

# FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2006

	Note	30 June 2006 HK\$'000	30 June 2005 HK\$'000 As restated
<b>Continuing operations:</b>			
Turnover	6	16,515	4,261
Cost of sales	11	(4,842)	(1,330)
Gross profit		11,673	2,931
Other revenue	9	823	108
Other net (charge)/income	10	(65,436)	942
Selling expenses	11	(9,775)	(290)
Administrative expenses	11	(35,797)	(5,993)
Operating loss before finance costs		(98,512)	(2,302)
Finance costs	12	(62,786)	(44,739)
Operating loss		(161,298)	(47,041)
Share of results of associated companies	21	27,731	–
Loss before taxation		(133,567)	(47,041)
Taxation	16	–	(51)
Loss from continuing operations		(133,567)	(47,092)
<b>Discontinued operations:</b>			
Profit from discontinued operations	8	1,045,209	36,693
Profit/(loss) attributable to shareholders		911,642	(10,399)
<b>Basic earnings/(loss) per share</b>			
– Continuing operations	17	(HK\$1.48)	(HK\$0.60)
– Discontinued operations	17	HK\$11.56	HK\$0.47
		HK\$10.08	(HK\$0.13)
<b>Diluted earnings/(loss) per share</b>			
	17	N/A	N/A

# FINANCIAL STATEMENTS

## CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Note	Group	
		As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000 As restated
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	19	6,183	1,068,301
Investments in associated companies	21	2,142,737	–
Intangible assets	22	–	65,964
Deferred taxation	23	–	167,472
Rental and other deposits		–	8,882
		<b>2,148,920</b>	1,310,619
<b>Current assets</b>			
Inventories	24	–	38,024
Trade receivables	25	4,266	94,015
Prepayments, deposits and other receivables		1,368	42,112
Rental and other deposits		–	39,421
Amounts due from fellow subsidiaries		–	29
Amount due from an associated company	27	113,328	–
Amount due from a related company	28	813	813
Cash and bank balances	29	27,691	116,534
		<b>147,466</b>	330,948
<b>Total assets</b>		<b>2,296,386</b>	1,641,567
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Group's equity holders</b>			
Share capital	31	16,154	300
Other reserves	32	(82,905)	(88,051)
Accumulated losses		(30,538)	(942,180)
<b>Deficit on shareholders' funds</b>		<b>(97,289)</b>	(1,029,931)

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## CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Note	Group	
		As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000 As restated
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans from a fellow subsidiary	33	278,024	877,500
Promissory note issued to a fellow subsidiary	33	886,749	–
Convertible bond	34	28,261	28,250
Subscription note	2	1,178,008	1,131,199
Asset retirement obligations		–	6,529
		<b>2,371,042</b>	2,043,478
<b>Current liabilities</b>			
Trade payables	30	809	108,086
Accrued charges, other payables, deposits received and deferred income		15,779	405,456
Amounts due to fellow subsidiaries	26	420	11,132
Amount due to an associated company	27	5,625	–
Amount due to a related company		–	846
Bank loan		–	102,500
		<b>22,633</b>	628,020
<b>Total liabilities</b>		<b>2,393,675</b>	2,671,498
<b>Total equity and liabilities</b>		<b>2,296,386</b>	1,641,567
<b>Net current assets/(liabilities)</b>		<b>124,833</b>	(297,072)
<b>Total assets less current liabilities</b>		<b>2,273,753</b>	1,013,547

Dr. Cheng Kar Shun, Henry  
Director

Dr. Wai Fung Man, Norman  
Director

# FINANCIAL STATEMENTS

## BALANCE SHEET

As at 30 June 2006

	Note	Company	
		As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000 As restated
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	19	–	90
Investments in subsidiaries	20	<b>2,497,576</b>	1,521,385
		<b>2,497,576</b>	1,521,475
<b>Current assets</b>			
Amount due from an associated company	27	<b>113,328</b>	–
Amount due from a related company	28	<b>225</b>	225
Prepayments, deposits and other receivables		<b>87</b>	74
Cash and bank balances		<b>10,564</b>	188
		<b>124,204</b>	487
<b>Total assets</b>		<b>2,621,780</b>	1,521,962
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	31	<b>95,336</b>	79,182
Other reserves	32	<b>124,143</b>	119,297
Retained profits		<b>16,781</b>	162,354
<b>Shareholders' funds</b>		<b>236,260</b>	360,833
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Loans from a fellow subsidiary	33	<b>278,024</b>	–
Promissory note issued to a fellow subsidiary	33	<b>886,749</b>	–
Convertible bond	34	<b>28,261</b>	28,250
Subscription note	2	<b>1,178,008</b>	1,131,199
		<b>2,371,042</b>	1,159,449

# FINANCIAL STATEMENTS

## BALANCE SHEET

As at 30 June 2006

	Note	Company	
		As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000 As restated
<b>Current liabilities</b>			
Amount due to an associated company	27	5,625	–
Amounts due to fellow subsidiaries	26	420	563
Accrued charges and other payables		8,433	1,117
		<b>14,478</b>	1,680
<b>Total liabilities</b>		<b>2,385,520</b>	1,161,129
<b>Total equity and liabilities</b>		<b>2,621,780</b>	1,521,962
<b>Net current assets/(liabilities)</b>		<b>109,726</b>	(1,193)
<b>Total assets less current liabilities</b>		<b>2,607,302</b>	1,520,282

Dr. Cheng Kar Shun, Henry  
Director

Dr. Wai Fung Man, Norman  
Director

# FINANCIAL STATEMENTS

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2006

	Note	30 June 2006 HK\$'000	30 June 2005 HK\$'000 As restated
<b>Operating activities</b>			
Cash used in operations	35(a)	(26,304)	(4,822)
Interest paid		(16,108)	(1,473)
Hong Kong profits tax paid		–	(51)
Net cash used in continuing operations		(42,412)	(6,346)
Net cash generated from discontinued operations		131,421	388,521
Net cash generated from operating activities		89,009	382,175
<b>Investing activities</b>			
Purchase of property, plant and equipment		(86)	–
Acquisition of subsidiaries	36(a)	9,896	45,630
Disposal of subsidiaries	37	384	–
Acquisition of associated companies	36(b)	(276,384)	–
Dividend received from an associated company	21	7,523	–
Sales of other investments		–	900
Sales of investment securities		–	3,609
Interest received		823	108
Net cash (used in)/generated from continuing operations		(257,844)	50,247
Net cash used in discontinued operations		(96,302)	(140,259)
Net cash used in investing activities		(354,146)	(90,012)
<b>Financing activities</b>			
Increase in loans from a fellow subsidiary		278,024	–
Net cash used in repayment of bank loan and amount due to the ultimate holding company of discontinued operations		(102,500)	(270,073)
Net cash generated from/(used in) financing activities		175,524	(270,073)
Net (decrease)/increase in cash and cash equivalents		(89,613)	22,090
Cash and cash equivalents as at the beginning of the year		116,534	94,444
Cash and cash equivalents as at the end of the year		26,921	116,534
Analysis of cash and cash equivalents:			
Cash and bank balances		27,691	116,534
Less: Cash and bank balances with original maturities of more than three months	29	(770)	–
		26,921	116,534

# FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2006

	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 30 June 2004, as previously stated	1	999	(876,286)	(875,286)
Accretion and depreciation expenses arising from asset retirement obligations (Note (a))	–	–	(3,541)	(3,541)
Effect of change in accounting policy of handset subsidies (Note 3(a)(ii))	–	–	(51,954)	(51,954)
At 30 June 2004, as restated	1	999	(931,781)	(930,781)
Issue of shares (Notes 31 and 32(a))	299	913,793	–	914,092
Arising from Reverse Acquisition (Note 2)	–	(1,115,538)	–	(1,115,538)
Renewal of convertible bond (Note 3(a)(i))	–	40	–	40
Issue of subscription note (Note 3(a)(i))	–	112,655	–	112,655
Profit for the year, as previously stated	–	–	93,111	93,111
Interest expenses on convertible bond and subscription note (Note 3(a)(i))	–	–	(35,013)	(35,013)
Accretion and depreciation expenses arising from asset retirement obligations (Note 3(a)(i))	–	–	(1,044)	(1,044)
Effect of change of accounting policy of handset subsidies (Note 3(a)(ii))	–	–	(67,453)	(67,453)
Loss for the year, as restated	–	–	(10,399)	(10,399)
At 30 June 2005, as restated	300	(88,051)	(942,180)	(1,029,931)
At 30 June 2005, as previously stated	300	(200,746)	(783,175)	(983,621)
Accretion and depreciation expenses arising from asset retirement obligations (Note 3(a)(i))	–	–	(4,585)	(4,585)
Interest expenses on convertible bond and subscription note (Note 3(a)(i))	–	–	(35,013)	(35,013)
Effect of change in accounting policy of handset subsidies (Note 3(a)(ii))	–	–	(119,407)	(119,407)
Renewal of convertible bond (Note 3(a)(i))	–	40	–	40
Issue of subscription note (Note 3(a)(i))	–	112,655	–	112,655
At 30 June 2005, as restated	300	(88,051)	(942,180)	(1,029,931)
Issue of shares (Note 31(e) and 32(a))	16,154	4,846	–	21,000
Disposal of subsidiaries (Note 31(a))	(300)	300	–	–
Profit for the year	–	–	911,642	911,642
At 30 June 2006	16,154	(82,905)	(30,538)	(97,289)

Note (a):

Accretion expenses represented changes in the liability of an asset retirement obligation due to the passage of time by applying an interest method of allocation of the amount of the liability at the beginning of the year.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

New World Mobile Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") is principally engaged in technology related business including mobile Internet services in Mainland China. The Group holds 23.6% interest in CSL New World Mobility Limited ("CSL NWM") and its subsidiaries (hereinafter collectively referred to as the "CSL NWM Group") which offer mobile communications services in Hong Kong.

The Company is a limited liability company incorporated in Cayman Islands. The address of its registered office is P.O. Box 309, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies.

The Company has its listing on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

### 2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets and financial liabilities at fair values.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

On 29 March 2004, the Company, formerly known as Asia Logistics Technologies Limited ("ALT"), entered into a conditional subscription agreement (the "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:

- (a) 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, representing the closing price of the last trading day of the ALT shares prior to suspension; and

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION *(Continued)*

- (b) a convertible note (the "Subscription Note") of a principal amount of HK\$1,200,000,000, unless previously converted, will be repaid by the Company upon its maturity on the business day immediate 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 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.

