Annual Report 2006/2007

新移動

新世界移動控股有限公司

New World Mobile Holdings Limited

(Stock Code : 862)

# Contents




**New World Mobile Holdings Limited**
Room 1502-5, New World Tower I,
16-18 Queen's Road Central, Hong Kong
Tel (852) 2138 8000 Fax (852) 2138 8111

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors:

Mr. Lo Lin Shing, Simon *(Chairman)*
Mr. Ho Hau Chong, Norman

### Independent Non-executive Directors:

Mr. Lau Wai Piu
Mr. Tsui Hing Chuen, William, *JP*
Mr. Lee Kee Wai, Frank

## COMPANY SECRETARY

Mr. Tang Chi Kei

## QUALIFIED ACCOUNTANT

Mr. Tang Chi Kei

## INDEPENDENT AUDITOR

PricewaterhouseCoopers

## LEGAL ADVISER

Iu, Lai & Li

## PRINCIPAL BANKER

Standard Chartered Bank

## AUDIT COMMITTEE

Mr. Lau Wai Piu *(Chairman)*
Mr. Tsui Hing Chuen, William, *JP*
Mr. Lee Kee Wai, Frank

## REMUNERATION COMMITTEE

Mr. Lau Wai Piu *(Chairman)*
Mr. Tsui Hing Chuen, William, *JP*
Mr. Lee Kee Wai, Frank

## REGISTERED OFFICE

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1502-5, New World Tower I
16-18 Queen's Road Central
Hong Kong

## PRINCIPAL SHARE REGISTRARS

Butterfield Fund Services (Cayman) Limited
Butterfield House
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRARS

Tricor Abacus Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

## STOCK CODE

862

## WEBSITE

www.newworldmobile.com.hk

# Management Discussion and Analysis

## BUSINESS REVIEW

The company's mobile value added business had been negatively impacted by the environmental changes of China's wireless market. Through out the year, mobile operators continued to tighten control policy on service providers (also known as SP). The last major announcement in May 2007, China Mobile announced a policy on WAP service fee notification, was yet another example which negatively impacted the SP industry. The SP business, being a major revenue generator of the Group's business, was badly hit. Management does not see a significant improve to this situation in the near term, revenue from this sector is expected to continue to decrease.

Since the end of 2006 management have taken measures to minimize the potential exposure of the business risks from the SP sector, and have shifted to focus on building up two web-based businesses.

Firstly, management shifted to focus on expanding the service offering of web based city infotainment service (Chinaquest). Among many new services that were launched this year, there is a major focus in a commercial based yellow page service called, Enterprise Blog Show ("EBS" or "商博秀"). The revenue of this service line is targeted to replace the shortfall from the SP sector starting in next financial year.

In order to improve the service's brand awareness, in November 2006, the Group announced a change of Chinaquest's website address to www.52tong.com and a change of the logo design to a more lively brand design concept.

As at end of 2006, first major step to expand the service offerings, was the launch of a classified advertisement channel focus on providing a platform for individuals to advertise their own information to the public.

By April 2007, a second major service was the launch of EBS, a service targeting commercial market. It is a WEB2.0 platform for commercial customers to advertise their company information to visitors of Chinaquest. Management aims to launch the service over 50 cities nationwide by the end of 2007. The significant of this service is the birth of a new business model for the Group. The plan to expand through out the nation will be conducted through establishing local channel partners.

Looking at a 400 million population market size, the wireless value-added market continues to be an important market for the business. In May 2007, the company launched the Chinaquest WAP service 2.0 – the wireless portal service of Chinaquest. A product that is integrated with the website services. Fully showing the tight integration of Mobile Internet services, enabling users to use Chinaquest service at the desktop and while on the move.

Secondly, in the music entertainment sector, www.hanyin.com the music entertainment business reached over 218,000 registered users. The company secured relationship with over 50 local and international record companies with a total of over 2,000 artists. In addition, the Group directly signed song distribution rights with 40 artists and have been promoting their work in both the mobile and Internet environment. At the end of 2006, the music blog channel was re-vamped, now providing 15 different music and entertainment categories of related blog contents, spreading from song

# Management Discussion and Analysis

of local talents and popular artists from Hong Kong and Taiwan. When the service was re-launched in November 2006, it soon became one of the major key drivers of the sites traffic growth.

## FINANCIAL REVIEW

### 1. Results Analysis

The mobile value added business had through out the year been negatively impacted by the market environment and the tightening policy control of the mobile operators. Accordingly, the year-of-year turnover was dropped approximately 14.0% to HK$14.2 million (2006: HK$16.5 million).

