	-	398
Interim dividend proposed	-	-	-	-	-	-	-	(19,457)	(19,457)
Profit for the period	-	-	-	-	-	-	-	23,390	23,390
At 30th September, 2002	<u>127,258</u>	<u>4,638</u>	<u>-</u>	<u>3,994</u>	<u>162</u>	<u>1,950</u>	<u>143</u>	<u>389,294</u>	<u>527,439</u>

Notes:

- (i) In accordance with the relevant regulations in the People's Republic of China (the "PRC") applicable to wholly foreign owned enterprises, the PRC subsidiary of the Group is required to appropriate to the reserve fund an amount of not less than 10% of the amount of profit after taxation (based on figures reported in the statutory accounts). If the accumulated total of the reserve fund reaches 50% of the registered capital of the PRC subsidiary, the enterprise will not be required to make any further appropriation. The reserve fund may be used to reduce any losses incurred by the PRC subsidiary. The appropriation is made only at 31st December.
- (ii) The deficit on revaluation of non-trading securities realised upon disposal is included in other operating income/(expenses), net in the consolidated profit and loss account.

8. Net tangible assets

	2002 HK\$'000	2001 HK\$'000
Opening net tangible assets of the Group as at 1st July	695,821	416,248
Profit attributable to shareholders for the three months ended 30th September	23,390	30,109
Adjustment for amortisation of intangible assets	2,231	–
Interim dividend proposed	(19,457)	(17,500)
Movements in exchange reserve	398	669
Deficit on revaluation of non-trading securities realised upon disposal	–	4,747
	<hr/>	<hr/>
Closing net tangible assets of the Group as at 30th September	<u>702,383</u>	<u>434,273</u>

BUSINESS REVIEW AND OUTLOOK

The Group is principally engaged in the distribution of a wide variety of brands of mobile phones and related accessories in the Asia Pacific region. For the nine months ended 30th September, 2002, turnover of the Group continued to increase and reached approximately HK\$4,793 million, representing a growth of 25% over the same period of 2001. Gross profit has increased 9% to approximately HK\$281 million. Profit attributable to shareholders has increased 20% to approximately HK\$115 million.

Mobile Phone Distribution

Industry leader

During the period under review, the Group maintained its industry leader position and sold approximately 3.4 million units of mobile phones. At the same time, the Group acquired distribution rights of 5 new models from LG and Sewon. As one of the leading mobile phone distributors in Asia Pacific, the Group carries 15 brands and over 70 mobile phone models.

During the period under review, the Group acquired distribution rights in Hong Kong SAR and Macau SAR for 3 new models from LG, which is one of the leading global players in telecommunications and electronics. It operates 72 subsidiaries around the world, employing over 55,000 employees worldwide. It has already become a dominant player in the CDMA mobile phone market and is now venturing into the GSM mobile phone market. According to the distribution agreement, the Group will carry 3 new LG models to capture various market segments. We strongly believe that this will be a win-win partnership.

The Group launched several models of Sewon during the nine months' period in 2002 and received impressive market acceptance. As the result of this success, the Group has acquired distributorship of 1 new GSM and 1 new CDMA models from Sewon. These 2 models are targeted to be launched in the fourth quarter of 2002.

Voice-over-IP (VoIP)

Australia

In April, 2002, the Group ventured into the booming VoIP market in Australia and Hong Kong by entering an agreement to acquire Chi Telecom Pty Ltd ("Chi Telecom") and Chi Tel Limited. Chi Telecom is principally engaged in the provision of VoIP services in the form of prepaid calling cards and wholesale of long-distance call traffic. The traffic volume in the third quarter has increased approximately 32% from the last quarter to 41 million minutes. The head office of the Australian VoIP operations in Sydney has moved to a new and larger office and has expanded to 19 staff to provide better technical support and pre-sales and post-sales services to the growing customer base. The promising results reflect that VoIP services are booming and will certainly open up an additional revenue stream for the Group.

New Zealand

The Group commenced VoIP operation in New Zealand in July 2002 and has established a sales network in Auckland, Hamilton, Wellington and Christchurch. The traffic volume in the third quarter reached approximately 13.5 million minutes. The Group believes that the business growth in New Zealand will be very promising.

