

FIRST MOBILE GROUP HOLDINGS LIMITED

第一電訊集團有限公司



MASTERING THE MOBILE ARENA



THIRD QUARTERLY REPORT 2003

二零零三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, 2003, First Mobile Group Holdings Limited and its subsidiaries recorded satisfactory results, despite a very competitive and difficult operating environment. Highlights of the nine months' performance are as follows:

- Turnover was approximately HK\$4,821 million
- Gross profit was approximately HK\$242 million
- Profit attributable to shareholders was approximately HK\$35 million
- Basic earnings per share was HK1.80 cents
- Sales of mobile phones were approximately 3.0 million units

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, 2003 (the "Periods"), together with the unaudited comparative figures in 2002:

Unaudited Consolidated Profit and Loss Account

For the three months and the nine months ended 30th September, 2003

		Three months ended 30th September,		Nine months ended 30th September,	
	Note	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	1,772,811	1,815,380	4,821,158	4,792,551
Cost of sales		(1,689,043)	(1,725,941)	(4,578,715)	(4,511,378)
Gross profit		83,768	89,439	242,443	281,173
Other revenues	2	1,450	1,162	4,521	3,874
Selling and distribution expenses		(20,708)	(13,024)	(46,913)	(36,301)
General and administrative expenses		(33,500)	(37,733)	(112,641)	(94,458)
Other operating income/ (expenses), net	3	1,998	1,792	(1,803)	13,915
Operating profit		33,008	41,636	85,607	168,203
Finance costs		(9,093)	(9,652)	(25,803)	(21,591)
Share of profit/(loss) of a jointly controlled entity		-	769	(166)	884
Profit before taxation		23,915	32,753	59,638	147,496
Taxation	4	(8,232)	(9,782)	(22,072)	(35,547)
Profit after taxation		15,683	22,971	37,566	111,949
Minority interests		182	419	(2,512)	3,373
Profit attributable to shareholders		15,865	23,390	35,054	115,322
Dividend	5	-	-	-	19,457
Basic earnings per share	6	HK0.82 cent	HK1.20 cents	HK1.80 cents	HK6.34 cents

Unaudited Consolidated Net Tangible Assets

As at 30th September, 2003

		As at 30th September,	
	Note	2003 HK\$'000	2002 HK\$'000
Net tangible assets	8	<u>703,042</u>	<u>702,383</u>

Notes:

1. Basis of preparation and accounting policies

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

The accounting policies and methods of computation used in the preparation of the Unaudited Consolidated Financial Information are consistent with those used in the annual report for the year ended 31st December, 2002 and the unaudited interim report for the six months ended 30th June, 2003.

2. Turnover and revenues

The Group is principally engaged in the trading and distribution of mobile phones and accessories, the sale of pre-pay airtime and the provision of the inter-city/international telecommunication services using Voice-over-IP ("VoIP") technology.

Turnover represents invoiced value of sale of mobile phones and accessories, pre-pay airtime using e-pay Terminals and airtime using VoIP technology to customers, net of returns, discounts allowed, value-added tax or sales tax where applicable. Revenues recognised during the Periods are as follows:

	Three months ended 30th September,		Nine months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover				
Revenue from sale of mobile phones and accessories, net	1,744,404	1,796,277	4,731,144	4,767,870
Revenue from sale of pre-pay airtime using e-pay Terminals, net	–	370	–	5,948
Revenue from provision of inter-city/ international telecommunication services using VoIP technology, net	28,407	18,733	90,014	18,733
	1,772,811	1,815,380	4,821,158	4,792,551
Other revenues				
Interest income	1,115	755	3,620	2,949
Gross rental income from investment properties	–	109	–	371
Other rental income	226	226	679	482
Repair service income, net	109	–	222	–
Others	–	72	–	72
	1,450	1,162	4,521	3,874
Total revenues	1,774,261	1,816,542	4,825,679	4,796,425

3. Other operating income/(expenses), net

Other operating expenses, net for the nine months ended 30th September, 2003 mainly comprised amortisation of intangible assets and exchange differences.