On 4 January 2007, the Company completed the disposal of an associated company through the disposal of entire issued share capital of Upper Start Holdings Limited ("Upper Start") which holds 23.6% interest in the CSL NWM Group (the "Disposal") at the consideration of HK$2,500 million to New World Development Limited. The share of the profits of the associated company immediately prior to disposal was HK$62.6 million (2006: HK$27.7 million). The resulting one-off gain from the Disposal was HK$305.8 million.

The profit attributable to the shareholders of the Company for the year ended 30 June 2007 was HK$293.1 million (2006: HK$911.6 million). The drop was due to the inclusion of profit from discontinued operations of HK$1,045.2 million in last year.

### 2. Liquidity and financial resources

As at 30 June 2007, the equity holders' fund of the Group amounted to HK$55.7 million (2006: deficit of HK$97.3 million) and the net asset value per share was HK$0.57 (2006: net liability value per share HK$1.02). Upon the completion of the Disposal, a partial of the consideration from the Disposal was satisfied by way of full discharge against a sum owing under the subscription note, the convertible bond, the promissory note and the loans from a then fellow subsidiary. As at 30 June 2007, the Group had no bank or other borrowings (2006: HK$2,371.0 million) and the Group's cash level was recorded at HK$55.5 million (2006: HK$27.7 million). With abundant cash balances and no gearing, the Group has sufficient liquidity and financial resources to meet the operational and investment needs.

### 3. Financial risk management

The key operations of the Group are located in Hong Kong and Mainland China. Therefore, the Group's assets and liabilities are mainly denominated in either Hong Kong dollars or Renminbi (RMB). The Group does not conduct any foreign currency hedging activities since no significant exposure to foreign currency risks are expected.

### 4. Pledge of assets

As at the balance sheet date, bank balances denominated in RMB of certain subsidiaries of the Group in the amount of HK$829,000 (2006: HK$770,000) have been frozen under the PRC court order in relation to claims filed against the subsidiaries.

# Management Discussion and Analysis

## 5. Contingent liabilities

The Group has no material contingent liabilities as at 30 June 2007.

## FUTURE OUTLOOK

The future of the Group is to create and build a media platform, enabling commercial customers to showcase their content to mobile and Internet users in China. Management will continue to enhance the service offerings in both city infotainment and music entertainment sectors. It is important to continue to build the brand and customer base. Lastly, the management team will aim to quickly secure the sales network in key cities throughout the nation.

## HUMAN RESOURCES

As at 30 June 2007, the Group had a total of 79 full-time employees (2006: 143) in Hong Kong and PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on periodic basis. Apart from retirement schemes, year-end bonuses and share options are awarded to the employees according to the assessment of individual performance and industry practice. Appropriate training programs are also offered for staff training and development.

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") recognizes the importance of maintaining a high standard of corporate governance to protect and enhance the benefits of shareholders and has applied the principles of the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

For the year ended 30 June 2007, the Company has complied with the code provisions of the CG Code with deviations from the code provision A.2.1, A.4.1 and A.4.2 of the CG Code as summarized below:

i. In accordance with CG Code provision A.2.1 stipulates that the roles of chairman and chief executive officer ("CEO") should be separated and should not be performed by the same individual. The Company does not at present have any officer with the title CEO. Mr Lo Lin Shing, Simon is the chairman of the Company and has also carried out the responsibility of CEO. Mr Lo possesses the essential leadership skills to manage the Board and extensive knowledge in the business of the Group. The Board considers the present structure is more suitable for the Company because it can promote the efficient formulation and implementation of the Company's strategies.

ii. Under the code provision A.4.1 and A.4.2 of the Code, (a) non-executive directors should be appointed for a specific term and subject to re-election; and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

    None of the existing non-executive directors of the Company is appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, they are subject to the retirement by rotation in accordance with the provisions of the Company's articles of association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own code of conduct regarding securities transactions by directors and employees who are likely to be in possession of unpublished price sensitive information of the Company on terms no less exacting than those set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules.

Upon specific enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in Model Code throughout the year ended 30 June 2007.