The fair values of the liability component and the equity component of the Subscription Note were determined at issuance of the Subscription Note.

The fair value of the liability component, included in non-current liabilities, was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of equity component, is included in shareholders' equity in other reserves net of deferred income taxes, if any.

The fair value of the liability component of the Subscription Note as at 30 June 2006 approximated its carrying value.

Interest expenses on the Subscription Note are calculated using the effective interest method by applying the effective interest rate of 4.1% per annum (2005: 4.1%) to the liability component.

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 Holdings") and its subsidiaries (collectively, the "NWPCS Group") from NWTHL at an aggregate cash consideration of HK\$1,250,000,000. This transaction (the "Reverse Acquisition") was completed on 6 July 2004 (the "Completion Date").

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 2 BASIS OF PREPARATION *(Continued)*

Under the generally accepted accounting principles in Hong Kong, the Reverse 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 Reverse Acquisition. For accounting purposes, NWPCS Holdings is regarded as the acquirer while the Company and its subsidiaries before the Reverse Acquisition (collectively, the "Logistics Group") are deemed to have been acquired by NWPCS Holdings. As a result, these consolidated financial statements have been prepared as a continuation of the consolidated financial statements of the NWPCS Group which has a financial year end date of 30 June, and accordingly:

- (i) the assets and liabilities of the Logistics Group are recognised and recorded at the Completion Date at their fair values (the "Net Fair Value");
- (ii) the assets and liabilities of the NWPCS Group are recognised and recorded at the Completion Date at their historical carrying values prior to the Reverse Acquisition;
- (iii) the purchase consideration is deemed to have been incurred by NWPCS Holdings for the Reverse 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 Reverse Acquisition is determined by the surplus of the Deemed Consideration over the Net Fair Value;
- (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 consolidated balance sheet represents the issued share capital and share premium balances of NWPCS Holdings upon the Completion Date, plus all the post-acquisition changes in the issued share capital and share 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; and
- (vii) the difference between the actual consideration paid by the Company for the Reverse Acquisition and the Deemed Consideration is transferred to a consolidation reserve of the Group.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES

#### (a) Changes in accounting policies

- (i) The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of new and revised standards and interpretations of HKFRS (collectively “new HKFRSs”) below which are effective for accounting periods beginning on or after 1 January 2005.

From 1 July 2005, the Group adopted the HKFRSs below, which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Properties
HKAS-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (a) Changes in accounting policies *(Continued)*

##### (i) *(Continued)*

The adoption of HKASs 1, 2, 7, 8, 10, 17, 21, 23, 24, 27, 28, 33 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected certain presentation in the financial statements.
- HKASs 2, 7, 8, 10, 17, 23, 27, 28, 33 and HKAS-Int 15 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and certain other related party disclosures.

The adoption of HKAS 16 has resulted in a change in accounting policy of which the costs of property, plant and equipment include the estimated obligations which arise from future reinstatement of leased properties.

The adoption of HKASs 32, 39 and 39 (Amendment) has resulted in a change in accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. Furthermore, the convertible bond and subscription note issued are split into the liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the reserve until the convertible bond or subscription note is converted or redeemed. In prior years, the convertible bond and subscription note were recognised as liabilities only.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (a) Changes in accounting policies *(Continued)*

##### (i) *(Continued)*

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. Prior to the adoption of the standard, the increases in fair value, if any, would be credited to the investment properties revaluation reserves. Decrease in fair value was first set off against increases recognised in investment properties revaluation reserves on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of HKFRS 2 has resulted in a change in accounting policy for share-based payments. Until 30 June 2006, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 July 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 July 2005 was expensed retrospectively in the income statement of respective periods.

The adoption of HKFRS 5 has resulted in a change in accounting policy for discontinued operations. An operation is classified as discontinued when the criteria to be classified as "held for sale" have been met or the Group has disposed of the operation. The application of HKFRS 5 does not impact on the prior year financial statements other than a change in the presentation of the results and cash flows of the discontinued operations.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, whenever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 July 2005.
- HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 July 2005.

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## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (a) Changes in accounting policies *(Continued)*

##### (i) *(Continued)*

	Year ended 30 June 2006			Total HK\$'000
	HKFRS 5 HK\$'000	HKAS 16 HK\$'000	HKAS 32 & 39 HK\$'000	
Reclassified turnover to discontinued operations	(1,402,827)	-	-	(1,402,827)
Reclassified cost of sales to discontinued operations	836,095	-	-	836,095
Reclassified other revenue to discontinued operations	(716)	-	-	(716)
Reclassified other net income to discontinued operations	(1,022,434)	-	-	(1,022,434)
Reclassified selling expenses to discontinued operations	85,313	-	-	85,313
Reclassified administrative expenses to discontinued operations	420,168	-	-	420,168
Reclassified finance costs to discontinued operations	34,319	-	-	34,319
Reclassified taxation to discontinued operations	4,873	-	-	4,873
Net results reclassified as profit from discontinued operations	1,045,209	-	-	1,045,209
Increase in gain on disposal of subsidiaries	-	3,945	-	3,945
Decrease in impairment loss on intangible asset (goodwill)	-	-	32	32
Increase in administrative expenses	-	(90)	-	(90)
Increase in finance costs	-	(489)	(37,820)	(38,309)
<b>Increase/(decrease) in profit for the year</b>	<b>-</b>	<b>3,366</b>	<b>(37,788)</b>	<b>(34,422)</b>
<b>Increase/(decrease) in basic earnings per share</b>	<b>HK\$0.00</b>	<b>HK\$0.04</b>	<b>(HK\$0.42)</b>	<b>(HK\$0.38)</b>

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (a) Changes in accounting policies *(Continued)*

##### (i) *(Continued)*

	As at 30 June 2006			Total HK\$'000
	HKFRS 5	HKAS 16	HKAS 32	
	HK\$'000	HK\$'000	& 39 HK\$'000	
Decrease in investments in associated companies	-	(1,219)	-	(1,219)
Decrease in subscription note	-	-	39,869	39,869
Decrease in convertible bond	-	-	25	25
<b>(Decrease)/increase in net assets</b>	<b>-</b>	<b>(1,219)</b>	<b>39,894</b>	<b>38,675</b>
Increase in other reserves	-	-	112,695	112,695
Increase in accumulated losses	-	(1,219)	(72,801)	(74,020)
<b>(Decrease)/increase in equity</b>	<b>-</b>	<b>(1,219)</b>	<b>39,894</b>	<b>38,675</b>

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (a) Changes in accounting policies (Continued)

##### (i) (Continued)

	Year ended 30 June 2005			Total HK\$'000
	HKFRS 5 HK\$'000	HKAS 16 HK\$'000	HKAS 32 & 39 HK\$'000	
Reclassified turnover to discontinued operations	(1,662,873)	–	–	(1,662,873)
Reclassified cost of sales to discontinued operations	890,316	–	–	890,316
Reclassified other revenue to discontinued operations	(527)	–	–	(527)
Reclassified other charge to discontinued operations	1,081	–	–	1,081
Reclassified selling expenses to discontinued operations	101,178	–	–	101,178
Reclassified administrative expenses to discontinued operations	592,569	–	–	592,569
Reclassified finance costs to discontinued operations	20,548	–	–	20,548
Reclassified taxation to discontinued operations	21,015	–	–	21,015
Net results reclassified as profit from discontinued operations	36,693	–	–	36,693
Increase in administrative expenses	–	(423)	–	(423)
Increase in finance costs	–	(621)	(35,013)	(35,634)
Increase in loss for the year	–	(1,044)	(35,013)	(36,057)
Decrease/(increase) in basic loss per share	HK\$0.00	(HK\$0.01)	(HK\$0.45)	(HK\$0.46)

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (a) Changes in accounting policies *(Continued)*

##### (i) *(Continued)*

	As at 30 June 2005			Total HK\$'000
	HKFRS 5 HK\$'000	HKAS 16 HK\$'000	HKAS 32 & 39 HK\$'000	
Decrease in intangible asset (goodwill) (Note)	-	-	(32)	(32)
Increase in property, plant and equipment	-	1,944	-	1,944
Increase in rental and other deposits (non-current)	-	-	8,882	8,882
Decrease in rental and other deposits (current)	-	-	(8,882)	(8,882)
Decrease in subscription note	-	-	77,678	77,678
Decrease in convertible bond	-	-	36	36
Increase in asset retirement obligations	-	(6,529)	-	(6,529)
<b>(Decrease)/increase in net assets</b>	<b>-</b>	<b>(4,585)</b>	<b>77,682</b>	<b>73,097</b>
Increase in other reserves	-	-	112,695	112,695
Increase in accumulated losses	-	(4,585)	(35,013)	(39,598)
<b>(Decrease)/increase in equity</b>	<b>-</b>	<b>(4,585)</b>	<b>77,682</b>	<b>73,097</b>

*Note:*

As a result of the adoption of HKASs 32 and 39, the liability component of the convertible bond of the Logistics Group at the date of acquisition decreased by HK\$32,000 from HK\$28,286,000 to HK\$28,254,000 (Note 36(c)). Hence, the fair values of net assets of the Logistics Group at the date of acquisition increased by HK\$32,000 and the goodwill arising from the acquisition also decreased by HK\$32,000.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (a) Changes in accounting policies *(Continued)*

- (ii) In prior years, when handset and mobile subscription services were sold at a package with handset subsidies offered to customers, consideration would be allocated to handset sales and mobile subscription service using the relative fair value model. Accordingly, the portion allocated to handset sales was recognised as sales upon delivery of goods, and the remaining amount allocated to mobile subscription services was amortised on a straight-line basis over the contract period. Handset subsidies were capitalised and amortised on a straight-line basis over the same contract period.

During the year, the Group changed its accounting policy to expense handset subsidies as incurred. The directors consider that the new accounting policy involves less subjective judgement and estimates. The financial impact has been restated retrospectively.

