

Notes to Condensed Consolidated Accounts

1. BASIS OF PREPARATION

- (a) The above unaudited condensed consolidated accounts of the Group have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25, "Interim Financial Reporting", issued by the HKICPA and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

On 29 March 2004, the Company entered into a conditional subscription agreement with Power Palace Group Limited ("PPG"), a wholly-owned subsidiary of New World Development Company Limited ("NWD"), pursuant to which PPG agreed to subscribe for:

- (i) 4,166,666,667 shares of newly issued ordinary share of the Company (the "Subscription Shares", equivalent to 41,666,666 consolidated shares after the share consolidation of the Company on 7 July 2004) at an issue price of HK\$0.012 per Subscription Share; and
- (ii) a convertible note (the "Subscription Note") of a principal amount of HK\$1,200,000,000. The Subscription Note, unless previously converted, will be repaid by the Company upon its maturity on the business day immediately preceding the third anniversary of the date of its issue. It bears a coupon from its date of issue at the rate of 0.75% per annum and, at the discretion of the holder, can be converted, in whole or any part thereof, into the ordinary shares of the Company at an initial conversion price of HK\$0.012 per share, subject to adjustment. The conversion price was subsequently adjusted to HK\$1.20 per share after the share consolidation of the Company on 7 July 2004.

Both the Subscription Shares and Subscription Note were issued on 6 July 2004.



On 29 March 2004, the Company entered into a conditional sale and purchase agreement (the "S&P Agreement") with New World Telephone Holdings Limited ("NWTHL"), a wholly-owned subsidiary of NWD, pursuant to which the Company agreed to purchase the 100% equity interest of New World PCS Holdings Limited ("NWPCS") and its subsidiaries (collectively, the "NWPCS Group") from NWTHL at an aggregate cash consideration of HK\$1,250,000,000. This transaction (the "Acquisition") was completed on 6 July 2004 (the "Completion Date").

- (b) Under the generally accepted accounting principles in Hong Kong, the Acquisition, after taking into account the issuance of Subscription Shares, should constitute a reverse acquisition from accounting perspective since NWD has become the controlling shareholder of the Company after the Acquisition. For accounting purposes, NWPCS is regarded as the acquirer while the Company and its subsidiaries before the Acquisition (collectively, the "Logistics Group") are deemed to have been acquired by NWPCS. As a result, these consolidated condensed accounts have been prepared as a continuation of the condensed consolidated accounts of the NWPCS Group and accordingly:
- (i) the assets and liabilities of the Logistics Group are recognized and recorded at the Completion Date at their fair value (the "Net Fair Value");
 - (ii) the assets and liabilities of the NWPCS Group are recognized and recorded at the Completion Date at their historical carrying values prior to the Acquisition;
 - (iii) the purchase consideration is deemed to have been incurred by NWPCS for the Acquisition and is determined by the total fair value of all the issued shares of the Company at the Completion Date (the "Deemed Consideration");
 - (iv) the goodwill arising from the Acquisition is determined at the surplus of the Deemed Consideration over the Net Fair Value;

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- (v) the capital and reserves of the Logistics Group upon the Completion Date are eliminated as the pre-acquisition reserves;
 - (vi) the consolidated issued equity of the Group as shown in the condensed consolidated balance sheet represents the issued share capital and share premium balances of NWPCS upon the Completion Date, plus all the post-Acquisition changes in the issued share capital and premium of the Company, if any. On the other hand, the number and type of issued shares presented represent the actual equity structure of the Company;
 - (vii) the difference between the actual consideration paid by the Company for the Acquisition and the Deemed Consideration is transferred to a consolidation reserve of the Group;
 - (viii) the comparative information shown in these condensed consolidated accounts is that of the NWPCS Group; and
 - (ix) additional information of the Logistics Group as extracted from the last annual report for the year ended 31 December 2003 and the interim report for the six months ended 30 June 2004 are also presented in note 21 to these condensed consolidated accounts for reference purpose. However, they are not comparable to the basis of preparation of these condensed consolidated accounts as set out above.
- (c) In order to have a coterminous financial year end date with NWD and the NWPCS Group, the Board has resolved on 10 December 2004 that the financial year end date of the Company be changed from 31 December to 30 June. Accordingly, this second interim report covers the twelve months period from 1 January 2004 to 31 December 2004.

2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies adopted in preparing these unaudited condensed consolidated accounts of the Group are consistent with those being followed in preparing the financial information of the NWPCS Group for the three years ended 30 June 2001, 2002, 2003 and the six-month periods ended 31 December 2002 and 2003 as included in the circular to the shareholders of the Company dated 2 June 2004 in relation to the Acquisition, except for the accounting for the Acquisition as detailed in note 1 above and the early adoption of certain Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") as mentioned below.

The HKICPA has issued a number of new and revised HKFRS and HKAS which are effective for accounting periods beginning on or after 1 January 2005. The Group has early adopted the following HKFRS and HKAS (the "HKFRS 3 Package") for the twelve months ended 31 December 2004:

HKFRS 3 – business combinations
HKAS 36 – impairment of assets
HKAS 38 – intangible assets

Pursuant to the HKFRS 3 Package, the accounting policy for goodwill arising from the Acquisition during the current period mentioned in note 1 above is as follows:

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

The Group had not incurred any goodwill before 1 July 2004 and so there is no effect of the early adoption of the HKFRS 3 Package on opening balances. The early adoption of the HKFRS 3 Package does not have any other significant changes to the accounting policies of the Group.

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3. TURNOVER AND REVENUE

The Group principally engages in the provision of mobile communications services and the sales of mobile handsets and accessories. Revenue recognized during the period is as follows:

	Six months ended 31 December		Twelve months ended 31 December	
	2004 HK\$'000 Unaudited	2003 HK\$'000 Audited	2004 HK\$'000 Unaudited	2003 HK\$'000 Unaudited
Turnover				
Mobile communications services	668,646	741,908	1,368,722	1,478,553
Sales of mobile handsets and accessories	185,778	106,153	336,385	189,869
Logistics service	4,261	–	4,261	–
	858,685	848,061	1,709,368	1,668,422
Other revenue				
Bank interest income	196	110	201	180
Total revenue	858,881	848,171	1,709,569	1,668,602

4. SEGMENT REPORTING

For the six and twelve months ended 31 December 2004, more than 90% of the Group's turnover and operating profit were attributable to its mobile communications operations in Hong Kong. Accordingly, no analysis by either business or geographical segment is included in these interim financial statements.

5. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Six months ended 31 December		Twelve months ended 31 December	
	2004 HK\$'000 Unaudited	2003 HK\$'000 Audited	2004 HK\$'000 Unaudited	2003 HK\$'000 Unaudited
Crediting				
Net exchange gains	29	110	8	68
Gain on disposal of trading securities	100	–	100	–
Gain on disposal of investment securities	2,089	–	2,089	–
Reversal of write-down of inventories	678	–	678	–
Charging				
Auditors' remuneration	1,202	250	1,222	500
Cost of inventories sold	183,879	108,262	337,377	190,454
Depreciation of fixed assets	128,396	124,365	256,281	240,117
Loss on disposal of fixed assets	1,786	2,915	2,561	4,225
Operating lease rentals for land and buildings	24,076	27,777	48,426	56,817
Operating lease rentals for switching and office equipment	–	–	9	4,792
Operating lease rentals for transmission sites	77,040	88,331	160,578	180,080
Provision for bad and doubtful debts	5,995	5,254	12,894	9,758
Staff costs, including directors' emoluments (note 7)	94,885	100,055	188,269	201,464
Less: staff costs capitalized as fixed assets	(4,270)	–	(9,325)	–
	90,615	100,055	178,944	201,464

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6. FINANCE COSTS

	Six months ended 31 December		Twelve months ended 31 December	
	2004 HK\$'000 Unaudited	2003 HK\$'000 Audited	2004 HK\$'000 Unaudited	2003 HK\$'000 Unaudited
Interest on secured long-term bank loan	2,000	4,891	3,885	12,407
Interest on loan from a fellow subsidiary	6,297	–	6,297	–
Interest on convertible bond	428	–	428	–
Interest on subscription note	4,414	–	4,414	–
	13,139	4,891	15,024	12,407

7. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	Six months ended 31 December		Twelve months ended 31 December	
	2004 HK\$'000 Unaudited	2003 HK\$'000 Audited	2004 HK\$'000 Unaudited	2003 HK\$'000 Unaudited
Wages and salaries	78,066	83,547	153,169	166,293
Bonuses	7,568	7,943	15,129	11,972
Pension costs				
– defined contribution plans	4,540	4,449	8,505	8,871
Termination benefits	2,577	1,872	8,098	7,939
Medical insurance, staff welfare and other allowances	2,134	2,244	3,368	6,389
	94,885	100,055	188,269	201,464

8. TAXATION

No provision for Hong Kong profits tax and overseas taxation has been made for the period as the Group has sufficient tax losses brought forward to offset the assessable profit for the period (2003: Nil).

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

	Six months ended 31 December		Twelve months ended 31 December	
	2004 HK\$'000 Unaudited	2003 HK\$'000 Audited	2004 HK\$'000 Unaudited	2003 HK\$'000 Unaudited
Current taxation: – Under provision in prior years	51	–	51	–
Deferred taxation relating to the origination and reversal of temporary differences	12,924	16,430	32,360	37,886
Deferred taxation resulting from an increase in tax rate	–	–	–	(22,259)
	12,975	16,430	32,411	15,627

9. DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 December 2004 (2003: Nil).

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10. BASIC AND DILUTED EARNINGS PER SHARE

The calculations of basic and diluted earnings per share based on the share capital of the Company are as follows:

	Six months ended 31 December		Twelve months ended 31 December	
	2004 Unaudited	2003 Unaudited	2004 Unaudited	2003 Unaudited
Profit attributable to shareholders for the purpose of calculating basic earnings per share (HK\$'000)	55,507	77,497	142,124	193,424
Increase in net profit for deemed conversion of potential ordinary shares (HK\$'000)	4,842	–	4,842	–
Adjusted profit for the purpose of calculating dilutive earnings per share (HK\$'000)	60,349	77,497	146,966	193,424
Number of Shares (note a)				
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (note b)	78,162,778	41,666,666	60,064,706	41,666,666
Effect of dilutive potential ordinary shares	995,378,298	–	501,781,256	–
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,073,541,076	41,666,666	561,845,962	41,666,666

Notes:

- The weighted average number of ordinary shares for the purpose of calculating the earnings per share have been adjusted retrospectively for the one hundred-to-one share consolidation of the Company which took place on 7 July 2004 (note 15(d)).
- Under the reverse acquisition method of accounting, the 4,166,666,667 Subscription Shares issued by the Company to PPG to effect the Acquisition described in Note 1 are deemed to be in issue throughout the period prescribed for the purpose of calculating the earnings per share.
- For the six and twelve months ended 31 December 2003, no diluted earnings per share are presented as there were no potentially dilutive shares outstanding.

11. CAPITAL EXPENDITURES

	Fixed assets HK\$'000 Unaudited	Goodwill HK\$'000 Unaudited
Opening net book amount as at 1 January 2004	1,254,057	–
Acquisition of subsidiaries	2,865	65,996
Additions	150,849	–
Disposals	(3,387)	–
Depreciation	(256,281)	–
Closing net book amount as at 31 December 2004	<u>1,148,103</u>	<u>65,996</u>

12. TRADE RECEIVABLES

Ageing analysis of trade receivables is as follows:

	As at 31 December 2004 HK\$'000 Unaudited	As at 31 December 2003 HK\$'000 Audited
Current to 30 days	36,908	30,802
31 to 60 days	16,653	16,094
61 to 90 days	3,875	7,032
Over 90 days	4,286	2,976
	<u>61,722</u>	<u>56,904</u>

The Group allows an average credit period of thirty days to its subscribers and other customers.

13. TRADE PAYABLES

Ageing analysis of trade payables is as follows:

	As at 31 December 2004 HK\$'000 Unaudited	As at 31 December 2003 HK\$'000 Audited
Current to 30 days	26,267	1,872
31 to 60 days	27,729	6,246
61 to 90 days	1,330	5,456
Over 90 days	11,158	17,392
	<u>66,484</u>	<u>30,966</u>

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14. LONG-TERM LIABILITIES

	As at 31 December 2004 HK\$'000 Unaudited	As at 31 December 2003 HK\$'000 Audited
Bank loan, secured	237,500	507,500
Less: Amount repayable within one year shown under current liabilities	(237,500)	(270,000)
	-	237,500

15. CAPITAL

	The Group (note a) HK\$'000 Unaudited
At 1 January 2004	1
Issue of shares (note b)	299
At 31 December 2004	300

	The Company	
	No. of shares	HK\$'000 Unaudited
Authorised:		
Ordinary shares of HK\$0.01 each at 1 January 2004	10,000,000,000	100,000
Creation of additional shares (note c)	190,000,000,000	1,900,000
Share consolidation (note d)	(198,000,000,000)	-
Ordinary shares of HK\$1.00 each at 31 December 2004	2,000,000,000	2,000,000
Issued and Fully Paid:		
Ordinary shares of HK\$0.01 each at 1 January 2004	3,751,555,700	37,515
Issue of Subscription Shares (note 1(a)(i))	4,166,666,667	41,667
Share consolidation (note d)	(7,839,040,144)	-
Ordinary shares of HK\$1.00 each at 31 December 2004	79,182,223	79,182

Notes:

- (a) Due to the use of reverse acquisition basis of accounting, the amount of share capital and share premium in the condensed consolidated balance sheet represents the amount of issued shares of the legal subsidiary, NWPCS. The equity structure (i.e. the number and types of shares) reflects the equity structure of the legal parent, the Company.
- (b) 298,911,000 shares were issued on 6 July 2004 by the legal subsidiary, NWPCS, for capitalization of loan as mentioned in note 18.
- (c) On 6 July 2004, the authorized share capital of the Company was increased from HK\$100,000,000 to HK\$2,000,000,000 by the creation of additional 190,000,000,000 ordinary shares of HK\$0.01 each.
- (d) On 7 July 2004, every 100 issued or unissued ordinary share of HK\$0.01 each of the Company was consolidated into one consolidated ordinary share of HK\$1.00 each.

16. RESERVES

	Share premium <i>(note 15(a))</i> HK'000	Consolidation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2003	999	–	(1,040,400)	(1,039,401)
Profit for the six months ended 31 December 2003	–	–	77,497	77,497
At 31 December 2003	999	–	(962,903)	(961,904)
Profit for the six months ended 30 June 2004	–	–	86,617	86,617
At 30 June 2004	999	–	(876,286)	(875,287)
Issue of shares <i>(note 15(b))</i>	913,793	–	–	913,793
Arising from reverse acquisition <i>(note 1(b)(vii))</i>	–	(1,115,538)	–	(1,115,538)
Profit for the six months ended 31 December 2004	–	–	55,507	55,507
At 31 December 2004	914,792	(1,115,538)	(820,779)	(1,021,525)

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17. CONVERTIBLE BOND

On 2 November 2001, a convertible bond (the "Convertible Bond") was issued by the Company in favour of New World CyberBase Nominee Limited ("NWCBN"), a fellow subsidiary. It bears a flat-rate interest at 3% per annum accrued on a day-to-day basis on the outstanding principal amount of the Convertible Bond which is payable semi-annually in arrears. The original maturity date of the Convertible Bond was on 1 November 2004.

In November 2004, the Company has agreed with NWCBN to extend the maturity date of the Convertible Bond to 1 November 2007.

The conversion price of the Convertible Bond was adjusted to HK\$1.22 per ordinary share after the completion of the Acquisition and share consolidation as detailed in notes 1(a) and 15(d) respectively.

18. PROMISSORY NOTE ISSUED TO IMMEDIATE HOLDING COMPANY/AMOUNT DUE TO IMMEDIATE HOLDING COMPANY AND ULTIMATE HOLDING COMPANY/ LOAN FROM A FELLOW SUBSIDIARY

Pursuant to the S&P Agreement, if the total of the bank loan and amounts due to immediate holding company and ultimate holding company (collectively, the "Aggregate Liabilities") by the NWPCS Group on the business day prior to the completion of the Acquisition exceeds HK\$1,250 million, the exceeding amount due to immediate holding company and ultimate holding company would be capitalized so that the Aggregate Liabilities at the date of completion would not exceed HK\$1,250 million.

As such, prior to the completion of the Acquisition, an amount of approximately HK\$914,092,000 due to the then immediate holding company by the NWPCS Group was capitalized through the issuance of 298,911,000 shares of ordinary shares on 6 July 2004 (*note 15(b)*). The remaining balance of amounts due to the then immediate holding company and ultimate holding company of HK\$877,500,000 was repaid by a fresh loan from a fellow subsidiary which would be repayable upon demand after 18 months from the date of the S&P Agreement.

19. COMMITMENTS

(a) Capital Commitments

	As at 31 December 2004 HK\$'000 Unaudited	As at 31 December 2003 HK\$'000 Audited
Contracted but not provided for	157,244	61,161
Authorised but not provided for	60,456	–
	217,700	61,161

(b) Commitments under operating leases

At 31 December 2004, the Group had total future aggregate minimum lease payments under non-cancellable operating leases which expire as follows:

	As at 31 December 2004 HK\$'000 Unaudited	As at 31 December 2003 HK\$'000 Audited
Within one year	163,911	132,473
In the second to fifth year inclusive	95,206	65,944
After the fifth year	9,916	7,868
	269,033	206,285

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20. RELATED PARTY TRANSACTIONS

The Group undertook the following material transactions with related parties, which were carried out in the normal course of the business, during the period:

	Note	Six months ended 31 December		Twelve months ended 31 December	
		2004 HK\$'000 Unaudited	2003 HK\$'000 Audited	2004 HK\$'000 Unaudited	2003 HK\$'000 Unaudited
Purchase from fellow subsidiaries	(a)	(22,568)	(45,927)	(80,626)	(85,670)
Purchase of fixed assets from fellow subsidiaries	(a)	–	–	–	(697)
Purchase of fixed assets from a related company	(b)	(2,292)	–	(2,292)	–
Service fee income from a fellow subsidiary	(c)	433	378	1,013	1,668
Equipment rental income from a fellow subsidiary	(d)	–	–	–	2,006
Rental expenses paid to fellow subsidiaries	(e)	(13,416)	(9,039)	(30,619)	(30,164)
Loan interest paid to a fellow subsidiary	(f)	(6,297)	–	(6,297)	–
Interest paid for the Subscription Note to an immediate holding company	(g)	(4,414)	–	(4,414)	–
Interest paid for the Convertible Bond to a fellow subsidiary	(h)	(428)	–	(428)	–

Notes:

- (a) Purchases were conducted in the normal course of business which are subject to the contract terms as negotiated by the parties involved.
- (b) Purchases were conducted in the normal course of business which are subject to the contract terms as negotiated by the parties involved. Certain directors of the Company are also directors of the related company.
- (c) Service fee was subject to the terms of the contracts entered by the parties involved.
- (d) Equipment rental income was calculated by applying a fixed rate, as agreed by the parties involved, on the depreciation charge of the shared equipment.
- (e) Rental expenses were charged at a fixed monthly fee subject to the terms of the contract signed by the parties involved.
- (f) The interest was charged with reference to the prevailing market rates.
- (g) Interest paid to PPG, the Subscription Note holder and immediate holding company of the Company, was charged at 0.75% per annum.
- (h) Interest paid to NWCBN, the Convertible Bond holder and a fellow subsidiary, was charged at 3% per annum and was payable semi-annually in arrears.

21. FINANCIAL INFORMATION OF LOGISTICS GROUP IN PRIOR PERIODS

As mentioned in note 1(b)(ix), extracts of certain financial information of the Logistics Group from its annual report for the year ended 31 December 2003 and the interim report for the six months ended 30 June 2004 are set out below for reference purpose:

(a) Consolidated profit and loss accounts

	Six months ended 30 June 2004 HK\$'000 Unaudited	Year ended 31 December 2003 HK\$'000 Audited
Turnover	392	8,030
Cost of sales	(1,689)	(7,477)
Gross (loss)/profit	(1,297)	553
Other revenue	348	12,677
Selling expenses	(3)	(4,290)
Administrative expenses	(9,285)	(24,260)
Provision for impairment of investment in an associate company	(34,685)	–
Other operating income/(expenses)	37	(102,827)
Operating loss	(44,885)	(118,147)
Finance costs	(423)	(1,171)
Share of losses of:		
A jointly controlled entity	–	(262)
Associated companies	(2,584)	(33,844)
Loss attributable to shareholders	(47,892)	(153,424)
Loss per share – basic	HK\$(1.28)	HK\$(0.04)

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(b) Consolidated balance sheets

	As at 30 June 2004 HK\$'000 Unaudited	As at 31 December 2003 HK\$'000 Audited
Non-current assets		
Fixed assets	2,864	3,994
Investments in associated companies	38,410	75,680
Investment securities	1,520	1,520
	42,794	81,194
Current assets		
Trade receivables	925	4,567
Prepayments, deposits and other receivables	6,150	1,906
Amount due from an associated company	265	1,103
Amount due from a jointly controlled entity	–	203
Trading securities	800	26,368
Cash and bank balances	47,361	25,872
	55,501	60,019
Current liabilities		
Trade payables	–	246
Other payables and accruals	9,294	3,650
Amount due to an associated company	–	424
Amount due to a related company	376	376
	9,670	4,696
Net current assets	45,831	55,323
Total assets less current liabilities	88,625	136,517
Financed by:		
Capital	37,515	37,515
Reserves	22,824	70,716
Shareholders' funds	60,339	108,231
Convertible Bond	28,286	28,286
	88,625	136,517