# Corporate Governance Report

## ATTENDANCE RECORD AT BOARD, AUDIT AND REMUNERATION COMMITTEES' MEETING AND ANNUAL GENERAL MEETING

The following was an attendance record of the AGM, Board and Board Committee Meetings held during the year ended 30 June 2007:

| | Board | Audit committee | Remuneration committee | 2006 AGM |
|---|---|---|---|---|
| *Number of meetings* | 4 | 2 | 1 | 1 |
| *Executive directors* | | | | |
| Mr. Lo Lin Shing, Simon | 3/4 | N/A | N/A | 0/1 |
| Mr. Ho Hau Chong, Norman | 3/4 | N/A | N/A | 0/1 |
| Dr. Cheng Kar Shun, Henry (Resigned on 1 February 2007) | 1/2 | N/A | N/A | 1/1 |
| Mr. Doo Wai Hoi, William, *JP* (Resigned on 1 February 2007) | 1/2 | N/A | N/A | 1/1 |
| Dr. Wai Fung Man, Norman (Resigned on 1 February 2007) | 2/2 | N/A | N/A | 1/1 |
| Mr. To Hin Tsun, Gerald (Resigned on 1 February 2007) | 2/2 | N/A | N/A | 1/1 |
| Mr. Chow Yu Chun, Alexander (Resigned on 1 February 2007) | 2/2 | N/A | N/A | 1/1 |
| *Independent non-executive directors and Members of Audit and Remuneration Committees* | | | | |
| Mr. Tsui Hing Chuen, William, *JP* (Appointed on 8 September 2006) | 2/3 | 2/2 | 1/1 | 1/1 |
| Mr. Lau Wai Piu (Appointed on 8 March 2007) | 2/2 | 1/1 | N/A | N/A |
| Mr. Lee Kee Wai, Frank (Appointed on 27 April 2007) | 1/1 | N/A | N/A | N/A |
| Mr. Hui Chiu Chung, *JP* (Resigned on 1 February 2007) | 2/2 | 1/1 | 1/1 | 0/1 |
| Mr. Kwong Che Keung, Gordon (Resigned on 1 February 2007) | 2/2 | 1/1 | 1/1 | 0/1 |
| Mr. Wei Chi Kuan, Kenny (Resigned on 8 September 2006) | 0/1 | N/A | N/A | N/A |

# Corporate Governance Report

## BOARD

### a) Board Composition

The Board currently comprises two executive directors and three independent non-executive directors, serving the important function of guiding the management.

The Board members for the year ended 30 June 2007 and up to the date of the annual report were:

| | |
|---|---|
| *Executive directors* | |
| Mr. Lo Lin Shing, Simon | (Re-designated from non-executive director to executive director with effect from 11 January 2007) |
| Mr. Ho Hau Chong, Norman | (Re-designated from non-executive director to executive director with effect from 11 January 2007) |
| Dr. Cheng Kar Shun, Henry | (Resigned on 1 February 2007) |
| Mr. Doo Wai Hoi, William, *JP* | (Resigned on 1 February 2007) |
| Dr. Wai Fung Man, Norman | (Resigned on 1 February 2007) |
| Mr. To Hin Tsun, Gerald | (Resigned on 1 February 2007) |
| Mr. Chow Yu Chun, Alexander | (Resigned on 1 February 2007) |
| *Independent non-executive directors* | |
| Mr. Tsui Hing Chuen, William, *JP* | (Appointed on 8 September 2006) |
| Mr. Lau Wai Piu | (Appointed on 8 March 2007) |
| Mr. Lee Kee Wai, Frank | (Appointed on 27 April 2007) |
| Mr. Hui Chiu Chung, *JP* | (Resigned on 1 February 2007) |
| Mr. Kwong Che Keung, Gordon | (Resigned on 1 February 2007) |
| Mr. Wei Chi Kuan, Kenny | (Resigned on 8 September 2006) |

None of the members of the Board is related to one another.

During the year, Mr. Lo Lin Shing, Simon and Mr. Ho Hau Chong, Norman were re-designated from non-executive directors to executive directors with effect from 11 January 2007. Dr. Cheng Kar Shun, Henry, Mr. Doo Wai Hoi, William, *JP*, Dr. Wai Fung Man, Norman, Mr. To Hin Tsun, Gerald, Mr. Chow Yu Chun, Alexander were resigned as executive directors and Mr. Hui Chiu Chung, *JP*, Mr. Kwong Che Keung, Gordon and Mr. Wei Chi Kuan, Kenny were resigned as independent non-executive directors on their own accord. Reference is made to the Company's announcement on 1 February 2007 and 8 March 2007 that the Company did not comply with Rules 3.10, 3.11 and 3.23 of the Listing Rules since the resignation of Mr. Kwong Che Keung, Gordon and Mr. Hui Chiu Chung, *JP*.