	Year ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Increase/(decrease) in turnover of discontinued operations	3,327	(41,920)
Increase in cost of sales of discontinued operations	(16,514)	(25,533)
Increase in gain on disposal of subsidiaries constituting discontinued operations	101,302	–
Increase in profit/(loss) for the year	88,115	(67,453)
Increase in basic earnings/(loss) per share	HK\$0.97	(HK\$0.86)

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (a) Changes in accounting policies *(Continued)*

##### (ii) *(Continued)*

	As at 30 June	
	2006	2005
	HK\$'000	HK\$'000
Decrease in handset subsidies	–	(34,886)
Increase in accrued charges, other payables, deposits received and deferred income	–	(84,521)
Decrease in investments in associated companies	<b>(31,292)</b>	–
Decrease in net assets	<b>(31,292)</b>	(119,407)
Increase in accumulated losses	<b>(31,292)</b>	(119,407)

#### (b) Group accounting

##### (i) Consolidation

The consolidated financial statements of the Group include the financial statements of the Company and all its direct and indirect subsidiaries made up to 30 June.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (b) Group accounting *(Continued)*

##### (i) Consolidation *(Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair values of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The gain or loss on the disposal of subsidiaries represents the difference between the proceeds of the sale and the Group's share of their net assets.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

##### (ii) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The group's investments in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (b) Group accounting *(Continued)*

##### (ii) Associated companies *(Continued)*

The group's share of its associated companies' post acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

##### (iii) Goodwill

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 or associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in investments in associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

#### (c) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (c) Property, plant and equipment *(Continued)*

Property, plant and equipment are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Computer equipment	20%
Furniture and fittings	20%
Leasehold improvements	shorter of the lease term or 20%
Motor vehicles	20%
Testing equipment	33.33%
Digital, switching and transmission system	10% – 20%

Building situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion.

No depreciation is provided for any part of the construction in progress.

Historical costs of property, plant and equipment include expenditures that are directly attributable to the construction or acquisition of the assets. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

The gain or loss on disposal of a property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (d) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

#### (e) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises all direct costs of purchase. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

#### (f) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

#### (g) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (h) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

#### (i) Employee benefits

##### (i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

##### (ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to eligible employees in Hong Kong, the assets of which are held in separate trustee administered funds. The Group's contribution to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

For employees in the Mainland China, the Group contributes to retirement schemes managed by local municipal authorities in the Mainland China based on a percentage of the relevant employee's monthly salaries. The Group's contributions under such schemes are charged to the income statement as incurred while the relevant local municipal authorities undertake to assume the retirement benefit obligations of all existing and future retired employees of the Group in the Mainland China.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (i) Employee benefits *(Continued)*

##### (iii) Bonus

Provisions for bonus due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

##### (iv) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

##### (v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

#### (j) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (j) Deferred taxation *(Continued)*

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

#### (k) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

#### (l) Revenue recognition

Mobile communications services revenue is recognised when the service is rendered and is based on the usage of the digital mobile radio telecommunication network and facilities. Mobile communications services revenue in respect of standard service plans billed in advance at year end is deferred and recognised when the service is rendered. Revenue received in advance for the provision of mobile communications services using prepaid cards is deferred and amortised based on the actual usage by customers. The portion of deferred revenue is included under current liabilities as deferred income.

Revenue from sales of mobile handsets and accessories is recognised when goods are delivered and title has passed.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (l) Revenue recognition *(Continued)*

The Group derives technology related services revenue from the provision of value-added telecommunications services ("VAS"). The Group recognises its revenue net of applicable business taxes and other related taxes. Revenue from the provision of outsourcing services is recognised when services are rendered. Wireless VAS revenue is derived principally from providing mobile phones users with short messaging services, multimedia messaging services and wireless application protocol. These services are substantially billed on a monthly subscription basis or a per message basis ("Service Fees"). These services are predominately delivered through the platforms of various subsidiaries of China Mobile Communications Corporation and they also collect the Service Fees on behalf of the Group.

Operating lease rental income is recognised on a straight-line basis over the period of the leases.

Revenue from the provision of logistics technology services and logistics management services is recognised when services are rendered.

Interest income is recognised on a time proportion basis using the effective interest method.

#### (m) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the income statement on a straight-line basis over the lease periods.

#### (n) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (o) Foreign currency translation

##### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

##### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

##### (iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (c) all resulting exchange differences are recognised as a separate component of equity.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (o) Foreign currency translation *(Continued)*

##### (iii) Group companies *(Continued)*

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

#### (p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

#### (q) Investments

From 1 January 2003 to 30 June 2005, the Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as non-trading securities and trading securities.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (q) Investments *(Continued)*

Investment securities are stated at cost less any provision for impairment losses. The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the income statement. This impairment loss is written back to income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

#### (r) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

#### (r) Investment properties *(Continued)*

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

Investment property held for sale without redevelopment is classified within non-current assets held for sale under HKFRS 5.

#### (s) Licences

Licences are capitalised on the basis of the costs incurred to acquire and bring to us a specific licence. Licences have a definite useful life and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of licences over their estimated useful lives. Other costs associated with the licences are recognised as expenses as incurred.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 4 FINANCIAL RISK MANAGEMENT

#### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, cash flow and fair value interest rate risks and foreign exchange risk.

The Group's risk management program seeks to minimise the potential adverse effects of financial risks on the Group's performance.

#### (i) Credit risk

The Group has policies in place to ensure that provision of services are made to customers with an appropriate credit history.

#### (ii) Liquidity risk

The Group monitors current and expected liquidity requirements to ensure sufficient cash and adequate amount of committed credit facilities are maintained.

#### (iii) Cash flow and fair value interest rate risks

As the Group has no significant interest-bearing assets, the Group's income and operating cash flow are substantially independent of changes in market interest rates.

The Group's interest-rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

#### (iv) Foreign exchange risk

The Group mainly operates in the Mainland China and Hong Kong with most of the transactions settled in Hong Kong dollars and Renminbi ("RMB"). The Group's assets and liabilities, and transactions arising from its operations that are exposed to foreign exchange risk are primarily with respect to RMB. The Group has not used any forward contracts or currency borrowings to hedge its exposure as foreign exchange risk is considered minimal.

#### (b) Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

#### (i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3(d). The recoverable amounts of cash generating units have been determined based on the higher of their fair values less costs and their value-in-use calculations. These value-in-use calculations require the use of estimates. If the revised estimated gross margin at 30 June 2007 had been lower than management's estimates at 30 June 2006, the Group may need to reduce the carrying value of goodwill. If the revised estimated pre-tax discount rate applied to the discounted cash flows had been higher than management's estimates, the Group may need to reduce the carrying value of goodwill. Further, if the actual gross margin had been higher or the pre-tax discounted rate lower than management's estimates, the Group would not be able to reverse any impairment losses that arose on goodwill.

#### (ii) Deferred tax

The Group provides for deferred taxation in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax assets are only recognised to the extent that it is probable future taxation profits will be available against which the unused tax losses or unused tax credits can be utilised, and significant judgement is required in determining whether it is probable.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 6 TURNOVER

The Group is principally engaged in the provision of mobile communications services, the sales of mobile handsets and accessories and the provision of technology related services. The Group has ceased the provision of mobile communications services and the sales of mobile handsets and accessories following the disposal of subsidiaries as set out in Note 37. Revenues from the provision of mobile communications services and the sales of mobile handsets and accessories recognised during the year up to the date of disposal of the subsidiaries are set out in Note 8. Revenues from continuing operations recognised during the year are as follows:

	<b>30 June 2006 HK\$'000</b>	30 June 2005 HK\$'000 As restated
Technology related services	<b>16,381</b>	–
Gross rental income from an investment property	<b>134</b>	–
Logistics services	–	4,261
	<b>16,515</b>	4,261

### 7 SEGMENT REPORTING

#### (a) Primary reporting format – business segments

For the year ended 30 June 2006, the business segments include:

- technology related services; and
- mobile communications services.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 7 SEGMENT REPORTING *(Continued)*

(a) Primary reporting format – business segments *(Continued)*

The segment results for the year ended 30 June 2006 are as follows:

	Continuing		Discontinued	
	Technology related services HK\$'000	Mobile communications services HK\$'000	Total HK\$'000	Mobile communications services (Note 8) HK\$'000
Turnover	16,515	–	16,515	1,402,827
Segment results	(14,759)	–	(14,759)	60,706
Other revenue			823	716
Other net (charge)/income	(72,959)	–	(72,959)	1,022,979
Other net income – unallocated			7,523	–
Unallocated corporate expenses			(19,140)	–
Operating (loss)/profit before finance costs			(98,512)	1,084,401
Finance costs			(62,786)	(34,319)
Operating (loss)/profit			(161,298)	1,050,082
Share of results of associated companies	–	27,731	27,731	–
(Loss)/profit before taxation			(133,567)	1,050,082
Taxation			–	(4,873)
(Loss)/profit for the year			(133,567)	1,045,209
Depreciation	(867)	–	(867)	(198,703)
Unallocated depreciation			(129)	–
			(996)	(198,703)
Capital expenditures	86	–	86	97,354
(Impairment loss)/reversal of impairment of				
– intangible assets	(72,959)	–	(72,959)	–
– investments in associated companies			7,523	–
– trade receivables	(215)	–	(215)	(8,706)
			(65,651)	(8,706)

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 7 SEGMENT REPORTING *(Continued)*

#### (a) Primary reporting format – business segments *(Continued)*

The turnover and operating loss before finance costs derived from the Group's operation in logistics services constituted less than 10% of the Group's turnover and operating loss before finance costs, therefore, the logistics services business segment ceased to be a reportable segment.

The segment results for the year ended 30 June 2005 are as follows:

	Continuing		Discontinued
	Logistics services	Total	Mobile communications services <i>(Note 8)</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4,261	4,261	1,662,873
Segment results	(1,246)	(1,246)	77,729
Other revenue		108	527
Other net income		2,189	–
Unallocated corporate expenses		(3,353)	–
Operating (loss)/profit before finance costs		(2,302)	78,256
Finance costs		(44,739)	(20,548)
(Loss)/profit before taxation		(47,041)	57,708
Taxation		(51)	(21,015)
(Loss)/profit for the year		(47,092)	36,693
Depreciation	(722)	(722)	(258,191)
Unallocated depreciation		(345)	–
		(1,067)	(258,191)
Capital expenditures	–	–	140,791

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 7 SEGMENT REPORTING *(Continued)*

#### (a) Primary reporting format – business segments *(Continued)*

The segment assets and liabilities as at 30 June 2006 are as follows:

	Technology related services HK\$'000	Mobile communications services HK\$'000	Total HK\$'000
Segment assets	11,292	–	11,292
Investments in associated companies	–	2,142,737	2,142,737
Intangible assets	–	–	–
Unallocated assets			142,357
<b>Total assets</b>			<b>2,296,386</b>
Segment liabilities	6,458	–	6,458
Unallocated liabilities			2,387,217
<b>Total liabilities</b>			<b>2,393,675</b>

The assets of the Group's operations in logistics services constituted less than 10% of the total assets of the Group as at 30 June 2006, therefore, the logistics services business segment ceased to be a reportable segment.