Other operating income, 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/(credited) to the consolidated profit and loss account represents:

	Three months ended 30th September,		Nine months ended 30th September,	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax (note (i))	2,801	5,826	7,779	22,532
Overseas taxation (note (ii))	5,052	3,841	14,697	12,882
Deferred taxation	379	–	(404)	–
	<u>8,232</u>	<u>9,667</u>	<u>22,072</u>	<u>35,414</u>
Share of taxation attributable to a jointly controlled entity	–	115	–	133
	<u>8,232</u>	<u>9,782</u>	<u>22,072</u>	<u>35,547</u>

Notes:

- (i) Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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.

5. Dividend

The Directors of the Company do not recommend the payment of an interim dividend for the nine months ended 30th September, 2003 (2002: nil).

6. Earnings per share

Basic earnings per share for the three months and the nine months ended 30th September, 2003 are calculated based on the profit attributable to shareholders of HK\$15,865,000 and HK\$35,054,000 respectively (2002: HK\$23,390,000 and HK\$115,322,000 respectively) and on the weighted average number of 1,945,696,565 shares in issue during the Periods (2002: 1,945,696,565 shares and 1,818,948,278 shares respectively).

Diluted earnings per share for the three months and the nine months ended 30th September, 2003 and 2002 are not presented as there were no dilutive potential shares as at 30th September, 2003 and 2002.

7. Movements in reserves

Movements in the reserves of the Group during the three months ended 30th September, 2003 and 2002 are set out below:

	Share premium HK\$'000	Other properties revaluation reserve HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Reserve fund (note (i)) HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
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>3,994</u>	<u>162</u>	<u>1,950</u>	<u>143</u>	<u>389,294</u>	<u>527,439</u>
At 1st July, 2003	127,258	3,067	3,994	162	4,872	485	379,397	519,235
Exchange differences	-	-	-	-	-	(473)	-	(473)
Profit for the period	-	-	-	-	-	-	15,865	15,865
At 30th September, 2003	<u>127,258</u>	<u>3,067</u>	<u>3,994</u>	<u>162</u>	<u>4,872</u>	<u>12</u>	<u>395,262</u>	<u>534,627</u>

Note:

- (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.

8. Net tangible assets

	2003 HK\$'000	2002 HK\$'000
Opening net tangible assets of the Group as at 1st July	685,997	695,821
Profit attributable to shareholders for the three months ended 30th September	15,865	23,390
Adjustment for amortisation of intangible assets	1,653	2,231
Interim dividend proposed	-	(19,457)
Movements in exchange reserve	(473)	398
Closing net tangible assets of the Group as at 30th September	<u>703,042</u>	<u>702,383</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. Considering the very competitive environment in the region, the Group's results in the third quarter of 2003 were satisfactory.

Mobile Phone Distribution

Capitalizing on its strong expertise in distributing leading-edge mobile phones and its transnational marketing capability, the Group aims to establish itself as the market leader that completely fulfils the requirements and expectations of mobile phone users in the markets it serves.

In Malaysia, the Group represents the full range of GSM mobile phones of Samsung, one of the top 3 brands in Malaysia which has achieved a market share of approximately 24% through the Group's impeccable sales and marketing activities. During the period under review, "Cellular Centres" were launched in major shopping complexes in Malaysia that serve as mobile phone shops and customer service centres. These centres reinforce brand visibility on the frontline and give instant market coverage and reach. We are confident that the establishment of "Cellular Centres" will have a positive impact on the Group's sales and further strengthen its brand image. Moreover, our Malaysian subsidiaries have succeeded in launching a tie-up programme with the Ministry of Tourism. Response from customers, both in terms of sales and brand recognition, has been very encouraging.