# Corporate Governance Report

The executive directors of the Company were responsible for identifying appropriate candidates to assume the role of independent non-executive director. The executive directors considered the following attributes or qualifications in evaluating a person's candidacy for membership on the Board:

– management and leadership experience;

– skilled and diverse background;

– integrity and professionalism; and

– independency.

Further, the potential candidate must be willing to commit sufficient time available to discharge the duties of Board membership. After due consideration, Mr. Lau Wai Piu and Mr. Lee Kee Wai, Frank were appointed as independent non-executive director on 8 March 2007 and 27 April 2007 respectively. Thereafter, the Company is in full compliance with the relevant Listing Rules relating to the appointment of at least 3 independent non-executive directors with at lease one independent non-executive director processing appropriate accounting qualification.

All independent non-executive directors are financially independent from the Company and any of its subsidiaries. The Company has received written annual confirmation of independence from each of the existing independent non-executive directors pursuant to Rule 3.13 of the Listing Rules. Accordingly, the Company considers all independent non-executive directors to be independent.

## b) Roles and Function

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as when necessary, directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that Board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

# Corporate Governance Report

For the year ended 30 June 2007, the Board:–

i. reviewed the performance of the Group and formulated business strategy of the Group;

ii. reviewed and approved the annual and interim results of the Group;

iii. reviewed the internal controls of the Group;

iv. reviewed and approved the general mandates to issue shares of the Company;

v. reviewed and approved the price-sensitive transactions;

vi. reviewed and approved the notifiable transactions of the Company; and

vii. reviewed and approved the auditor's remuneration and recommend the re-appointment of Pricewaterhouse Coopers as the independent auditor of the Group respectively.

To the best knowledge of the Company, there is no financial, business and family relationship among our directors. All of them are free to exercise their independent judgment.

## c) Accountability and Audit

The directors are responsible for preparing the accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. The directors also ensure that the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting policies.

In preparing the financial statements, the directors consider that the financial statements of the Group are prepared on going concern basis and appropriate accounting policies have been consistently applied. The directors have also made judgments and estimates that are prudent and reasonable in the preparation of the financial statements.

The statement of the auditor of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on page 27.

# Corporate Governance Report

### d) Internal Control and Risk Management

The Board is responsible for the Group's system of internal control so as to maintain sound and effective internal controls to safeguard the shareholders' investment and the assets of the Group.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. This process includes continuous updating of the internal control system of the Group in response to the changing business environment and regulatory requirements. The Board is also conducting a review of the internal controls of the Group to ensure that the policies and procedures in place are adequate. During the year, an independent professional consultant was engaged to conduct the internal control review of the Group and reported to the Audit Committee and the Company. No major issue but only minor areas for improvement had been identified. The Board assesses the effectiveness of the Group's internal control system which covers all material controls, including financial, operational and compliance controls and risk management functions.

## BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:

- Audit Committee
- Remuneration Committee

Each Board Committee makes decisions on matters within its terms of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

# Corporate Governance Report

## Audit Committee

The audit committee currently consists of three independent non-executive directors.

a) *Composition of Audit Committee Members during the year and up to the date of this report*

| | |
|---|---|
| Mr. Lau Wai Piu *(Chairman of Audit Committee)* | (Appointed on 8 March 2007) |
| Mr. Tsui Hing Chuen, William, *JP* | (Appointed on 8 September 2006) |
| Mr. Lee Kee Wai, Frank | (Appointed on 27 April 2007) |
| Dr. Wai Fung Man, Norman *(Chairman of Audit Committee)* | (Resigned on 1 February 2007) |
| Mr. Hui Chiu Chung, *JP* | (Resigned on 1 February 2007) |
| Mr. Kwong Che Keung, Gordon | (Resigned on 1 February 2007) |
| Mr. Wei Chi Kuan, Kenny | (Resigned on 8 September 2006) |

b) *Roles and Function*

The Audit Committee is mainly responsible for:

i. to review the Group's financial and accounting policies and financial statements half yearly before submission to, and providing advice and comments thereon to the Board;

ii. to discuss with the independent auditor the nature and scope of audit and review audit issues raised by the independent auditor;

iii. to review the financial controls, internal controls and risk management systems of the Group; and

iv. to consider the appointment, resignation or dismissal of external auditors and their audit fees.