The segment assets and liabilities as at 30 June 2005 are as follows:

	Mobile communications services HK\$'000	Logistics services HK\$'000	Total HK\$'000
Segment assets	1,290,080	1,129	1,291,209
Investments in associated companies	–	–	–
Intangible assets	65,964	–	65,964
Unallocated assets			284,394
<b>Total assets</b>			<b>1,641,567</b>
Segment liabilities	522,764	189	522,953
Unallocated liabilities			2,148,545
<b>Total liabilities</b>			<b>2,671,498</b>

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 7 SEGMENT REPORTING (Continued)

#### (b) Secondary reporting format – geographic segments

The Group's business segments are operating in two main geographical areas:

Hong Kong : Mobile communications services, which are classified as discontinued operations, and technology related services; and

Mainland China : Technology related services.

	Segment assets	
	As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000
Hong Kong	207	1,290,643
Mainland China	11,085	566
	<b>11,292</b>	<b>1,291,209</b>

	Turnover		Capital expenditure	
	30 June 2006 HK\$'000	30 June 2005 HK\$'000	30 June 2006 HK\$'000	30 June 2005 HK\$'000
Hong Kong – continuing	–	4,261	–	–
Hong Kong – discontinued	1,402,827	1,662,873	97,354	140,791
Mainland China	16,515	–	86	–
	<b>1,419,342</b>	<b>1,667,134</b>	<b>97,440</b>	<b>140,791</b>

### 8 DISCONTINUED OPERATIONS

During the year, the Group entered into a merger agreement and amendment agreements pursuant to which the Group disposed of its entire interests in NWPCS Holdings to Telstra CSL Limited which has changed its name to CSL NWM and made a cash payment of HK\$244,024,000 in exchange for the acquisition of 23.6% of the issued share capital of CSL NWM Group representing the enlarged group combining Telstra CSL Limited and NWPCS Holdings, and an amount due from CSL NWM, the associated company, of HK\$113,328,000 (the "Merger Transaction"). The Merger Transaction was approved by the shareholders of the Company at the Extraordinary General Meeting on 24 March 2006 and completed on 31 March 2006. Hence, the NWPCS Group ceased to be subsidiaries of the Group and became part of the CSL NWM Group, associated companies of the Group after the Merger Transaction.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 8 DISCONTINUED OPERATIONS *(Continued)*

An analysis of the results and cash flows of the discontinued operations is as follows:

	Nine months ended 31 March 2006 HK\$'000	Year ended 30 June 2005 HK\$'000
Turnover	1,402,827	1,662,873
Cost of sales	(836,095)	(890,316)
Gross profit	566,732	772,557
Other revenue	716	527
Other charge	(545)	(1,081)
Selling expenses	(85,313)	(101,178)
Administrative expenses	(420,168)	(592,569)
Operating profit before finance costs	61,422	78,256
Finance costs	(34,319)	(20,548)
Operating profit	27,103	57,708
Gain on disposal of subsidiaries	1,022,979	–
Profit before taxation	1,050,082	57,708
Taxation	(4,873)	(21,015)
Profit from discontinued operations	1,045,209	36,693
Net cash generated from operating activities	131,421	388,521
Net cash used in investing activities	(96,302)	(140,259)
Net cash used in financing activities	(102,500)	(270,073)
Total net cash outflow	(67,381)	(21,811)

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 9 OTHER REVENUE

	<b>30 June 2006 HK\$'000</b>	30 June 2005 HK\$'000 As restated
Bank interest income	<b>823</b>	108

### 10 OTHER NET (CHARGE)/INCOME

	<b>30 June 2006 HK\$'000</b>	30 June 2005 HK\$'000 As restated
Loss on disposal of property, plant and equipment	-	(1,247)
Gain on disposal of other investments	-	100
Gain on disposal of investment securities	-	2,089
Impairment loss on intangible assets	<b>(72,959)</b>	-
Reversal of impairment on investments in associated companies (Note 21)	<b>7,523</b>	-
	<b>(65,436)</b>	942

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 11 EXPENSES BY NATURE

Expenses included in cost of sales, selling and administrative expenses are analysed as follows:

	30 June 2006 HK\$'000	30 June 2005 HK\$'000 As restated
Auditors' remuneration		
– Over provision in prior years for principal auditors	(190)	–
– Current year provision for principal auditors	1,100	1,182
– Current year provision for non-principal auditors	1,185	–
	<b>2,095</b>	1,182
Less: Current year provision for principal auditors included in discontinued operations	(400)	(598)
Current year provision for non-principal auditors included in discontinued operations	(348)	–
	<b>1,347</b>	584
Depreciation of property, plant and equipment	996	1,067
Net exchange losses	384	13
Operating lease rentals for land and buildings	1,021	–
Provision for impairment of trade receivables	215	–
Staff costs, including directors' emoluments (Note 13)	20,213	4,257

### 12 FINANCE COSTS

	30 June 2006 HK\$'000	30 June 2005 HK\$'000 As restated
Interest on loans from a fellow subsidiary	3,618	–
Interest on promissory note issued to a fellow subsidiary	11,499	–
Interest on convertible bond (Note 34)	860	885
Interest on Subscription Note (Note 2)	46,809	43,854
	<b>62,786</b>	44,739

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 13 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	<b>30 June 2006 HK\$'000</b>	30 June 2005 HK\$'000 As restated
Wages and salaries	<b>12,182</b>	1,864
Bonuses	<b>6,165</b>	1,200
Pension costs – defined contribution plans	<b>1,866</b>	–
Termination benefits	<b>–</b>	1,193
	<b>20,213</b>	4,257

### 14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

#### (a) Directors' emoluments

The aggregate amounts of emoluments paid and payable to directors of the Company during the year are as follows:

	<b>30 June 2006 HK\$'000</b>	30 June 2005 HK\$'000
Fees	<b>780</b>	770
Other emoluments:		
Salaries and allowances	<b>3,000</b>	3,000
Bonuses	<b>6,505</b>	2,902
Pension costs – defined contribution plans	<b>225</b>	150
	<b>10,510</b>	6,822

Note: HK\$5,786,000 (2005: HK\$1,970,000) was included in staff costs of loss from continuing operations which was included in note 13 presented above. Remaining HK\$4,724,000 (2005: HK\$4,852,000) was included in profit from discontinued operations.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

#### (a) Directors' emoluments (Continued)

Details of the emoluments paid and payable to the directors of the Company are as follows:

Name of Director	Year ended 30 June 2006				Total HK\$'000
	Fees HK\$'000	Basic salaries and allowances HK\$'000	Bonuses HK\$'000	Provident fund contribution HK\$'000	
<i>Executive Directors</i>					
Dr. Wai Fung Man, Norman	50	3,000	5,305	225	8,580
Dr. Cheng Kar Shun, Henry	120	-	-	-	120
Mr. Doo Wai Hoi, William, JP	50	-	-	-	50
Mr. To Hin Tsun, Gerald	50	-	600	-	650
Mr. Chow Yu Chun, Alexander	50	-	600	-	650
<i>Non-Executive Directors</i>					
Mr. Lo Lin Shing, Simon	50	-	-	-	50
Mr. Ho Hau Chong, Norman	50	-	-	-	50
<i>Independent Non-Executive Directors</i>					
Mr. Wei Chi Kuan, Kenny (Note)	120	-	-	-	120
Mr. Kwong Che Keung, Gordon	120	-	-	-	120
Mr. Hui Chiu Chung, JP	120	-	-	-	120
	<b>780</b>	<b>3,000</b>	<b>6,505</b>	<b>225</b>	<b>10,510</b>

Note: Mr. Wei Chi Kuan, Kenny resigned on 8 September 2006.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

#### (a) Directors' emoluments (Continued)

Name of Director	Year ended 30 June 2005				Total HK\$'000
	Fees HK\$'000	Basic salaries and allowances HK\$'000	Bonuses HK\$'000	Provident fund contribution HK\$'000	
<i>Executive Directors</i>					
Dr. Wai Fung Man, Norman	50	3,000	1,702	150	4,902
Dr. Cheng Kar Shun, Henry	119	–	–	–	119
Mr. Doo Wai Hoi, William, JP	49	–	–	–	49
Mr. To Hin Tsun, Gerald	51	–	600	–	651
Mr. Chow Yu Chun, Alexander	49	–	600	–	649
<i>Non-Executive Directors</i>					
Mr. Lo Lin Shing, Simon	51	–	–	–	51
Mr. Ho Hau Chong, Norman	50	–	–	–	50
<i>Independent Non-Executive Directors</i>					
Mr. Wei Chi Kuan, Kenny	120	–	–	–	120
Mr. Kwong Che Keung, Gordon	119	–	–	–	119
Mr. Cheng Ming Fun, Paul, JP (Note)	83	–	–	–	83
Mr. Hui Chiu Chung, JP	29	–	–	–	29
	770	3,000	2,902	150	6,822

Note: Mr. Cheng Ming Fun, Paul, JP resigned as director of the Company on 6 April 2005.

None of the directors of the Company waived any emoluments during the year.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 14 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2005: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2005: four) individuals during the year are as follows:

	<b>30 June 2006 HK\$'000</b>	30 June 2005 HK\$'000
Salaries and allowances	<b>4,636</b>	6,098
Bonuses	<b>2,188</b>	2,838
Pension costs – defined contribution plans	<b>281</b>	300
	<b>7,105</b>	9,236

The emoluments of the individuals fell within the following bands:

	<b>Number of individuals</b>	
	<b>30 June 2006</b>	30 June 2005
Emolument bands		
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	–
HK\$1,500,001 to HK\$2,000,000	<b>1</b>	2
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	1
HK\$2,500,001 to HK\$3,000,000	<b>–</b>	1

### 15 RETIREMENT BENEFITS

During the nine months ended 31 March 2006, the Group contributed to an Occupational Retirement Scheme (the "ORSO Scheme") for employees in Hong Kong. Under the ORSO Scheme, the employees are required to contribute 5% of their monthly salaries, while the Group's contributions are calculated at a range from 5% to 10% of the monthly salaries of employees. The employees are entitled to 100% of the employer's contributions after 10 years of completed service, or at a reduced scale after completion of 3 to 9 years of service. Contributions to the ORSO Scheme are reduced by contributions forfeited by those employees who leave the ORSO Scheme prior to vesting fully in the Group's contributions. Since 1 April 2006, the Group ceased to contribute to the ORSO Scheme as all existing employees under the ORSO scheme had selected to change to a mandatory provident fund scheme (the "MPF Scheme") established by the Company under Hong Kong Mandatory Provident Fund Scheme Ordinance for employees in Hong Kong.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 15 RETIREMENT BENEFITS *(Continued)*

Under the MPF Scheme, the employees are required to contribute 5% of each individual's relevant income with a maximum amount of HK\$1,000 per month as a mandatory contribution, while the Group's contribution are calculated at a range from 5% to 10% of each individual's relevant income. Employer's mandatory contributions are 100% vested in the employees as soon as they are paid to the MPF Scheme. Employees may also elect to contribute more than the minimum as a voluntary contribution.

