

CHANGE OF FINANCIAL YEAR END

On 6 July 2004, the Company completed the Acquisition of the NWPCS Group. The details of this transaction have been set out in Note 1 to the consolidated accounts. Since then, the Group mainly engages in offering a host of quality mobile communications services in Hong Kong, including voice services and customized data services tailored to the specific needs of individual customer groups, via advanced mobile technologies.

The Acquisition constitutes a reverse acquisition from accounting perspective and therefore the comparative financial information presented in these accounts represents that of the NWPCS Group, which has a financial year end date of 30 June.

In order to conform to the financial year end date of NWD and the NWPCS Group, the Company has changed its financial year end date from 31 December to 30 June. Accordingly, the financial period of the Company under review in the Annual Report covered the eighteen months from 1 January 2004 to 30 June 2005.

Summary of the financial review representing the Group's result covered the period from 1 July 2004 to 30 June 2005.

FINANCIAL REVIEW

For the year ended 30 June 2005, the Group's consolidated turnover slightly increased by HK\$10 million to approximately HK\$1,709 million (2003/04: HK\$1,699 million). The turnover of the Group was mainly contributed by mobile communications services revenue and sales of handsets and accessories.

Mobile communications services revenue for the year amounted to approximately HK\$1,318 million (2003/04: HK\$1,442 million), representing 8.6% decrease. The decline was mainly attributable to aggressive price promotions offered by the mobile service operators and severe competition on tariff. As a result, the post-paid average revenue per user ("ARPU") dropped from HK\$180 in last year to HK\$170 in current year. However, the Group continued to excel in customer servicing and providing mobile users with pioneering data services to maintain its competitiveness during the year. The Group was successful in maintaining the churn rate at 3.6% (2003/04: 3.3%).

Revenue from sales of mobile handsets and accessories for the year was approximately HK\$386 million, representing 50% surge as compared with HK\$257 million for last year. This was achieved by offering various "free handset" promotional offers and a wide range of handset models with advance features to our customers during the year.

The cost of goods sold and services provided was approximately HK\$866 million, representing an increase of HK\$93 million as compared with last year (2003/04: HK\$773 million). The increase was a direct result of the corresponding increase in handset sales.

The gross profit margin of the Group was 49% for current year (2003/04: 54%). The decrease was mainly due to relatively low gross profit margin of mobile handsets and accessories sales and the decline of ARPU.

The Group continues to enhance operating efficiency, resulting in a lower operating expense, excluding depreciation and amortisation charge ("OPEX"). The OPEX was reduced by 5.6% to HK\$441 million (2003/04: HK\$467 million).

The Group's earning before interest, tax, depreciation and amortisation ("EBITDA") for the current year dropped to HK\$403 million (2003/04: HK\$459 million).

Finance costs for the year increased to HK\$30 million (2003/04: HK\$7 million). The increase was mainly due to the interest payments by the Group for a loan from a fellow subsidiary, the Subscription Note and a convertible bond ("Convertible Bond") arose as a result of the Acquisition. Increase in HIBOR was also a substantial factor for the increase in finance costs.

As a result of the combined effects of the above, the Group's profit attributable to shareholders dropped to HK\$93 million (2003/04: HK\$164 million).

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

For financing the Acquisition, the Company has issued Subscription Shares and Subscription Note at considerations of HK\$50 million and HK\$1,200 million, respectively, in July 2004.

Apart from the Subscription Note, the total borrowings of the Group as at 30 June 2005 was approximately HK\$1,009 million (30 June 2004: HK\$2,164 million). The total borrowings mainly comprised a loan from New World Finance Company Limited ("NWF") of HK\$878 million, the Convertible Bond of HK\$28 million, and a bank loan of HK\$103 million. All these borrowings are denominated in Hong Kong dollars and bear interest at HIBOR + 0.65%, 3% and HIBOR + 0.65%, respectively.

The loan from NWF is repayable on demand after 29 September 2006. The maturity date for the Convertible Bond is in November 2007. The bank loan outstanding is scheduled to be fully repaid in October 2005.

As most of the borrowings of the Group including the Subscription Note as at 30 June 2005 are regarded as shareholders' loans, the gearing ratio of the Group calculated thereon is considered to be misleading and so not presented in this report.

As at 30 June 2005, the Group's cash and bank balances amounted to approximately HK\$117 million (30 June 2004: HK\$94 million).

The Group's net cash inflow from operating activities reduced by HK\$14 million to HK\$396 million (2003/04: HK\$410 million).

As at 30 June 2005, none of the assets held by the Group were pledged to other parties (30 June 2004: Nil).

Capital expenditure of the Group amounted to HK\$141 million for the year (2003/04: HK\$154 million). Capital expenditure was mainly for the ongoing enhancements in the service quality, coverage of the mobile network, and purchase of hardware and software for multimedia services provisioning.

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

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

As at 30 June 2005, the Group had obtained bank guarantees in lieu of deposits of HK\$9 million (30 June 2004: HK\$9 million) in aggregate.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2005, the Group had a total of 662 employees (30 June 2004: 706). The Group's remuneration policy is to pay salaries that are competitive in the industry, in a way that will be motivational, fair and equitable, and that are dependent on individual and company performance. Apart from salaries, the Group also provides other fringe benefits to employees, which include provident fund schemes, medical insurance and bonus on performance basis.