# Corporate Governance Report

## Remuneration Committee

The Remuneration Committee currently consists of three independent non-executive directors.

a) *Composition of Remuneration Committee Members during the year and up to the date of this report*

| | |
|---|---|
| Mr. Lau Wai Piu *(Chairman of Remuneration Committee)* | (Appointed on 8 March 2007) |
| Mr. Tsui Hing Chuen, William, | (Appointed on 8 September 2006) |
| Mr. Lee Kee Wai, Frank | (Appointed on 27 April 2007) |
| Dr. Wai Fung Man, Norman *(Chairman of Remuneration Committee)* | (Resigned on 1 February 2007) |
| Mr. Hui Chiu Chung, | (Resigned on 1 February 2007) |

b) *Roles and Function*

The Remuneration Committee is mainly responsible for:

i. reviewing and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

ii. ensuring the remuneration offer is appropriate for the duties and in line with market practice;

iii. making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and engage an independent consultant to conduct a report on emoluments review; and

iv. ensuring that no director or any of his associates is involved in deciding his own remuneration. Where circumstances are considered appropriate, the Remuneration Committee decisions are approved by way of written resolutions passed by all the Remuneration Committee members.

# Corporate Governance Report

## INDEPENDENT AUDITOR

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the independent auditor's report. Apart from the provision of annual audit services, PricewaterhouseCoopers, the independent auditor of the Company also carried out interim review of the Group's results and preparation of accountants' report of circulars of the Group.

For the year ended 30 June 2007, PricewaterhouseCoopers provided the following services to the Group:

| | HK$'000 |
|---|---|
| Audit services | 700 |
| Non-audit services | 1,550 |

## RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility to prepare the financial statements for each financial period which give a true and fair view of the financial affairs of the Group.

# Directors and Senior Management Profile

## EXECUTIVE DIRECTORS

**Mr. Lo Lin Shing, Simon,** aged 51, joined the Company in March 2000 and is currently an executive Director. Mr. Lo possesses over 20 years of experience in the financial, securities and futures industries. Mr. Lo is the chairman of Mongolia Energy Corporation Limited (stock code 276), the deputy chairman of Taifook Securities Group Limited (stock code 665), an executive director of International Entertainment Corporation (stock code 8118), all of which are companies whose shares are listed on the Stock Exchange of Hong Kong.

**Mr. Ho Hau Chong, Norman,** aged 51, joined the Company in November 2000 and is now the executive director of the Company. He holds a bachelor of arts degree from the University of Exeter, and is a member of the Institute of Chartered Accountants in England and Wales and a fellow member of The Hong Kong Institute of Certified Public Accountants. Mr. Ho has over 24 years of experience in finance, management and property development. He is an executive director of Miramar Hotel and Investment Company Limited (stock code 71) and a non-executive director of Taifook Securities Group Limited (stock code 665). Mr. Ho is also an independent non-executive director of CITIC Pacific Limited (stock code 267), Hong Kong Ferry (Holdings) Company Limited (stock code 50), Lee Hing Development Limited (stock code 68), Shun Tak Holdings Limited (stock code 242) and Starlight International Holdings Limited (stock code 485), all of which are companies whose shares are listed on the Stock Exchange of Hong Kong.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Tsui Hing Chuen, William,** ***JP,*** aged 56, is the founding partner of Messrs. Lo, Wong & Tsui, Solicitors & Notaries, which was established in 1980. He has been a solicitor of the High Court of Hong Kong since 1977, a solicitor of the Supreme Court of England & Wales since 1980, and a barrister and solicitor of the Supreme Court of Victoria, Australia since 1983. He has also been an advocate and solicitor in Singapore since 1985 and a notary public appointed by the Archbishop of Canterbury England since 1988. Mr. Tsui was appointed as a Justice of the Peace by the Government of Hong Kong in 1997. He is also an independent non-executive director of Taifook Securities Group Limited (stock code 665) and Mongolia Energy Corporation Limited (stock code 276), both of which are companies whose shares are listed on the Stock Exchange of Hong Kong.

**Mr. Lau Wai Piu,** aged 43, was appointed as an independent non-executive Director on 8 March 2007. Mr. Lau has over 20 years extensive experience in accounting and financial management. Currently, Mr. Lau is the chief financial officer of VOIPWORLD Limited, a private limited company incorporated in Hong Kong. Mr. Lau is a member of Hong Kong Institute of Certified Public Accountants and a fellow of The Association of Chartered Certified Accountants. Mr. Lau is an independent non-executive director of Mongolia Energy Corporation Limited (stock code 276) and Taifook Securities Group Limited (stock code 665), both of which are companies whose shares are listed on the Stock Exchange of Hong Kong.