The Group also contributes to employee pension schemes established by municipal government in respect of certain subsidiaries in The People's Republic of China (the "PRC") for employees in the PRC.

The aggregate employer's contributions, net of forfeited contributions, which have been dealt with in the consolidated income statement during the year are as follows:

	<b>30 June 2006 HK\$'000</b>	30 June 2005 HK\$'000
Gross scheme contributions	<b>6,272</b>	4,420
Less: Forfeited contributions utilised to offset contributions for the year	<b>(643)</b>	(793)
Net scheme contributions	<b>5,629</b>	3,627
Less: Amount included in discontinued operations	<b>(3,763)</b>	(3,627)
Net scheme contributions of continuing operations	<b>1,866</b>	–

As at 30 June 2006, no forfeited contributions were available to reduce future contributions (30 June 2005: HK\$212,000). No contributions were payable by the Group as at 30 June 2006 (30 June 2005: HK\$1,082,000).

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 16 TAXATION

Hong Kong profits tax has been calculated at 17.5% (2005: 17.5%). Taxation on profits in the PRC has been calculated on the estimated assessable profits at tax rates ranging from 15% to 33% (2005: Nil).

No provision for Hong Kong profits tax and PRC taxation has been made for the year as the Company and a number of its subsidiaries have no estimated assessable profit for the year and certain subsidiaries have sufficient tax losses brought forward to offset their estimated assessable profit for the year.

The amount of taxation charged to the consolidated income statement for the year represents:

	<b>30 June 2006 HK\$'000</b>	30 June 2005 HK\$'000 As restated
Current taxation:		
– Under provisions in prior years	–	51
Taxation charge	–	51

The taxation on the Group's operating loss before share of results of associated companies differs from the theoretical amount that would arise using the taxation rate prevailing in the country in which the Group operates as follows:

	<b>30 June 2006 HK\$'000</b>	30 June 2005 HK\$'000 As restated
Loss before taxation and share of results of associated companies	<b>(161,298)</b>	(47,041)
Calculated at a taxation rate of	<b>17.5%</b>	17.5%
Notional tax credit on loss before taxation	<b>(28,227)</b>	(8,232)
Effect of different taxation rates in other countries	<b>(2,195)</b>	–
Income not subject to taxation	<b>(321)</b>	–
Expenses not deductible for taxation purpose	<b>22,840</b>	8,232
Tax losses not recognised	<b>7,903</b>	–
Under provisions in prior years	–	51
Taxation charge	–	51

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 17 EARNINGS/(LOSS) PER SHARE

The calculations of basic earnings/(loss) per share based on the share capital of the Company are as follows:

	<b>30 June 2006</b>	30 June 2005 As restated
Loss from continuing operations attributable to shareholders (HK\$'000)	<b>(133,567)</b>	(47,092)
Profit from discontinued operations attributable to shareholders (HK\$'000)	<b>1,045,209</b>	36,693
Profit/(loss) attributable to shareholders (HK\$'000)	<b>911,642</b>	(10,399)
Number of shares (Note a)		
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share (Note b)	<b>90,379,272</b>	78,668,311

Notes:

- (a) The weighted average number of ordinary shares for the purpose of calculating the earnings/(loss) 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 31(d)).
- (b) Under the reverse acquisition method of accounting, the 4,166,666,667 Subscription Shares issued by the Company to PPG to effect the Reverse Acquisition described in Note 2 are deemed to be in issue throughout the year ended 30 June 2005 for the purpose of calculating the earnings/(loss) per share.
- (c) No diluted earnings/(loss) per share are presented for the years ended 30 June 2006 and 2005 as the conversion of convertible bond and subscription note would not have dilutive effect on the loss from continuing operations.

### 18 PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

The profit/(loss) attributable to shareholders is dealt with in the financial statements of the Company to the extent of loss of HK\$145,573,000 for the year ended 30 June 2006 (2005: profit of HK\$108,528,000).

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 19 PROPERTY, PLANT AND EQUIPMENT

#### (a) Group

	Investment properties	Leasehold buildings	Computer equipment	Furniture and fittings	Leasehold improvements	Motor vehicles	Testing equipment	Digital, switching and transmission system	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation										
At 30 June 2004,										
as previously stated	-	-	207,634	21,022	40,810	1,400	28,175	2,079,904	11,295	2,390,240
Asset retirement obligations	-	-	-	-	157	-	-	4,056	-	4,213
At 30 June 2004, as restated	-	-	207,634	21,022	40,967	1,400	28,175	2,083,960	11,295	2,394,453
Additions	-	-	8,017	437	4,942	394	-	115,498	11,503	140,791
Acquisition of subsidiaries	-	-	1,231	890	64	680	-	-	-	2,865
Disposals	-	-	(1,231)	(1,051)	(572)	(378)	-	(1,867)	-	(5,099)
At 30 June 2005, as restated	-	-	215,651	21,298	45,401	2,096	28,175	2,197,591	22,798	2,533,010
At 30 June 2005, as previously stated	-	-	215,651	21,298	45,244	2,096	28,175	2,193,535	22,798	2,528,797
Asset retirement obligations	-	-	-	-	157	-	-	4,056	-	4,213
At 30 June 2005, as restated	-	-	215,651	21,298	45,401	2,096	28,175	2,197,591	22,798	2,533,010
Additions	-	-	4,177	171	1,997	-	-	82,307	8,788	97,440
Acquisition of subsidiaries	3,900	-	2,118	232	114	177	-	-	-	6,541
Disposal of subsidiaries	-	-	(216,333)	(21,374)	(47,328)	(920)	(28,175)	(2,278,842)	(32,389)	(2,625,361)
Reclassification	(3,900)	3,900	(743)	(46)	(30)	-	-	16	803	-
Disposals	-	-	(2,674)	(41)	(39)	(495)	-	(1,072)	-	(4,321)
At 30 June 2006	-	3,900	2,196	240	115	858	-	-	-	7,309

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 19 PROPERTY, PLANT AND EQUIPMENT (Continued)

#### (a) Group (Continued)

	Investment properties HK\$'000	Leasehold buildings HK\$'000	Computer equipment HK\$'000	Furniture and fittings HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Testing equipment HK\$'000	Digital, switching and transmission system HK\$'000	Construction in progress HK\$'000	Total HK\$'000
Accumulated depreciation										
At 30 June 2004, as previously stated	-	-	123,393	18,247	23,233	1,170	27,465	1,012,863	-	1,206,371
Asset retirement obligations	-	-	-	-	104	-	-	1,742	-	1,846
At 30 June 2004, as restated	-	-	123,393	18,247	23,337	1,170	27,465	1,014,605	-	1,208,217
Charge for the year, as previously stated	-	-	27,524	1,529	7,858	279	504	221,141	-	258,835
Asset retirement obligations	-	-	-	-	17	-	-	406	-	423
Charge for the year, as restated	-	-	27,524	1,529	7,875	279	504	221,547	-	259,258
Disposals	-	-	(781)	(280)	(398)	(377)	-	(930)	-	(2,766)
At 30 June 2005, as restated	-	-	150,136	19,496	30,814	1,072	27,969	1,235,222	-	1,464,709
At 30 June 2005, as previously stated	-	-	150,136	19,496	30,693	1,072	27,969	1,233,074	-	1,462,440
Asset retirement obligations	-	-	-	-	121	-	-	2,148	-	2,269
At 30 June 2005, as restated	-	-	150,136	19,496	30,814	1,072	27,969	1,235,222	-	1,464,709
Charge for the year	-	25	18,778	862	6,102	276	150	173,506	-	199,699
Disposals	-	-	(2,654)	(40)	(20)	(495)	-	(231)	-	(3,440)
Disposal of subsidiaries	-	-	(165,616)	(20,256)	(36,798)	(556)	(28,119)	(1,408,497)	-	(1,659,842)
Reclassification	-	-	(38)	38	-	-	-	-	-	-
At 30 June 2006	-	25	606	100	98	297	-	-	-	1,126
Net book value										
At 30 June 2005, as restated	-	-	65,515	1,802	14,587	1,024	206	962,369	22,798	1,068,301
At 30 June 2006	-	3,875	1,590	140	17	561	-	-	-	6,183

Note: The leasehold buildings are situated on leasehold land in Mainland China held on a medium term lease.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 19 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

#### (b) Company

	Computer equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicle HK\$'000	Total HK\$'000
Cost				
At 1 January 2004	1,361	900	242	2,503
Disposals	(1,361)	(900)	–	(2,261)
At 30 June 2005	–	–	242	242
Disposals	–	–	(242)	(242)
At 30 June 2006	–	–	–	–
Accumulated depreciation				
At 1 January 2004	787	256	80	1,123
Charge for the year	414	180	72	666
Disposals	(1,201)	(436)	–	(1,637)
At 30 June 2005	–	–	152	152
Charge for the year	–	–	–	–
Disposals	–	–	(152)	(152)
At 30 June 2006	–	–	–	–
Net book value				
At 30 June 2005	–	–	90	90
At 30 June 2006	–	–	–	–

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 20 INVESTMENTS IN SUBSIDIARIES

	Company	
	As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000
Unlisted investments, at costs (Note a)	31,939	1,262,670
Amounts due from subsidiaries (Note b)	2,753,071	577,673
	<b>2,785,010</b>	1,840,343
Less: Provision for impairment	<b>(287,434)</b>	(318,958)
	<b>2,497,576</b>	1,521,385

Notes:

(a) Particulars of the principal subsidiaries of the Company are as follows:

Name	Place of incorporation and operation	Particulars of issued share capital	Interest held by the Company		Principal activities
New World CyberBase Solutions (BVI) Limited	British Virgin Islands	1 Ordinary share of US\$1 each	100%	–	Investment holding
Upper Start Holdings Limited	British Virgin Islands	1 Ordinary share of US\$1 each	100%	–	Investment holding
Jetco Technologies Limited	Hong Kong	1,250,000 Ordinary shares of HK\$1 each	–	100%	Investment holding and property investment
上海易圖通信息技術有限公司	The PRC	Registered capital of RMB10,000,000	–	80%	Provision of Internet content services and telecommunication value-added services in the PRC

(b) The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 21 INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	30 June 2006 HK\$'000	30 June 2005 HK\$'000
Beginning of the year	–	–
Acquisition of associated companies ( <i>Note 36(b)</i> )	2,115,006	–
Share of results of associated companies		
– Profit before taxation	34,952	–
– Taxation	(7,221)	–
	27,731	–
Reversal of impairment loss ( <i>Note b</i> )	7,523	–
Dividend income ( <i>Note b</i> )	(7,523)	–
	2,142,737	–

Investments in associated companies as at 30 June 2006 include goodwill of HK\$1,007,935,000 (2005: Nil). The goodwill relates to the CSL NWM Group's (*Note 36(b)*) provision of mobile communications services. For the purpose of impairment testing of the goodwill, the recoverable amount of the investments in CSL NWM Group to which the goodwill is attributed is determined based on value-in-use calculation using cash flow projections based on financial forecasts covering a 5-year period including a terminal value with 2% terminal growth rate. The annual discount rate applied to cash flow projections is 5% and the annual subscribers growth rate used to extrapolate the cash flows during the forecast period is 8% at maximum.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 21 INVESTMENTS IN ASSOCIATED COMPANIES *(Continued)*

(a) Particulars of the principal associated companies are as follows:

Name	Place of incorporation/ and operation	Particulars of issued share capital	Interest held indirectly	Principal activities
CSL New World Mobility Limited	Bermuda	655,886,331 shares of US\$0.3163 each	23.6%	Investment holding
Hong Kong CSL Limited	Hong Kong	Nominal value of HK\$2,031,043,443	23.6%	Provision of mobile telecommunications services and products
New World PCS Holdings Limited	Cayman Islands/ Hong Kong	Nominal value of HK\$1,112,039,279	23.6%	Investment holding
New World PCS Limited	Hong Kong	Nominal value of HK\$887,749,279	23.6%	Provision of mobile communications services and products

(b) During the year, the Group received dividend income of HK\$7,523,000 from an associated company, Han International Consulting Company Limited, in which the Company held 30% interest of its issued share capital. Hence, the provision for impairment of the investment in the associated company was reversed by HK\$7,523,000. The associated company was subsequently dissolved in January 2006.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 21 INVESTMENTS IN ASSOCIATED COMPANIES *(Continued)*

- (c) Summary financial information on associated companies, which was extracted from the financial statements audited by another auditors after making appropriate fair value adjustments, is set out below:

	Three months ended 30 June 2006 <i>HK\$'000</i>
Revenue for the period	1,539,662
Post acquisition profit for the period	117,505
	As at 30 June 2006 <i>HK\$'000</i>
Non-current assets	6,708,649
Current assets	982,712
Non-current liabilities	(860,479)
Current liabilities	(2,022,404)
	4,808,478

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 22 INTANGIBLE ASSETS

	Group		Total HK\$'000
	Licence HK\$'000	Goodwill HK\$'000	
<b>Cost</b>			
At 1 July 2004	–	–	–
Acquisition of subsidiaries, as restated (Note 2 and 36(c))	–	65,964	65,964
<hr/>			
At 30 June 2005, as restated	–	65,964	65,964
Acquisition of subsidiaries (Note 36(a))	1,470	5,525	6,995
<hr/>			
At 30 June 2006	1,470	71,489	72,959
<hr/>			
<b>Accumulated impairment</b>			
At 1 July 2004 and 30 June 2005	–	–	–
Impairment loss for the year (Note a)	1,470	71,489	72,959
<hr/>			
At 30 June 2006	1,470	71,489	72,959
<hr/>			
<b>Net book value</b>			
At 30 June 2005, as restated	–	65,964	65,964
<hr/>			
At 30 June 2006	–	–	–
<hr/>			

Note:

- (a) The impairment loss was provided for the licence for the operation of a music website.

The goodwill of HK\$65,964,000 was allocated to the mobile communications business of the NWPCS Group in the previous year when the business was the major cash generating unit of the Group in the previous year. During the current year, as the operations in technology related services of the NWCS Group (Note 36(a)) acquired in October 2005 has become the major cash generating unit after the disposal of the NWPCS Group (Note 37), the entire goodwill of HK\$71,489,000 are allocated to the Group's operations in technology related services. As at 30 June 2006, the carrying amounts of the assets of the business unit exceed the recoverable amount of the business unit, which is determined based on value-in-use calculations using cash flow projections covering a 5-year period based on annual revenue growth rate ranging from 0% to 20% and a discount rate of 5%. Hence, impairment loss of HK\$71,489,000 was provided for the goodwill.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 23 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5%.

The movements on the deferred tax assets account is as follows:

	30 June 2006 HK\$'000	30 June 2005 HK\$'000
At beginning of the year	167,472	188,487
Deferred taxation charged to income statement (Note 8)	(4,873)	(21,015)
Disposal of subsidiaries	(162,599)	–
At end of the year	–	167,472

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable.

The Group has unrecognised tax losses of HK\$257,767,000 (2005: HK\$58,759,000) to carry forward against future taxable income subject to the agreement by the relevant tax authorities. Except for tax losses of HK\$90,091,000 (2005: HK\$ Nil) expiring within 5 years, the remaining balance has no expiry date.

The Company has unrecognised tax losses of HK\$68,084,000 (2005: HK\$49,194,000) to carry forward against future taxable income subject to the agreement by the relevant tax authority. The unrecognised tax losses have no expiry date.

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year are as follows:

Deferred tax assets	Provision HK\$'000	Group Tax losses HK\$'000	Total HK\$'000
At 30 June 2004	2,669	300,517	303,186
Charged to income statement	(593)	(39,854)	(40,447)
At 30 June 2005	2,076	260,663	262,739
Charged to income statement	(24)	(22,446)	(22,470)
Disposal of subsidiaries	(2,052)	(238,217)	(240,269)
At 30 June 2006	–	–	–

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 23 DEFERRED TAXATION *(Continued)*

Deferred tax liabilities	Group Accelerated tax depreciation HK\$'000
At 30 June 2004	114,699
Credited to income statement	(19,432)
At 30 June 2005	95,267
Credited to income statement	(17,597)
Disposal of subsidiaries	(77,670)
At 30 June 2006	–

### 24 INVENTORIES

	Group As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000
Merchandise	–	38,024

### 25 TRADE RECEIVABLES

	Group As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000
Trade receivables	10,629	105,881
Less: Provision for impairment of trade receivables	(6,363)	(11,866)
Trade receivables – net	4,266	94,015

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 25 TRADE RECEIVABLES *(Continued)*

The Group allows an average credit period of thirty to sixty days to its subscribers and other customers. The ageing analysis of trade receivables is as follows:

	Group	
	As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000
1 – 30 days	2,483	71,091
31 – 60 days	1,648	13,455
61 – 90 days	112	9,469
Over 90 days	23	–
	<b>4,266</b>	94,015

### 26 AMOUNTS DUE TO FELLOW SUBSIDIARIES

The balances are unsecured, interest free and have no fixed terms of repayment.

### 27 AMOUNTS DUE FROM/TO ASSOCIATED COMPANIES

The balances are unsecured, interest free and have no fixed terms of repayment.

The amount due from an associated company as of 30 June 2006 represented sales consideration for the disposal of subsidiaries (Note 37).

The amount due to an associated company as at 30 June 2006 was reclassified from amount due from a subsidiary when the subsidiary was disposed of (Note 37) and became an associated company after the Merger Transaction (Note 8). The balance represents payments made by the then subsidiary on behalf of the Group.

### 28 AMOUNT DUE FROM A RELATED COMPANY

The balance represents expenses for sharing of offices to be reimbursed by a related company, New World CyberBase Limited. It is unsecured, interest free and has no fixed terms of repayment.

Mr. To Hin Tsun, Gerald, a director of the Company, is a director of New World CyberBase Limited.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 29 CASH AND BANK BALANCES

	Group	
	As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000
Balance with original maturities of three months or less ( <i>Note a</i> )	26,921	116,534
Balances with original maturities of more than three months ( <i>Note b</i> )	770	–
	<b>27,691</b>	116,534

Notes:

- (a) Included in the cash and bank balances of the Group as at 30 June 2006 included balances with the PRC banks totalling HK\$804,000 (30 June 2005: HK\$226,000) which were denominated in RMB. The remittance of these balances outside the PRC is subject to foreign exchange control rules and regulations of the PRC.
- (b) As at 30 June 2006, bank balances denominated in RMB of certain subsidiaries of the Group in the amount of approximately HK\$770,000 (30 June 2005: Nil) have been frozen under PRC court order in relation to claims filed against the subsidiaries. Lawyers considered these claims were without merits, therefore, no disclosure of contingent liability is considered necessary.

### 30 TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	Group	
	As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000
1 – 30 days	80	62,013
31 – 60 days	120	26,100
61 – 90 days	172	2,345
Over 90 days	437	17,628
	<b>809</b>	108,086

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 31 SHARE CAPITAL

	<b>Group (Note a) HK\$'000</b>
At 1 July 2004	1
Issue of shares (Note b)	299
At 30 June 2005	300
Issue of shares (Note e)	16,154
Disposal of subsidiaries (Note a)	(300)
At 30 June 2005	16,154

	<b>Company</b>	
	<b>No. of shares</b>	<b>HK\$'000</b>
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 30 June 2005 and 2006	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 2(a))	4,166,666,667	41,667
Share consolidation (Note d)	(7,839,040,144)	–
Ordinary shares of HK\$1.00 each at 30 June 2005	79,182,223	79,182
Issue of shares (Note e)	16,153,846	16,154
Ordinary shares of HK\$1.00 each at 30 June 2006	95,336,069	95,336

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 31 SHARE CAPITAL (Continued)

Notes:

- (a) Before the disposal of the NWPCS Group on 31 March 2006, due to the use of reverse acquisition basis of accounting, the amount of share capital and share premium in the consolidated balance sheet represents the amount of issued shares of the legal subsidiary, NWPCS Holdings prior to the Reverse Acquisition and shares issued by the Company after the Reverse Acquisition. After the disposal of the NWPCS Group on 31 March 2006, the amount of share capital and share premium in the consolidated balance sheet represented that of the Company issued after the Reverse Acquisition after transferring the amount of share capital and share premium of NWPCS Holdings prior to the Reverse Acquisition to the consolidation reserve of the Group.

