

# Management Discussion and Analysis

On 6 July 2004, the Company 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 has mainly been engaged in offering a host of quality mobile communications services in Hong Kong, including voice services and value-added services tailored to the specific needs of individual customer groups, via advanced mobile technologies.

The Acquisition constituted a reverse acquisition from accounting perspective and therefore the capital and reserves presented in these condensed consolidated balance sheets represented the capital and reserves of the NWPCS Group upon the completion of the Acquisition plus all post-acquisition changes of the Group.

On 21 October 2005, the Company acquired from NWC the entire issued share capital of NWCS and was assigned its interests in its interest-free shareholder's loan owing from NWCS for an aggregate consideration of HK\$21.0 million. The consideration was satisfied by the issue of 16,153,846 shares of the Company at an issue price of HK\$1.3 each.

As mentioned in Note 1, on 8 December 2005, the Company entered into the Merger Agreement with Telstra CSL and Telstra Holdings. Upon the completion of the Merger, the Company will account for the acquisition of 23.6% interest in the enlarged capital of Telstra CSL as an investment in an associate, in exchange for the transfer of all of the Company's interest in the NWPCS Group and a cash payment of HK\$244.024 million by the Company to Telstra CSL. The NWPCS Group will cease to be subsidiaries of the Company upon Completion. As a result, the results, and assets and liabilities related to the NWPCS Group have been presented as profit from discontinuing operations and assets and liabilities directly associated with discontinuing operations respectively following the entering by the Company into the Merger Agreement, which is subject to the approval of the shareholders of the Company at the Extraordinary General Meeting on 24 March 2006. The Completion is conditional upon the satisfaction of other conditions precedent in the Merger Agreement which have not been fulfilled at the date of this report.

Following the completion of the Merger, the Group will continue to (i) operate its technology-related businesses including mobile Internet services and information technology outsourcing services through the NWCS Group; and (ii) hold its 23.6% interest in Telstra CSL through a wholly-owned subsidiary.

The Group had a loss attributable to shareholders of HK\$2.7 million for the current period as compared to a profit attributable to shareholders of HK\$38.1 million for the same period last year.

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## **Financial Review on Continuing Operations**

For the six months ended 31 December 2005, the Group recorded consolidated turnover of approximately HK\$1.6 million, representing a 63% decrease from HK\$4.3 million for the corresponding period last year. The turnover of the Group for the current period was mainly contributed by technology-related businesses including mobile Internet services and information technology outsourcing services through the NWCS Group acquired on 21 October 2005 whereas that for the corresponding period last year was mainly contributed by the logistics businesses.

The gross profit margin of the Group was 24% for the current year as compared to 69% for the corresponding period last year. The decrease was mainly due to the relatively low gross profit margin of technology-related businesses of the NWCS Group.

The Group's operating expenses, excluding depreciation and amortisation charge ("OPEX"), decreased by HK\$2.3 million to HK\$0.4 million from HK\$2.7 million for the corresponding period last year. The OPEX before the reversal of an impairment loss of HK\$7.5 million for investment in associated companies for the current period and the gains of HK\$2.2 million on sales of trading securities and other investments for the same period last year amounted to HK\$7.9 million and HK\$4.9 million for the current period and the same period last year respectively.

The Group recorded earnings before interest, tax, depreciation and amortisation ("EBITDA") of HK\$0.1 million for the current period, as compared to HK\$0.2 million for the same period last year.

Finance costs for the current year increased to HK\$23.8 million, representing an increase of HK\$2.1 million from HK\$21.7 million for the corresponding period last year. The increase was mainly due to the increase in the liability components of the Subscription Note and Convertible Bond as a result of the adoption of HKAS 32.

As a result of the combined effects of the above, the Group had a loss attributable to shareholders from continuing operations of HK\$24.0 million compared to a loss of HK\$22.4 million for the corresponding period last year.

## **Financial Review on Discontinuing Operations**

Discontinuing operations were contributed by the mobile communications businesses conducted by the NWPCS Group.

Turnover was mainly contributed by mobile communications services revenue and sales of mobile handsets and accessories. The discontinuing operations recorded turnover of HK\$999.1 million, an increase of HK\$144.7 million from HK\$854.4 million for the same period last year. The

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increase was attributable to the increase in revenue from sales of mobile handsets and accessories, slightly offset by the drop in the post-paid average revenue per user ("ARPU") from HK\$171 in the corresponding period last year to HK\$170 in the current period. The drop in ARPU was mainly due to the aggressive price promotions offered by mobile services operators and severe competition on tariff. However, the Group continued to excel in customer servicing and providing mobile users with pioneering data services to maintain its competitiveness during the period. The Group was successful in maintaining a low churn rate at approximately 2.8%.

Operating costs increased by HK\$179.5 million to HK\$952.0 million in the current period from HK\$772.5 million for the same period last year. The increase in operating costs was mainly contributed by the increase in the cost of goods sold and services as a direct result of the increase in sales of mobile handsets and accessories, slightly offset by the decrease in OPEX as a result of the Group's continuous effort in enhancing operating efficiency.

The EBITDA from discontinuing operations for the current period dropped to HK\$180.1 million, representing a 14.2% decrease from HK\$209.8 million for the same period last year.

Finance costs for the current year increased to HK\$21.8 million, representing an increase of HK\$13.2 million from HK\$8.6 million for the corresponding period last year. The increase was mainly due to the increase in HIBOR.

As a result of the combined effects of the above, the profit attributable to equity holders from discontinuing operations was HK\$21.3 million, a decrease of HK\$39.3 million from HK\$60.6 million for the corresponding period last year.