# Directors and Senior Management Profile

**Mr. Lee Kee Wai, Frank,** aged 48, was appointed as independent non-executive Director on 27 April 2007. Mr. Lee is the Senior Partner of Messrs. Vincent T.K. Cheung, Yap & Co., Solicitors and Notaries. Mr. Lee is a qualified solicitor in the respective jurisdictions of Hong Kong, England, Singapore and the Australian Capital Territory. He is also a China-Appointed Attesting Officer and a member of the Chartered Institute of Arbitrators. Mr. Lee is a graduate of Bachelor of Laws from the London School of Economics & Political Science and has also obtained a Master of Laws degree from Cambridge University. Mr. Lee is currently also a non-executive director of Pico Far East Holdings Limited (stock code 752), a company whose shares are listed in the Stock Exchange of Hong Kong.

## SENIOR MANAGEMENT

**Mr. Choi Wing Kin, Ricky,** aged 46, is the chief operating officer of the Company's major subsidiary overseeing its overall business operation. Mr. Choi has over 19 years' experience in IT and telecommunications industry. Mr. Choi possesses a Professional Chartered Engineer qualification from the Engineering Council (UK). He is a member of The Institution of Engineers (Australia) and a Member of the Institution of Electrical Engineers (UK). Mr. Choi has a Bachelor of Science degree in Electronics & Computer Science from the Chinese University of Hong Kong.

# Report of the Directors

The directors present their report together with the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 30 June 2007.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding and the activities of its principal subsidiaries are set out in note 21 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Group for the year ended 30 June 2007 is set out in note 7 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2007 are set out in the Consolidated Income Statement on page 29.

A special dividend of HK$1.20 per share amounting to HK$117,230,000 in aggregate was paid during the year. No interim dividend was declared (2006: Nil) and the directors do not recommend the payment of a final dividend for the year ended 30 June 2007 (2006: Nil).

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and the share options of the Company during the year are set out in note 29 to the financial statements.

## RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 30 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment of the Group during the year are set out in note 20 to the financial statements.

## GROUP FINANCIAL INFORMATION

A summary of results, assets and liabilities of the Group for the five years ended 30 June 2007 is set out on page 88.

# Report of the Directors

## MAJOR SUPPLIERS AND CUSTOMERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

### Purchases

| | |
|---|---|
| the largest supplier | 58% |
| five largest suppliers in aggregate | 75% |

### Sales

| | |
|---|---|
| the largest customer | 78% |
| five largest customers in aggregate | 100% |

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) has any interest in the Group's five largest suppliers or customers.

## DIRECTORS

The directors of the Company during the year and up to the date of this report are as follows:

### Executive directors

Mr. Lo Lin Shing, Simon
*(Re-designated from non-executive director to executive director with effect from 11 January 2007)*
Mr. Ho Hau Chong, Norman
*(Re-designated from non-executive director to executive director with effect from 11 January 2007)*
Dr. Cheng Kar Shun, Henry
*(Resigned on 1 February 2007)*
Mr. Doo Wai Hoi, William, *JP*
*(Resigned on 1 February 2007)*
Dr. Wai Fung Man, Norman
*(Resigned on 1 February 2007)*
Mr. To Hin Tsun, Gerald
*(Resigned on 1 February 2007)*
Mr. Chow Yu Chun, Alexander
*(Resigned on 1 February 2007)*

# Report of the Directors

### Independent non-executive directors

Mr. Tsui Hing Chuen, William, *JP*
*(Appointed on 8 September, 2006)*
Mr. Lau Wai Piu
*(Appointed on 8 March 2007)*
Mr. Lee Kee Wai, Frank
*(Appointed on 27 April 2007)*
Mr. Hui Chiu Chung, *JP*
*(Resigned on 1 February 2007)*
Mr. Kwong Che Keung, Gordon
*(Resigned on 1 February 2007)*
Mr. Wei Chi Kuan, Kenny
*(Resigned on 8 September 2006)*

In accordance with article 116 of the Company's articles of association, Mr. Lo Lin Shing, Simon retires by rotation and, being eligible, offer himself for re-election at the forthcoming annual general meeting. In accordance with article 99 of the Company's articles of association, Mr. Lau Wai Piu and Mr. Lee Kee Wai, Frank will retire from office and, being eligible, offer themselves for re-election.

The directors of the Company, including the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of Company's articles of association.