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 Holdings, for capitalisation of loans.
- (c) On 6 July 2004, the authorised 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.
- (e) On 21 October 2005, 16,153,846 ordinary shares of HK\$1.00 each of the Company were issued at HK\$1.3 each to New World CyberBase Limited ("NWC") for acquisition of the entire issued share capital of New World CyberBase Solutions (BVI) Limited ("NWCS") (Note 36(a)).

- (f) Share option schemes

At an extraordinary general meeting of the Company held on 28 May 2002, the shareholders of the Company approved the termination of the share option scheme adopted by the Company on 11 September 1998 (the "1998 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme") in compliance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchanges (the "Listing Rules"). Upon termination of the 1998 Share Option Scheme, no further options could be granted under the 1998 Share Option Scheme. However, the outstanding share options granted thereunder would continue to be valid and exercisable in accordance with the provisions of the 1998 Share Option Scheme.

The 2002 Share Option Scheme is valid and effective for a period of 10 years commencing on 28 May 2002. The total number of shares issued and to be issued upon exercise of the options granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares in issue from time to time unless separately approved by the shareholders in general meeting.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 31 SHARE CAPITAL (Continued)

(f) Share option schemes (Continued)

An option may be exercised in accordance with the terms of the 2002 Share Option Scheme at any time during the period as the board of directors at their absolute discretion determine and in any event such period shall not be more than 10 years from the date upon which the offer of the option is made to the grantee. The directors may, if consider appropriate, determine the minimum period for which an option must be held before it can be exercised.

Upon acceptance of the offer for an option, the grantee shall pay HK\$1.00 as consideration for the grant. The subscription price of a share in respect of any option granted shall be determined by the board of directors at their absolute discretion but shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of a share.

(i) Movements in the share options are as follows:

*1998 Share Option Scheme:*

	Exercise period	Exercise price HK\$	Number of options
At 1 January 2003			159,900,000
Lapsed	15.8.2000 to 14.8.2003	0.284	(114,000,000)
	9.2.2002 to 8.2.2008	0.150	(900,000)
		<i>(Note b)</i>	
At 31 December 2003			45,000,000
Adjusted (Note a)			(44,352,000)
Lapsed			(448,000)
At 30 June 2005 and 30 June 2006			200,000

Note:

(a) The number and the exercise price of these share options were adjusted on 28 July 2004 as a result of the completion of the Subscription Agreement (Note 2) and the consolidation of the Company's shares (Note 31(d)).

(b) Exercise price has been adjusted from HK\$0.150 to HK\$2.440.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 31 SHARE CAPITAL (Continued)

- (f) Share option schemes (Continued)  
2002 Share Option Scheme:

	Exercise period	Exercise price HK\$	Number of options
At 1 January 2003 and 31 December 2003	–	–	–
Granted	28.1.2005 to 31.12.2010	1.260	2,916,000
	8.4.2005 to 31.12.2010	1.276	78,000
At 30 June 2005			2,994,000
Lapsed	28.1.2005 to 31.12.2010	1.260	(78,000)
At 30 June 2006			2,916,000

- (ii) Share options outstanding at the end of the year have the following terms:

Exercise period	Exercise price HK\$	As at 30 June 2006 Number of options
9.2.2002 to 8.2.2008	2.440	200,000
28.1.2005 to 31.12.2010	1.260	2,838,000
8.4.2005 to 31.12.2010	1.276	78,000
		3,116,000

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 32 OTHER RESERVES

#### (a) Group

	Share premium (Note 31(a)) HK\$'000	Consolidation reserve (Note 2) HK\$'000	Convertible bond reserve HK\$'000	Total HK\$'000
At 1 July 2004	999	–	–	999
Premium on issue of shares (Note 31(b))	913,793	–	–	913,793
Arising from Reverse Acquisition (Note 2 and 36(c))	–	(1,115,538)	–	(1,115,538)
Renewal of convertible bond (Note 3(a)(i))	–	–	40	40
Issue of subscription note (Note 3(a)(i))	–	–	112,655	112,655
At 30 June 2005, as restated	914,792	(1,115,538)	112,695	(88,051)
At 30 June 2005, as previously stated	914,792	(1,115,538)	–	(200,746)
Renewal of convertible bond (Note 3(a)(i))	–	–	40	40
Issue of subscription note (Note 3(a)(i))	–	–	112,655	112,655
At 30 June 2005, as restated	914,792	(1,115,538)	112,695	(88,051)
Premium on issue of shares (Note 31(e))	4,846	–	–	4,846
Disposal of subsidiaries (Note 31(a))	(914,792)	915,092	–	300
At 30 June 2006	4,846	(200,446)	112,695	(82,905)

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 32 OTHER RESERVES (Continued)

#### (b) Company

	Share premium HK\$'000	Convertible bond reserve HK\$'000	Total HK\$'000
At 1 January 2004, as previously stated	450,770	–	450,770
Equity component of convertible bond	–	1,331	1,331
At 1 January 2004, as restated (Note)	450,770	1,331	452,101
Capital reduction (Note)	(444,168)	–	(444,168)
Renewal of convertible bond	–	(1,291)	(1,291)
Issue of subscription note	–	112,655	112,655
At 30 June 2005, as restated	6,602	112,695	119,297
At 1 January 2005, as previously stated	6,602	–	6,602
Renewal of convertible bond (Note 3(a)(i))	–	40	40
Issue of subscription note (Note 3(a)(i))	–	112,655	112,655
At 30 June 2005, as restated	6,602	112,695	119,297
Premium on issue of shares (Note 31(e))	4,846	–	4,846
At 30 June 2006	11,448	112,695	124,143

Note: Pursuant to a special resolution passed at the extraordinary general meeting held on 25 June 2004, the amount outstanding to the credit of the share premium of the Company of HK\$450,770,000 was applied first to set off the accumulated losses of the Company as at 31 December 2003, and then to effect the distribution of special dividend. The remaining balance, if any, is to be applied as the directors of the Company may consider appropriate, subject to the compliance with the laws of Cayman Islands.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 33 PROMISSORY NOTE ISSUED TO AND LOANS FROM A FELLOW SUBSIDIARY – GROUP AND COMPANY

On 30 March 2006, the loan from a fellow subsidiary of HK\$877,500,000 and accrued interest of HK\$9,249,200 of the NWPCS Group was capitalised through the issuance of shares of NWPCS Holdings to the Company to extinguish debts of the NWPCS Group prior to the completion of the Merger Transaction (Note 8). On 30 March 2006, the aforesaid loan and accrued interest was replaced by a promissory note (the "Promissory Note") issued to the fellow subsidiary by the Company in an amount of HK\$886,749,000. The Promissory Note is unsecured, repayable upon demand after eighteen months from the date of issue and bears interest at 0.65% above HIBOR per annum payable every three months in arrears. The effective interest rate of the Promissory Note was 5.1% per annum (2005: 1.9% for the loan of HK\$877,500,000 from a fellow subsidiary).

On 31 March 2006, a new loan of HK\$244,024,000 was drawn from the fellow subsidiary and is repayable upon demand after eighteen months from 31 March 2006. On 6 June 2006, an additional loan of HK\$34,000,000 was drawn from the fellow subsidiary and is repayable upon demand after 28 August 2007. Both loans are unsecured and bear interest at 0.65% above HIBOR per annum payable every three months in arrears. The effective interest rate of the loans was 5.1% and 5.2% per annum respectively.

The carrying amounts of the Promissory Note issued to and loans from the fellow subsidiary approximated their fair values.

### 34 CONVERTIBLE BOND – GROUP AND COMPANY

On 2 November 2001, a convertible bond (the "Convertible Bond") of HK\$39,286,000 (the "Principal Amount") 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 effective interest rate of the Convertible Bond was 3.1% per annum (2005: 3.1%). The original maturity date of the Convertible Bond was on 1 November 2004.

In December 2003, a portion of the Principal Amount of the Convertible Bond of HK\$11,000,000 was converted into 110,000,000 ordinary shares of HK\$0.01 each of the Company at the conversion price of HK\$0.10 per share.

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 remaining portion of the Convertible Bond was adjusted to HK\$1.22 per ordinary share after the completion of the Reverse Acquisition and share consolidation as detailed in Notes 2 and 31(d) respectively.

The carrying amount of the liability portion of the Convertible Bond approximated its fair value.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 35 NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of operating loss before taxation to cash used in operations:

	<b>30 June 2006</b>	30 June 2005
	<b>HK\$'000</b>	HK\$'000
		As restated
Operating loss	<b>(161,298)</b>	(47,041)
Depreciation	<b>996</b>	1,067
Loss on disposal of property, plant and equipment	–	1,247
Gain on disposal of other investments	–	(100)
Gain on disposal of investment securities	–	(2,089)
Interest income	<b>(823)</b>	(108)
Interest expenses	<b>62,786</b>	44,739
Impairment loss on intangible assets	<b>72,959</b>	–
Reversal of impairment of investments in associated companies ( <i>Note 21</i> )	<b>(7,523)</b>	–
Operating loss before working capital changes	<b>(32,903)</b>	(2,285)
(Increase)/decrease in trade receivables	<b>(1,252)</b>	8,613
Decrease in prepayments, deposits, other receivables, rental and other deposits	<b>490</b>	5,335
Decrease in amounts due to fellow subsidiaries and a related company	<b>(48)</b>	(581)
Decrease in trade payables	<b>(393)</b>	–
Increase/(decrease) in accrued charges, other payables, deposits received and deferred income	<b>7,785</b>	(15,904)
Decrease in bank balances with maturities of more than three months	<b>17</b>	–
Cash used in operations	<b>(26,304)</b>	(4,822)

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 36 BUSINESS COMBINATIONS

#### (a) Acquisition of NWCS Group on 21 October 2005

On 12 September 2005, the Company entered into a conditional sale and purchase agreement with NWC. Pursuant to the agreement, the Company agreed to acquire, and NWC agreed to dispose of, the entire issued share capital of NWCS and its subsidiaries (collectively, the "NWCS Group"), and the interest of NWC in the interest-free shareholder's loan due from NWCS for an aggregate consideration of HK\$21 million. The consideration was satisfied by the issue of 16,153,846 ordinary shares of HK\$1.00 each by the Company at an issue price of HK\$1.3 per share, representing a discount of approximately 1.2% to the 10-day average closing price of the Company's share of approximately HK\$1.316 per share for the last 10 consecutive trading days up to and including 12 September 2005 as quoted on the Stock Exchange. The acquisition was completed on 21 October 2005. The acquired business contributed revenues of HK\$16,515,000 and net loss of HK\$21,465,000 to the Group for the period from 22 October 2005 to 30 June 2006. If the acquisition had occurred on 1 July 2005, the contribution to the Group's revenue and net loss would have been HK\$22,874,000 and HK\$26,251,000 respectively.