In India, the mobile penetration rate is still very low, at approximately 1.8%. There were only 18 million mobile subscribers as of September 2003. However, the trend for future growth in this market is promising, and sales of mobile phones are expected to reach approximately one million per month in the near future. In October 2001, the Group established a subsidiary, First Mobile India Private Limited ("First Mobile India"), in India which has since acquired distribution rights for more than 10 models from the renowned Alcatel and Philips brands. During the period under review, it established 9 new service centres to better serve its suppliers and customers. An extensive service centre network has been established in India, with 16 self-operated and franchised service centres in 13 major cities. The extensive sales, distribution and service networks, together with distribution rights for leading mobile phone models, enable the Group to be well positioned to benefit from the future boom in the industry.

Voice-over-IP (“VoIP”)

In April 2002, the Group ventured into the booming VoIP market by entering into an agreement to acquire Chi Telecom Pty Ltd and Chi Tel Limited. The acquisition was completed in June 2002. These companies are principally engaged in providing VoIP services in the forms of prepaid calling cards and wholesale long-distance call traffic.

In view of the VoIP industry’s potential, the Group is poised to leverage on its in-depth knowledge of market requirement and the renowned quality of its services to explore VoIP business opportunities around the world.

During the period under review, despite the shrinking margins brought on by increasingly competitive market, worldwide presence of the Group’s VoIP business remained robust and sold approximately 254 million minutes, a four-fold increase over the same period of 2002. This significant growth was mainly due to the expanded geographical coverage, which has extended to Canada during the third quarter, in addition to the existing coverage on Hong Kong, Australia, New Zealand, the U.K. and the U.S.

In the third quarter, the Group’s new subsidiary, Chi Tel Canada Limited, commenced operation. Headquartered in Toronto, the city which has the largest Chinese population in Canada, Chi Tel Canada Limited is well positioned to fulfill its business target of serving the large number of Chinese immigrants and students comprising the Chinese community in Canada. In addition to Toronto, the subsidiary also aims to establish sales networks in other cities such as Montreal and Vancouver with a large Chinese population, generating a high demand for long distance call service to Mainland China.

Financial Review

Turnover for the nine months ended 30th September, 2003 was approximately HK\$4,821 million. Number of mobile phones sold was maintained at approximately 3.0 million (2002: 3.4 million) units. Despite a drop in gross profit for the nine months ended 30th September 2003 when compared with the same period in 2002, gross profit margin in the third quarter of 2003 had slightly recovered from approximately 4.6% in the second quarter to approximately 4.7%. After the removal of Hong Kong and the PRC from the Severe Acute Respiratory Syndrome (“SARS”) infected areas list in late June and early July, there saw a general improvement in the socio-economic atmosphere. Pressure on price and inventories accumulation in the mobile phone industry has been gradually eased by the revived consumption sentiment. Together with our marketing and promotion programs launched to boost up sales, improvement in gross profit margin was achieved.

Marketing activities were increased, not only for sales promotion but also for strengthening of brand image which would bring long-term benefits to the Group in the coming quarters, leading to a rise in selling and distribution expenses by 29% to approximately HK\$47 million for the nine months ended 30th September, 2003. General and administrative expenses increased moderately by approximately 19% to approximately HK\$113 million for the nine months ended 30th September 2003 as a result of our strategic move to develop overseas markets, such as India, and business expansion of the VoIP business during the year. Nevertheless, our efforts to restrain increase in overheads were satisfactorily achieved as general and administrative expenses in the third quarter of 2003 reduced by approximately 11% when compared with the corresponding period in 2002 and was kept at the same level as that in the second quarter.

For the nine months ended 30th September, 2003, profit attributable to shareholders decreased significantly from approximately HK\$115 million to approximately HK\$35 million because of the intensified market competition and the negative effects caused by the SARS outbreak. Basic earnings per share fell from approximately HK6.34 cents in 2002 to approximately HK1.80 cents in 2003. Notwithstanding the decline when compared with 2002, amidst the difficult business environment in 2003, management is determined to improve profitability of the Group going forward and increase in net profit from quarter to quarter is achieved in 2003.

FUTURE PLANS AND PROSPECTS

Mobile Phone Distribution

The Group's mission is to maintain its leading position in the distribution of up-and-coming brands, as well as to continue its geographical expansion and enhance its market presence in the Asia Pacific region.

In the coming months, the Group plans to further strengthen its service network, and expects more than 10 service centres in India and the Philippines are in the pipeline. It will further augment its infrastructure in areas such as sales and service networks, as well as its supplier mix, in order to pave the way for growth in Asia Pacific countries such as Malaysia, India and the Philippines.

VoIP

The Group plans to establish a subsidiary, Chi Tel France SARL, in France with the aim to launch service there during the fourth quarter. Initially, its sales network will cover several major cities, such as Paris, Nantes, Lille, Strasbourg, Lyon, Marseille, Bordeaux and Toulouse. The Group is confident that it will become one of the top service providers for the Chinese community in France. At the same time, the Group will explore the market potentials in the Indochinese, African and Arab communities. Meanwhile, the Group will continue to tap into the enormous potential of VoIP business in other markets, such as Singapore and Malaysia.

VoIP is becoming increasingly popular in the enterprise world. The Group is committed to growing its VoIP business and striving to capture a greater market share through a combination of competitive pricing, superb service standards and marketing activities. It is confident that this will be an effective strategy and approach in building sales and achieving more promising returns for its shareholders.

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 (the "Pre-Listing Share Option Plan") and share option scheme (the "2000 Share Option Scheme"), were approved and adopted. The summary of the terms of the two share option schemes had been set out in Appendix V of the Company's prospectus in connection with placing of the Company's shares dated 20th December, 2000.

At the annual general meeting held on 29th April, 2003, the shareholders of the Company approved the adoption of a new share option scheme (the "2003 Share Option Scheme") and the termination of the operation of the 2000 Share Option Scheme. No options had been granted under the 2000 Share Option Scheme since its adoption on 15th December, 2000 and up to the date of its termination. The summary of the terms of the 2003 Share Option Scheme was disclosed in the circular to shareholders dated 27th March, 2003.

(i) 2003 Share Option Scheme

Under the 2003 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 participant (as defined in the 2003 Share Option Scheme), including any employee and any 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 as at the date of its approval and as refreshed by members in general meeting in accordance with the terms of the 2003 Share Option Scheme.

Options granted under this scheme may be exercised within a period to be notified by the Board or the Committee to each grantee as being the period during which an option may be exercised, and in any event, such period shall not be longer than 10 years from the date of grant of the option.

The maximum number of Shares in respect of which options may be granted under the 2003 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, 2003, 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 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' interests and short positions in shares"), 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 23,905,000 Shares in the Company lapsed during the nine months ended 30th September, 2003 due to the resignation of employees. As at 30th September, 2003, there are options remaining to subscribe for an aggregate of 144,698,750 Shares, representing 7.4% 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 8,750,000 Shares granted to 6 senior management staff and options to subscribe for an aggregate of 3,823,750 Shares granted to 41 employees.

No options had been exercised or cancelled during the Periods.

Following the adoption of the 2003 Share Option Scheme and the termination of the 2000 Share Option Scheme on 29th April, 2003, the above-mentioned outstanding options granted under the Pre-Listing Share Option Plan shall continue to be subject to the provisions of the Pre-Listing Share Option Plan and will not in any event be affected by the adoption and termination of the schemes.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30th September, 2003, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO were as follows:

(a) Shares in the Company

Name of Director	Number of shares of HK\$0.10 each			Total	Percentage of issued share capital
	Personal interests	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	31.14%
Mr. Ng Kok Tai	-	-	596,766,389	596,766,389	30.67%
Mr. Ng Kok Yang	146,944,889	-	-	146,944,889	7.55%
Mr. Wu Wai Chung Michael	2,003,500	-	-	2,003,500	0.10%
Mr. Sze Tsai To Robert	787,500	-	-	787,500	0.04%

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 SFO 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 SFO to be interested in these shares.

(b) Shares in an associated corporation

Name of Director	Number of non-voting deferred shares of HK\$1.00 each in First Telecom International Limited		
	Personal interests	Family interests <i>(note)</i>	Total
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 SFO 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		
	Personal interests	Family interests <i>(note)</i>	Total
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 SFO 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 had been exercised during the Periods.