Japan

The Group's VoIP services in Japan were officially launched in September 2002 after a successful trial run. We expect a healthy business growth in the coming months.

e-pay Business

In 2000, the Group formed a joint venture with e-pay Limited, a U.K. company providing electronic solutions for the distribution of pre-pay mobile airtime, in order to explore business opportunities in the Philippines, Singapore, Hong Kong and the PRC.

e-pay service was launched in the Philippines during the third quarter of 2001. A fixed line operator, two mobile operators and several Internet service providers have adopted e-pay service as authorized payment channels for their pre-pay services. However, as a result of the change of a major operator's e-distribution strategy in the Philippines in the first half of 2002, the market potential of e-pay service in the Philippine market diminished substantially and our target to make the e-pay Philippine operation breakeven in the year became unrealistic. After serious assessment of the market potential of e-pay service in the Philippines, the Group and our business partner, e-pay Limited have decided to close down the e-pay service in the Philippines.

In addition, due to the competitive market environment in Singapore and the unexpected delay in developing the Chinese software for the Hong Kong and PRC markets, the Group has reached an agreement with e-pay Limited to terminate the plans to develop Singapore, Hong Kong, the PRC and other locations covered in the joint venture agreement. The Directors consider that the decision is made in the best interests of the shareholders as a whole because the Group can better allocate our resources and management attention to fuel the growth of our core business.

FUTURE PLANS AND PROSPECTS

Mobile Phone Distribution

Our mission is to maintain our leadership in the distribution of premium and upcoming brands and to extend our geographical presence in the Asia Pacific region. To further strengthen our product portfolio, the Group will continue to explore and acquire new brands that have high market potentials. In the coming months, several models of LG and Sewon will be launched in the market.

LG Electronics focuses on mobile phones, mobile networks, communications systems and electronics components. Famous for its strong R&D capability and ability in combining cutting-edge technologies and superior quality, LG has firmly established itself as the 'Digital Leader', pioneering the digital revolution in the telecommunications and electronics domain. It has already become a dominant player in the CDMA mobile phone market and is now venturing into the GSM mobile phone market.

In the coming months, 3 new LG GSM models will be introduced in the market, namely W3000, G5220 and G7020. The Group is confident that these new models will be among the hottest models in Hong Kong through its intensive and effective marketing efforts.

Additionally, several new GSM and CDMA models of Sewon will be launched in the coming months. A number of new models from another Korean brand will be marketed by the Group in the last quarter of 2002 or early 2003.

VoIP

The Group will develop its VoIP business in the UK with an expansion plan to cover strategic cities, e.g. London, Manchester, Liverpool, Glasgow and Edinburgh. These cities are populated with a substantial number of Chinese and generate high demands on long distance calling services to Mainland China. Upon establishment of a solid distribution network in the UK, the Group plans to further venture into other European countries like France and the Netherlands.

SHARE OPTION SCHEMES

Pursuant to the written resolutions of the shareholders of the Company dated 15th December, 2000, two share option schemes, namely pre-listing share option plan ("Pre-Listing Share Option Plan") and share option scheme ("Share Option Scheme"), were approved and adopted. The summary of the terms of the two share option schemes has been set out in Appendix V of the Company's prospectus in connection with placing of the Company's shares dated 20th December, 2000 (the "Prospectus").

(i) Share Option Scheme

Under the Share Option Scheme, the board of Directors (the "Board") or a duly authorised committee thereof which shall include the independent non-executive Directors (the "Committee") may, at its discretion, invite any employee including any executive director of any company in the Group to take up options at HK\$1.00 per option to subscribe for shares in the Company (the "Shares") at the higher of (i) the closing price of the Shares as stated in the Exchange's daily quotation

sheet on the date of offer, which must be a business day; (ii) the average closing price of the Shares as stated in the Exchange's daily quotation sheets for the five business days immediately preceding the date of offer; and (iii) the nominal value of a Share, subject to a maximum of 10% of the total number of Shares in issue from time to time.

Options granted under this scheme may be exercised within a period to be notified by the Board or the Committee to each grantee and in any event such period of time shall not be less than three years and more than nine years commencing on the expiry of six months after the date on which an offer of the grant of an option is accepted and expiring on the last day of such period or 14th December, 2010, whichever is the earlier.

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company (including the Pre-Listing Share Option Plan) shall not exceed 30% of the total number of Shares in issue from time to time.

As at 30th September, 2002, no options under this scheme had been granted.

(ii) Pre-Listing Share Option Plan

The purpose of the Pre-Listing Share Option Plan is to recognise the contribution of certain Directors and employees to the growth of the Group and/or to the listing of the Shares on GEM of the Stock Exchange on 29th December, 2000 (the "Listing Date"). On 15th December, 2000, options to subscribe for an aggregate of 174,965,000 Shares at an exercise price of HK\$0.82 per share were granted by the Company to the Directors of the Company and certain employees of the Group. Pursuant to the Pre-Listing Share Option Plan, the 3 executive Directors of the Company were granted options to subscribe for an aggregate of 132,125,000 Shares (where details are disclosed in the section of "Directors' and Chief Executive's Interests in Securities"), 11 senior management staff were granted options to subscribe for an aggregate of 37,502,500 Shares and 56 employees were granted options to subscribe for an aggregate of 5,337,500 Shares.

Each of the grantee to whom options have been granted under the Pre-Listing Share Option Plan will be entitled to exercise (i) 10% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 6 months from the Listing Date, (ii) 20% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 12 months from the Listing Date, (iii) 25% of the options so granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 18 months from the Listing Date, (iv) 25% of the options so granted to

him/her (rounded down to the nearest whole number) at any time after the expiry of 24 months from the Listing Date, and (v) the remaining 20% of the options granted to him/her (rounded down to the nearest whole number) at any time after the expiry of 30 months from the Listing Date and, in each case, not later than three years from the date of exercise of the options.

Options to subscribe for 1,076,250 Shares in the Company lapsed during the nine months ended 30th September, 2002 due to the resignation of employees. As at 30th September, 2002, there are options remaining to subscribe for an aggregate of 169,592,500 Shares, representing 8.7% of the issued share capital of the Company. This comprised options to subscribe for an aggregate of 132,125,000 Shares granted to the 3 executive Directors of the Company, options to subscribe for an aggregate of 33,250,000 Shares granted to 9 senior management staff and options to subscribe for an aggregate of 4,217,500 Shares granted to 45 employees.

No options had been exercised or cancelled during the Periods.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 30th September, 2002, according to the register required to be kept by the Company under Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), the interests of the Company's Directors, chief executive or their associates were as follows:

(a) Shares in the Company

(Shares of HK\$0.10 each)

Name of Director	Personal interests	Number of shares		Total
		Family interests <i>(note (i))</i>	Corporate interests <i>(note (ii))</i>	
Mr. Ng Kok Hong	596,766,389	9,088,625	–	605,855,014
Mr. Ng Kok Tai	–	–	596,766,389	596,766,389
Mr. Ng Kok Yang	146,944,889	–	–	146,944,889
Mr. Wu Wai Chung Michael	787,500	–	–	787,500
Mr. Sze Tsai To Robert	787,500	–	–	787,500

Notes:

- (i) These shares are held by Ms. Tan Sook Kiang, the spouse of Mr. Ng Kok Hong, and therefore Mr. Ng Kok Hong is deemed by virtue of the SDI Ordinance to be interested in these shares.
- (ii) These shares are held by NKT Holdings Sdn. Bhd., a company incorporated in Malaysia, which is owned as to 50% by Mr. Ng Kok Tai and as to 50% by Ms. Siew Ai Lian, the spouse of Mr. Ng Kok Tai. Mr. Ng Kok Tai is deemed by virtue of the SDI Ordinance to be interested in these shares.

Save as disclosed above, as at 30th September, 2002, none of the Directors, chief executive or their associates had any interests in the share capital of the Company.

(b) First Telecom International Limited

(Non-voting deferred shares of HK\$1.00 each)

Name of Director	Number of shares		Total
	Personal interests	Family interests <i>(note)</i>	
Mr. Ng Kok Hong	1,239,326	18,878	1,258,204
Mr. Ng Kok Tai	1,239,326	–	1,239,326
Mr. Ng Kok Yang	305,160	–	305,160

Note: These shares are held by Ms. Tan Sook Kiang, the spouse of Mr. Ng Kok Hong, and therefore Mr. Ng Kok Hong is deemed by virtue of the SDI Ordinance to be interested in these shares.

(c) Options to subscribe for shares in the Company

Name of Director	Number of underlying shares under the Pre-Listing Share Option Plan		Total
	Personal interests	Family interests <i>(note)</i>	
Mr. Ng Kok Hong	47,250,000	–	47,250,000
Mr. Ng Kok Tai	42,000,000	875,000	42,875,000
Mr. Ng Kok Yang	42,875,000	–	42,875,000

Note: The option to subscribe for 875,000 shares in the Company was granted to Ms. Siew Ai Lian, the spouse of Mr. Ng Kok Tai. Mr. Ng Kok Tai is deemed by virtue of the SDI Ordinance to be interested in this option.

These options were granted on 15th December, 2000 under the Pre-Listing Share Option Plan and are exercisable at HK\$0.82 per share. None of the above Pre-Listing share options have been exercised during the Periods.

Save as disclosed above, as at 30th September, 2002, none of the Directors, chief executive or their associates had any interests or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

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

SUBSTANTIAL SHAREHOLDERS

Other than the interests of the Directors and chief executive as disclosed above, as at 30th September, 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10 per cent. or more of the issued share capital of the Company.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business (as defined in rule 11.04 of the GEM Listing Rules) which competes or may compete with the business of the Group.

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

During the Periods, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

SPONSOR'S INTERESTS

The interests of Kingsway Capital Limited ("Kingsway") in the share capital of the Company as at 30th September, 2002 are summarised below:

	As at 30th September, 2002	
	Number of Shares	Percentage of the issued share capital of the Company
Kingsway	Nil	Nil
Kingsway's employees (excluding directors)	Nil	Nil
Kingsway's directors	9,033,500	0.5%
Kingsway's associates	<u>111,823,250</u>	<u>5.7%</u>
Total	<u>120,856,750</u>	<u>6.2%</u>

Save as disclosed herein, the joint sponsors of the Company (the "Joint Sponsors"), Kingsway and Asia Investment Capital Limited (formerly Asia Financial Capital Limited), their respective directors, employees and associates (as referred to in Note 3 to rule 6.35 of the GEM Listing Rules), as at 30th September, 2002, did not have any interests in the securities of the Company or any members of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

Two of the independent non-executive Directors, Mr. Wu Wai Chung Michael and Mr. Sze Tsai To Robert, are independent non-executive directors of SW Kingsway Capital Holdings Limited, the holding company of Kingsway.

Pursuant to an agreement dated 3rd January, 2001 entered into between the Company and the Joint Sponsors, the Joint Sponsors have received and will receive a fee for acting as the Company's retained sponsors for the period from 29th December, 2000 to 31st December, 2002.

On 23rd October, 2001, a syndicate member of a transferable term loan (in which a subsidiary of the Company is the borrower) agreed to transfer its participation of HK\$25 million to a fellow subsidiary of Kingsway. The fellow subsidiary of Kingsway had taken up the participation on 31st October, 2001.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

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

AUDIT COMMITTEE

The Company established an audit committee on 15th December, 2000 with terms of reference in compliance with rules 5.23 to 5.25 of the GEM Listing Rules. As at 30th September, 2002, the audit committee has four members comprising three independent non-executive Directors, Mr. Sze Tsai To Robert, Mr. Wu Wai Chung Michael and Mr. Wong Tin Sang Patrick, and one executive Director and the Compliance Officer, Mr. Ng Kok Hong.

The principal duties of the audit committee include the review and supervision of the financial reporting process and internal control procedures of the Group. During the Periods and up to the date of this report, four audit committee meetings were held for reviewing the Company's annual report, half-year report and quarterly reports, and providing advices and recommendations to the board of Directors.

By order of the Board

Ng Kok Hong

Executive Chairman

Hong Kong, 12th November, 2002



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