Biographical details of the directors and the senior management of the Group are set out on pages 15 and 16.

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices.

Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 6 to 14.

# Report of the Directors

## DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2007, the interests or short positions of the directors of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

### 1 Long positions in the shares

| Name of director | Capacity | Number of shares interested | Percentage of shareholding |
|---|---|---|---|
| Lo Lin Shing, Simon | Interest of a controlled corporation *(Note)* | 55,355,406 | 56.66% |
| Ho Hau Chong, Norman | Beneficial | 78,000 | 0.07% |

*Note:* These shares are beneficially owned by Moral Glory International Limited, a company wholly-owned by Mr. Lo Lin Shing, Simon.

### 2 Long positions in the underlying shares

| Name of director | Capacity | Number of underlying shares interested | Percentage of shareholding |
|---|---|---|---|
| Lo Lin Shing, Simon | Personal | 278,000 | 0.28% |

Save as disclosed above and the section headed "Share Option Schemes", as at 30 June 2007, none of the directors, chief executives and their respective associates had any interests in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

# Report of the Directors

## DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS/ OTHER PERSONS UNDER THE SFO

The register of interests in shares and short positions maintained under section 336 of the SFO showed that as at 30 June 2007, the Company had been notified of the following interests in shares representing 5% or more of the Company's issued share capital:

### Long position and short position of substantial shareholders in the shares and/or underlying shares

| **Name** | **Capacity in which such interest is held** | **Number of shares** | **Percentage of nominal value of issued share capital** |
|---|---|---|---|
| Ku Ming Mei, Rouisa | Interest of spouse | 55,633,406 *(Note 1)* | 56.94% |
| Moral Glory International Limited | Beneficial owner | 55,355,406 *(Note 2)* | 56.66% |

*Notes:–*

1. Ms. Ku Ming Mei, Rouisa is the spouse of Mr. Lo Lin Shing, Simon ("Mr. Lo") and accordingly, she is deemed to be interested in 55,633,406 shares under the SFO.
2. Moral Glory International Limited is wholly-owned by Mr. Lo.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, to the best knowledge of the directors, none of the directors and their respective associates were considered to have any interests in the businesses which compete or were likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the directors were appointed as directors to represent the interests of the Company and/or the Group.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, its ultimate holding company or any subsidiaries of its ultimate holding company was a part in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

# Report of the Directors

## DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or any of its subsidiaries which is not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the businesses of the Company were entered into or existed during the year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the section headed "Share option scheme" below, at no time during the year was the Company or any of its subsidiaries a party to any other arrangements to enable the directors or chief executive or any of their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, its subsidiaries or any other body corporate.

## SHARE OPTION SCHEME

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 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 following is a summary of the terms of the 2002 Share Option Scheme:

### 1. Purpose

The purpose of the 2002 Share Option Scheme is to enable the Company to grant options to the participants as incentive or rewards for their contributions to the Group.

### 2. Participants

The participants of the 2002 Share Option Scheme include any director, employee, consultant, agent, supplier, customer or shareholder of the Group or any entity in which the Group holds any equity interest.

# Report of the Directors

## 3. Number of shares available for issue

The total number of shares available for issue under the 2002 Share Option Scheme is 3,341,555 shares which represents 3.42% of the issued share capital of the Company as at the date of this report.

## 4. Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue unless separately approved by the shareholders in general meeting.

## 5. Option period

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 in its absolute discretion determine and in any event such period of time shall not be more than 10 years from the date upon which the offer of the option is made to the grantee.

## 6. Vesting period

The directors may, if consider appropriate, determine the minimum period for which an option must be held before it can be exercised.

## 7. Amount payable on acceptance of option

Upon acceptance of the offer for an option, the grantee shall pay HK$1.00 as consideration for the grant.

## 8. Subscription price

The subscription price for a share in respect of any option granted shall be a price determined by the board of directors in its 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 day immediately preceding the date of grant; and (iii) the nominal value of a share.

# Report of the Directors

## 9. Life of the scheme

The 2002 Share Option Scheme is valid and effective for a term of 10 years commencing 28 May 2002.