Details of net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
Purchase consideration:	
Shares issued ( <i>Note 31(e)</i> )	21,000
Less: Fair values of net assets acquired – shown as below	(15,475)
Goodwill ( <i>Note 22</i> )	5,525

With the acquisition of the NWCS Group, the Group's capability to develop value-added mobile products and services and competitiveness in the mobile telecommunication industry are enhanced. In light of the growing demand for mobile Internet services in the PRC, the acquisition will also enable the Group to capitalise on the mobile Internet service market in the PRC. The goodwill is attributable to the aforesaid factors.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 36 BUSINESS COMBINATIONS *(Continued)*

#### (a) Acquisition of NWCS Group on 21 October 2005 *(Continued)*

The fair values of the assets and liabilities of the NWCS Group at the date of acquisition are as follows:

	<i>HK\$'000</i>
Property, plant and equipment	6,541
Intangible asset	1,470
Trade receivables and other current assets	4,719
Cash and cash equivalents	9,896
Bank balances with maturities of more than three months	787
Accruals and other payables	(7,938)
<b>Fair values of net assets acquired</b>	<b>15,475</b>

The carrying amounts of the assets and liabilities of the NWCS Group approximated their fair values at the date of acquisition.

	<i>HK\$'000</i>
Cash and cash equivalents acquired	9,896
Bank balances with maturities of more than three months	787
<b>Cash inflow on acquisition</b>	<b>10,683</b>

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 36 BUSINESS COMBINATIONS *(Continued)*

#### (b) Acquisition of CSL NWM Group on 31 March 2006

As mentioned in Note 8, the Group completed the acquisition of 23.6% of the CSL NWM Group on 31 March 2006. As a consequence, the CSL NWM Group has become associated companies of the Group. Since the acquisition, the CSL NWM Group contributed HK\$27,731,000 to the Group's share of results of associated companies for the three months ended 30 June 2006. If the acquisition had occurred on 1 July 2005, the contribution to the Group's share of results of associated companies would have been HK\$117,682,000.

Details of net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
<hr/>	
Purchase consideration:	
Carrying amounts of 23.6% of net assets of the NWPCS Group at the date of disposal ( <i>Note 37</i> )	219,237
Fair value of 76.4% of net assets of the NWPCS Group at the date of disposal	1,732,713
Amount due from an associated company	(113,328)
<hr/>	
Sales consideration of disposal of the NWPCS Group ( <i>Note 37</i> )	1,838,622
Cash consideration	244,024
Professional fee incurred for the acquisition	32,360
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Total purchase consideration	2,115,006
Less: Fair values of share of net assets acquired – shown as below	(1,107,071)
<hr/>	
Goodwill ( <i>Note 21</i> )	1,007,935
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# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 36 BUSINESS COMBINATIONS (Continued)

#### (b) Acquisition of CSL NWM Group on 31 March 2006 (Continued)

The fair values and carrying amounts of the share of assets and liabilities of the CSL NWM Group at the date of acquisition are as follows:

	Fair values HK\$'000	Carrying amounts (Note) HK\$'000
Non-current assets	6,736,856	7,512,480
Current assets	600,566	598,743
Non-current liabilities	(838,348)	(959,348)
Current liabilities	(1,808,097)	(1,808,097)
Net assets of the CSL NWM Group	4,690,977	5,343,778
Share of 23.6% of the net assets	1,107,071	1,261,132

Note: The carrying amounts were extracted from the financial statements of the CSL NWM Group as at 31 March 2006 audited by another auditors.

	HK\$'000
Cash consideration	244,024
Professional fee paid for the acquisition	32,360
Cash outflow on acquisition	276,384

#### (c) Acquisition of Logistics Group on 6 July 2004

As mentioned in Note 2, NWPCS Holdings was deemed to have acquired the Logistics Group on 6 July 2004. The acquired business contributed revenues of HK\$4,261,000 and net loss of HK\$47,092,000 for the period from 6 July 2004 to 30 June 2005.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 36 BUSINESS COMBINATIONS *(Continued)*

#### (c) Acquisition of Logistics Group on 6 July 2004 *(Continued)*

Details of net assets acquired and goodwill are as follows:

	<i>HK\$'000</i>
Purchase consideration:	
Cash consideration	50,000
Subscription Note issued <i>(Note 2)</i>	1,200,000
Reverse Acquisition adjustment <i>(Note 2(vii) and 32(a))</i>	(1,115,538)
Deemed consideration	134,462
Professional fee incurred for the acquisition	1,731
Total purchase consideration	136,193
Less: Fair values of net assets acquired at the date of acquisition – shown as below	(70,229)
Goodwill <i>(Note 22)</i>	65,964

As a result of the acquisition of the Logistics Group, the NWPCS Group became part of a listed group and would be able to provide investors, research analysts and rating agencies with greater clarity on its mobile telecommunications business and financial positions arousing greater interest from investors focused on mobile telecommunications business. The goodwill is attributable to the aforesaid considerations.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 36 BUSINESS COMBINATIONS *(Continued)*

#### (c) Acquisition of Logistics Group on 6 July 2004 *(Continued)*

The fair values of the assets and liabilities of the Logistics Group at the date of acquisition are as follows:

	<b>HK\$'000</b>
Property, plant and equipment	2,865
Investment securities	1,520
Other investments	800
Cash and bank balances	97,361
Trade receivables and other current assets	7,340
Accruals and other payables	(11,403)
Convertible bond, as restated <i>(Note 3(a)(i))</i>	(28,254)
	70,229

The carrying amounts of the assets and liabilities of the Logistics Group approximated their fair values at the date of acquisition.

	<b>HK\$'000</b>
Cash and cash equivalents acquired	97,361
Purchase consideration settled in cash	(50,000)
Professional fee paid	(1,731)
	45,630

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 37 DISPOSAL OF SUBSIDIARIES

As mentioned in Note 8, the Group disposed of its interests in the NWPCS Group on 31 March 2006.

Details of net assets disposed of and gain on the disposal are as follows:

	<i>HK\$'000</i>
Sales consideration:	
Investments in associated companies	1,838,622
Amount due from an associated company ( <i>Note 27</i> )	113,328
Total sales consideration	1,951,950
Net book values of net assets disposed of	(928,971)
Gain on disposal of subsidiaries	<u>1,022,979</u>

The assets and liabilities disposed of at the date of disposal are as follows:

Property, plant and equipment	965,519
Deferred taxation	162,599
Rental and other deposits	5,949
Amount due from the immediate holding company	5,625
Amount due from fellow subsidiaries	1,784
Inventories	25,594
Trade receivables	107,035
Prepayment, other receivables, rental and other deposits	69,949
Bank overdraft	(384)
Trade payables	(73,251)
Other payables and accruals	(334,709)
Amount due to a related company	(40)
Asset retirement obligations	(6,699)
	<u>928,971</u>

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 38 CONTINGENT LIABILITIES

	Group	
	As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000
Bank guarantees in lieu of deposits	–	8,528

### 39 COMMITMENTS

#### (a) Capital Commitments

	Group	
	As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000
Contracted but not provided for	–	123,680
Authorised but not contracted for	–	138,284
	–	261,964

#### (b) Commitments under operating leases

At 30 June 2006, the Group had total future aggregate minimum lease payments under non-cancellable operating leases which expire as follows:

	Group	
	As at 30 June 2006 HK\$'000	As at 30 June 2005 HK\$'000
Land and buildings		
Within one year	873	167,406
In the second to fifth year inclusive	368	98,298
After the fifth year	–	12,458
	1,241	278,162

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RELATED PARTY TRANSACTIONS

- (a) The continuing and discontinued operations of the Group undertook the following material transactions with related parties, which were carried out in the normal course of the business, during the year:

	Note	30 June 2006 HK\$'000	30 June 2005 HK\$'000
Purchases from fellow subsidiaries	(a)	(25,853)	(38,794)
Purchases of property, plant and equipment from a related company	(b)	(1,615)	(6,320)
Service fee income from fellow subsidiaries	(c)	3,443	2,566
Rental expenses paid/payable to fellow subsidiaries	(d)	(14,469)	(24,431)
Loan interest paid/payable to a fellow subsidiary	(e)	(34,190)	(16,226)
Interest paid/payable for the promissory note issued to a fellow subsidiary	(e)	(11,499)	–
Interest paid/payable for the subscription note to an immediate holding company	(f)	(9,000)	(8,877)
Interest paid/payable for the convertible bond to a fellow subsidiary	(g)	(849)	(849)
Reimbursement of office administrative expenses and fee charged from a related company	(h)	(6,636)	(5,656)

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) Rental expenses were charged at a fixed monthly fee subject to the terms of the contract signed by the parties involved.
- (e) The interest was charged at 0.65% above HIBOR per annum.
- (f) Interest charged by PPG, the subscription note holder and the immediate holding company of the Company, was charged at 0.75% per annum.
- (g) Interest charged by NWCBN, the convertible bond holder and a fellow subsidiary, was charged at 3% per annum and was payable semi-annually in arrears.
- (h) The reimbursement of office administrative expenses were charged on actual cost basis at a mark-up of 15%.

# FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS

### 40 RELATED PARTY TRANSACTIONS *(Continued)*

- (b) Key management compensation of the continuing and discontinued operations of the Group during the year is as follows:

	<b>30 June 2006</b>	30 June 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries and other short-term employee benefits	<b>17,747</b>	15,608
Post-employment benefits	<b>506</b>	450
	<b>18,253</b>	16,058