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

For financing the Acquisition, the Company issued Subscription Shares and Subscription Note at considerations of HK\$50.0 million and HK\$1,200.0 million, respectively, in July 2004. The liability component of the Subscription Note amounted to HK\$1,154.9 million as at 31 December 2005 (30 June 2005: HK\$1,131.2 million).

Apart from the Subscription Note, the total borrowings of the Group as at 31 December 2005 were approximately HK\$28.0 million (30 June 2005: HK\$1,008.3 million). The total borrowings comprised the Convertible Bond of HK\$28.0 million which is denominated in Hong Kong dollars and bears interest at 3% per annum. The maturity date for the Convertible Bond is in November 2007. The loan of HK\$877.5 million from New World Finance Company Limited included in the borrowings of the Group as at 30 June 2005 was reclassified to liabilities directly associated with discontinuing operations as at 31 December 2005. During the current period, the Group repaid the outstanding bank loan of HK\$102.5 million.

As most of the borrowings of the Group including the Subscription Note as at 31 December 2005 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 2005, the Group's cash and bank balances amounted to approximately HK\$25.7 million (30 June 2005: HK\$116.5 million). The decrease was mainly due to the reclassification of cash and bank balances of the NWPCS Group to assets directly associated with discontinuing operations.

The Group's net cash inflow from operating activities was reduced to HK\$83.6 million, a decrease of HK\$113.6 million from HK\$197.2 million for the same period last year.

As at 31 December 2005, none of the assets held by the Group were pledged to other parties (30 June 2005: Nil).

The Group adopts a conservative and balanced treasury policy. Any surplus funds placed as deposit with banks in Hong Kong are maintained in Hong Kong dollars.

The principal functional currencies of the Group's continuing and discontinuing operations are RMB and Hong Kong dollar respectively. The Group's business transactions, monetary assets and liabilities associated with the continuing and discontinuing operations are mainly denominated in RMB and Hong Kong dollar respectively. The Group does not therefore have any significant exposure to foreign currency gains and losses other than RMB during the current period. 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.

## **Contingent Liabilities**

As at 31 December 2005, the Group had obtained bank guarantees in lieu of deposits of HK\$8.7 million (30 June 2005: HK\$8.5 million).

## **Business Review**

During the period under review, the aggressive pricing strategy of 3G services and handsets intensified the acute competition of the HK mobile market and adversely affected local operators' bottomline. The Group continued to dedicate its effort in enhancing its networks and service quality while maintaining its competitiveness in the price-driven market. Owing to the unfavorable market situation, the Group has redirected its business focus to growing its higher value post-paid customer number and strategically reducing its inactive prepaid subscriber base, leading to a 4.4% decline of total subscriber number from 1,350,000 in June 2005 to 1,290,000 in December 2005.

As part of its ongoing strategy, the Group puts relentless effort in exploring new market segments and extending its market reach by using the unique customer segmentation strategy. The Group leveraged the great potential of the mobile prepaid market by introducing various theme-based prepaid SIM cards to different customer groups, including *U-Save Mobile Stored-value Card* for Filipinos and South Asian helpers and *Talk'n Save Stored-value Card* for price-sensitive customers.

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In a move to encourage data usage, the Group has opened up the GPRS platform to prepaid users in November 2005, allowing users to access various mobile data services, including connecting tone, download content and mobile games. In July 2005, the Group has extended its reach to mobile youth by bringing fun-seeking customers a fascinating multimedia service 「勁 HEA Mobile」 that featured the comic character “Fu Wing” of the well-known “Gi Si Goo Bi Family”. The Group has further increased its collaboration with Emperor Entertainment Group (EEG) and taking its well-received Star Mobile to new heights. The new Star Mobile boasts the full fleet of EEG artistes and provides comprehensive idol content to young customers.

The Group also partnered with Linktone Ltd., a Shanghai-based interactive entertainment products and services provider, and EEG to launch the popular Hong-Kong-idols-based mobile entertainment service – Star Mobile 「移動追星」 in China, extending the content of Star Mobile to over 320 million mobile users in the Mainland.

Operating under the brand name of New World Mobility, the Group has made significant achievements in marketing its brand equity. With unrelenting marketing effort, New World Mobility has been well recognised as a solid, vibrant, innovative and reliable brand. During last summer, New World Mobility’s second brand campaign – ‘The One for You’ has brought the Group a Silver Award in the Telecommunications category of the 2005 EFFIE Award organized by the New York American Marketing Association. In early 2006, New World Mobility won the “Hong Kong and Macau Merchant of Integrity” award with the highest votes in the ‘Telecommunications and Equipments’ category at the Third Hong Kong Merchants of Integrity Award 2005-2006 organized by China’s best-selling newspaper - ‘Guangzhou Daily’.

The Group has also demonstrated its strong commitment in being a good corporate citizen by actively participating in various community activities. In early 2006, the Group received the “Caring Company Logo 2005/06” from The Hong Kong Council of Social Service.

## **Prospects**

Looking ahead, the Group will continue to explore new revenue streams and exercise various measures to contain costs. Subsequent to the acquisition of NWCS, the Group will direct its effort to growing mobile Internet services in Mainland China while the proposed merger of the NWPCS Group and Telstra CSL takes place.

## **Employees and Remuneration Policy**

As at 31 December 2005, the Group had a total of 822 employees (30 June 2005: 662). The increase in the number of employees was attributable to the headcount of the NWCS Group acquired during the current period. The Group’s emolument policy is to pay salaries that are competitive in the industry in a way that will be motivational, fair and equitable, and that are dependent on individual and company performance. Apart from salaries, the Group also provides other fringe benefits to employees, which include provident fund schemes, medical insurance and bonus on performance basis.