Movements of the share options granted under the 1998 Share Option Scheme and the 2002 Share Option Scheme during the year were as follows:

| Name of director | Date of grant | Exercise price HK$ | Exercise period | As at 1 July 2006 | Cancelled during the year | Exercised during the year *(Note 2)* | As at 30 June 2007 |
|---|---|---|---|---|---|---|---|
| Dr. Cheng Kar Shun, Henry | 28/01/2005 | 1.260 | 28/1/2005 to 31/12/2010 | 780,000 | – | 780,000 | – |
| Mr. Chow Yu Chun, Alexander | 28/01/2005 | 1.260 | 28/1/2005 to 31/12/2010 | 482,000 | – | 482,000 | – |
| Mr. Doo Wai Hoi, William, *JP* | 28/01/2005 | 1.260 | 28/1/2005 to 31/12/2010 | 300,000 | – | 300,000 | – |
| Mr. Ho Hau Chong, Norman | 28/01/2005 | 1.260 | 28/1/2005 to 31/12/2010 | 78,000 | – | 78,000 | – |
| Mr. Hui Chiu Chung, *JP* | 8/04/2005 | 1.276 | 8/4/2005 to 31/12/2010 | 78,000 | – | 78,000 | – |
| Mr. Kwong Che Keung, Gordon | 28/01/2005 | 1.260 | 28/1/2005 to 31/12/2010 | 78,000 | – | 78,000 | – |
| Mr. To Hin Tsun Gerald | 28/01/2005 *(Note 1)* | 1.260 | 28/1/2005 to 31/12/2010 | 482,000 | 482,000 | – | – |
| Dr. Wai Fung Man, Norman | 28/01/2005 | 1.260 | 28/1/2005 to 31/12/2010 | 482,000 | – | 482,000 | – |
| Mr. Wei Chi Kuan Kenny | 28/01/2005 | 1.260 | 28/1/2005 to 31/12/2010 | 78,000 | – | 78,000 | – |
| Mr. Lo Lin Shing, Simon | 8/2/2002 | 2.440 | 9/2/2002 to 8/2/2008 | 200,000 | – | – | 200,000 |
| | 28/1/2005 | 1.260 | 28/1/2005 to 31/12/2010 | 78,000 | – | – | 78,000 |
| | | | | 3,116,000 | 482,000 | 2,356,000 | 278,000 |

# Report of the Directors

*Notes:*

(1) Mr. To Hin Tsun, Gerald resigned as executive director of the Company on 1 February 2007. As such, the share options granted to him cancelled on 1 February 2007 pursuant to the share option scheme.

(2) The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised during the year was HK$2.16.

(3) No scheme options were granted to directors and employees of the Company under the 2002 Share Option Scheme during the year.

## CONNECTED TRANSACTIONS

On 22 November 2006, the Company disposed of the entire issued share capital of Upper Start Holdings Limited and the entire amount of the interest free shareholders' loan owned from Upper Start Holdings Limited by the Company to New World Development Company Limited ("NWD"). As NWD and its subsidiaries were connected person of the Company and the disposal constitute discloseable and connected transactions for the Company under Chapter 14A of the Listing Rules and it was approved by the independent shareholders at the extraordinary general meeting held on 3 January 2007. The transaction was completed on 4 January 2007.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and there was no restriction against such rights under the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## AUDIT COMMITTEE

The audit committee of the Company currently comprises Tsui Hing Chuen, William *JP*, Lau Wai Piu and Lee Kee Wai, Frank who are independent non-executive directors of the Company and their principal duties include the review and supervision of the Company's financial reporting process, internal control procedures and relationship with the Company's external auditors.

The audited financial statements for the year ended 30 June 2007 have been reviewed by the audit committee.

# Report of the Directors

## HUMAN RESOURCES

As at 30 June 2007, the Group employed 79 full-time employees in Hong Kong and PRC. Remuneration packages are structured to take into account the level and composition of pay and the general market conditions in the respective geographical locations and businesses in which the Group operates. The remuneration policies of the Group are reviewed on periodic basis. Apart from retirement schemes, year-end bonuses and share options are awarded to the employees according to the assessment of individual performance and industry practice. Appropriate training programs are also offered for staff training and development.

## SUFFICIENCY OF PUBLIC FLOAT

Reference is made to the Company's announcement on 1 February 2007, that the total number of shares held by the public was below 25% as a result of the issue of 2,278,000 shares to the directors due to exercise of share options during the period from 28 November 2006 to 4 December 2006. As at 1 February 2007 and thereafter, the Company complied with the minimum public float requirement under Rule 8.08 of the Listing Rules.

Save as disclosed above, based on information that is publicly available to the Company and within the knowledge of the directors, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 30 June 2007.

## INDEPENDENT AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board
**Lo Lin Shing, Simon**
*Director*

Hong Kong, 10 October 2007

# