

## Management Discussion and Analysis

On Completion Date, the Group completed the Acquisition of the NWPCS Group. The details of this transaction have been set out in note 1 to the condensed consolidated accounts. Since then, the Group mainly engages in offering in Hong Kong a host of quality mobile communications services, including voice services and customized data services, tailored to the specific needs of individual customer groups via advanced mobile technologies.

As also mentioned in note 1 to the condensed consolidated accounts, the Acquisition constitutes a reverse acquisition from accounting perspective and therefore the comparative financial information presented in these accounts represents that of the NWPCS Group.

### Financial Review

For the six months ended 31 December 2004, the Group recorded a turnover of approximately HK\$859 million, representing 1% increase from approximately HK\$848 million for the corresponding period last year. The turnover of the Group mainly comprised mobile communications services revenue and sales of handsets and accessories.

Revenue from mobile communications services for the current period amounted to approximately HK\$669 million, representing 10% decrease from approximately HK\$742 million for the corresponding period last year. Amidst intense competition of the mobile communications market, the Group launched various marketing offers to maintain its competitiveness, including giving extra communications minutes away to voice plans and offering rebate to new subscribers who were porting into the mobile network of the Company from our competitors. As a result, the Group is successful in maintaining a low churn rate at 2.8%. On the other hand, there was a decline in the post-paid average revenue per user ("ARPU") from HK\$189 in the last period to HK\$171 in the current period.

Revenue from sales of mobile handsets and accessories for the period was approximately HK\$186 million, representing 75% surge as compared to approximately HK\$106 million in the last period, thanks to the launches of various "free handset" promotional offers and market availability of advanced mobile handsets with striking features.

The gross profit margin of the Group reduced from 55.7% in the last period to 50.8% in the current period. This was mainly due to the relatively low gross profit margin of mobile handsets and accessories sales and the decline of ARPU. The Group's gross profit decreased by 8% to HK\$436 million as compared with the corresponding period last year.

As part of the Company's commitment to improving operational efficiency and effectiveness, the Company has exercised stringent control over operating expenses, excluding depreciation ("OPEX"). The OPEX were reduced by 9% to HK\$227 million, while staff costs, and rental charges of offices and shops decreased by 10% and 13% to approximately HK\$90 million and HK\$24 million respectively.

The finance costs increased by approximately HK\$8 million in the current period, which were mainly due to the interest payments by the Group for a loan from a fellow subsidiary and the Subscription Note after the Acquisition.

As a result of the combined effects of the above, the Group's earning before interest, tax, depreciation and amortization ("EBITDA") and the net profit after tax dropped to HK\$210 million and HK\$56 million, respectively.

### **Capital Structure, Liquidity and Financial Resources**

For financing the Acquisition, the Company has issued Subscription Shares and the Subscription Note at considerations of HK\$50 million and HK\$1,200 million, respectively, in July 2004, the details of which are set out in note 1 to the condensed consolidated accounts.

Apart from the Subscription Note, the total borrowings of the Group as at 31 December 2004 amounted to approximately HK\$1,143 million (31 December 2003: HK\$2,299 million). The total borrowings mainly comprised a loan from New World Finance Company Limited ("NWF") of HK\$878 million, the Convertible Bond of HK\$28 million, and a bank loan of HK\$238 million. All these borrowings are denominated in Hong Kong dollar and bear interest at HIBOR+0.65%, 3% and HIBOR+0.65%, respectively.

The loan from NWF is repayable on demand after 18 months from March 2004. The maturity date for the Convertible Bond is in November 2007. The bank loan outstanding is under monthly installments up to October 2005.

As most of the borrowings of the Group including the Subscription Note as at 31 December 2004 are regarded as shareholders' loans, the gearing ratio of the Group calculated thereon is considered to be misleading and so not presented in this report.

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As at 31 December 2004, the balance of cash and cash equivalents held by the Group amounted to approximately HK\$115 million (31 December 2003: HK\$63 million).

The Group's business transactions, monetary assets and liabilities are mainly denominated in Hong Kong dollar. It is the Group's treasury policy to manage its foreign currency exposure whenever its financial impact is material to the Group. The Group does not conduct any foreign currency speculative activities.

As at 31 December 2004, none of the assets held by the Group were pledged to other parties (31 December 2003: Nil).

### Business Review

2004 was a fruitful year to the Company! For the six months ended 31 December 2004, the Company has successfully acquired the NWPCS Group, previously the wholly-owned mobile business unit of NWD. Upon completion of the transactions on 6 July 2004, the Company announced the official change of its name to "New World Mobile Holdings Limited" (formerly known as "Asia Logistics Technologies Limited") to reflect re-directions of the Group's business focus. With effect from 18 August 2004, the stock short name of the Company has been changed to "NW Mobile".