Save as disclosed above, as at 30th September, 2003, none of the Directors, chief executive or their associates had any interests, short positions or rights to subscribe for any securities of the Company or any of its associated corporations as defined in the SFO.

Save as disclosed above, at no time during the Periods was the Company or any of 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.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30th September, 2003, the following persons (other than the Directors of the Company as disclosed above) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name	Number of shares of HK\$0.10 each	Percentage of issued share capital
SW Kingsway Capital Group Limited	140,932,250	7.24% <i>(note(i))</i>
SW Kingsway Capital Holdings Limited	140,932,250	7.24% <i>(note(iii))</i>
World Developments Limited	140,932,250	7.24% <i>(note(iiii))</i>
Innovation Assets Limited	140,932,250	7.24% <i>(note(iv))</i>
Kingsway International Holdings Limited	149,988,250	7.71% <i>(note(v))</i>
Mr. Choi Koon Shum Jonathan	149,988,250	7.71% <i>(note(vi))</i>

Notes:

- (i) Amongst 140,932,250 shares, 23,000,000 shares are held by SW Kingsway Capital Group Limited directly and 117,932,250 shares are held by three wholly-owned subsidiaries of SW Kingsway Capital Group Limited. The said three subsidiaries include Kingsway Lion Spur Technology Limited, Opal Dragon Investments Limited and Kingsway SW Finance Limited and they respectively hold 40,620,000, 69,312,250 and 8,000,000 shares in the Company. Therefore, SW Kingsway Capital Group Limited is deemed by virtue of the SFO to be also interested in the 117,932,250 shares.
- (ii) SW Kingsway Capital Holdings Limited holds 100% interests in shares of SW Kingsway Capital Group Limited. Therefore, SW Kingsway Capital Holdings Limited is deemed by virtue of the SFO to be also interested in the 140,932,250 shares directly and indirectly held by SW Kingsway Capital Group Limited.
- (iii) World Developments Limited holds 74% interests in shares of SW Kingsway Capital Holdings Limited. Therefore, World Developments Limited is deemed by virtue of the SFO to be also interested in the 140,932,250 shares directly and indirectly held by SW Kingsway Capital Group Limited.
- (iv) Innovation Assets Limited holds 100% interests in shares of World Developments Limited. Therefore, Innovation Assets Limited is deemed by virtue of the SFO to be also interested in the 140,932,250 shares directly and indirectly held by SW Kingsway Capital Group Limited.
- (v) Amongst 149,988,250 shares, Kingsway International Holdings Limited is deemed by virtue of the SFO to be also interested in the 140,932,250 shares directly and indirectly held by SW Kingsway Capital Group Limited as Kingsway International Holdings Limited holds 100% interests in shares of Innovation Assets Limited.

Kingsway Securities Holdings Limited, a wholly-owned subsidiary of Kingsway International Holdings Limited, directly holds 7,956,000 shares in the Company. Accordingly, Kingsway International Holdings Limited is deemed by virtue of the SFO to be also interested in the 7,956,000 shares held by Kingsway Securities Holdings Limited.

Weaver Strategic Investments Limited directly holds 1,100,000 shares in the Company. Weaver Strategic Investments Limited is a wholly-owned subsidiary of HK Weaver Group Limited and Kingsway International Holdings Limited holds 77% interests in shares of HK Weaver Group Limited. Accordingly, Kingsway International Holdings Limited is deemed by virtue of the SFO to be also interested in the 1,100,000 shares held by Weaver Strategic Investments Limited.

- (vi) Mr. Choi Koon Shum Jonathan beneficially owns and controls 36,929,651 shares, representing 48% of the issued share capital of Kingsway International Holdings Limited and is deemed by virtue of the SFO to be also interested in the 149,988,250 shares in the Company held indirectly by Kingsway International Holdings Limited.

Save as disclosed above, as at 30th September, 2003, there was no other person (other than the Directors of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

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.

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, 2003, 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, 13th November, 2003



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