During the period, the aggressive pricing strategy of 3G services and handsets has further intensified the fierce market competition and adversely affected local operators' bottomline notwithstanding the improving economic situation. Even though the market situation was unfavorable, the Group managed to maintain a steady income, thanks to the increasing roaming revenue from mainland tourists as well as the growing revenue from mobile data services and handset sales. Despite the expiration of contract with a mobile virtual network operator in October 2004, the subscriber base of the Group has increased to over 1,300,000 by the end of 2004.

The Group has remarkable achievement in exploring new market segments and extending its market reach by using customer segmentation strategy. During the period, the Group leveraged the great potential of the mobile prepaid market by launching various theme-based prepaid SIM cards to different market segments, including *Avenue of Stars Commemorative Stored-value Card* and *Roaming Stored-value Card* for mainland tourists. The Group has further extended its reach to young mobile phone users by enriching the content of its well-received *Star Mobile* and launching the first-ever Disney Character mobile prepaid SIM card *marie Fantasy* in August 2004. On the other hand, the Group has put continued effort in launching various mobile data services with a view to boosting data revenue. As mobile technology evolves, the Group has successfully introduced many other fascinating mobile communications services in Hong Kong, including the first-ever Push to Talk over Cellular (PoC) service '*Press 'n Talk*' via its GPRS/EDGE network.

Over the current period, the Group continued to invest in upgrading its network to stay technologically competitive, thereby enlarging its capacity for expansion of its subscriber base in future. In June 2004, the Group signed a USD30 million contract with Nokia for the expansion of its GSM network, including EDGE and Push to Talk over Cellular (PoC). By the end of 2004, the Group had strategically deployed its EDGE network in some high data traffic areas including Yau Tsim Mong, Wan Chai, as well as other major transport routes and business centers. The Group will gradually roll out the service to the areas where there are sufficient market demands.

Operating under the brand name of New World Mobility ("NWM"), the Group has made significant achievements in its brand building. In September 2004, NWM launched another large-scale brand campaign to reinforce the message that "New World Mobility is 'The One for You' and provides superior mobile services tailored to the needs of individual customer groups". The successful campaign has brought the Group a Bronze Award in the "2004 HK4As Creative Awards – Best Single TV/Cinema Commercial (Telecommunications)". With relentless marketing effort, NWM has been widely recognized as a solid, vibrant, innovative and reliable brand. In January 2005, NWM won the "Hong Kong Merchant of Integrity" award with the highest votes in the 'Telecommunications and Equipments' category at the Second Hong Kong Merchants of Integrity Award 2004-2005 organized by the best-selling newspaper in China, 'Guangzhou Daily'.

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### Prospects

Looking into the future, the Group believes that reliable and innovative data solutions in the next generation of mobile communications services will bring immense potential to its subscribers. The Group has strategically deployed its EDGE network in mid 2004 and is well-positioned to meet future challenges. With the aim of providing superb communications services to Hong Kong mobile users, the Group will devote continued effort to improve its network quality.

As a dedicated mobile service provider, the Group will continue to excel in customer servicing and providing mobile users with pioneering data services that exceed their expectations. In January 2005, the Company has joined hands with several renowned content providers to launch "Video-on-the-move", allowing users to be the first to enjoy the most up-to-date music videos of various pop singers of Emperor Entertainment Group Limited on their mobile phones. The service also enables users to obtain the latest news provided by i-CABLE Communications Limited, and to enjoy fun and interesting cartoon content brought to them by jidousports.

The Group will expend immense effort to improve its profitability and bring its shareholders the best possible return. Amidst intense competition of the mobile communications market, the Group aims at maintaining its level of market share and improve the ARPU by introducing more exciting mobile data services via advanced mobile technologies.

The Group will continue to take various measures to contain costs and explore new revenue streams. The Group will also look for business expansion to overseas mobile communications markets.

Despite the latest launch of 3G services in the local market, the Group believes that co-operation with renowned content providers to provide mobile users with innovative data services via its existing GPRS/EDGE network is the most cost-effective way to stay competitive and is in the best interest of customers and shareholders.

### **Contingent Liabilities**

The Group did not have any material contingent liabilities as at 31 December 2004 (31 December 2003: Nil).

### **Employees**

As at 31 December 2004, the Group had a total of 689 employees (31 December 2003: 763). Apart from salaries, the Group also provides other fringe benefits to employees, which include provident funds, medical insurance and share options. The remuneration policies and packages of the Group are reviewed on a regular basis and are in line with the local practices where the Group operates.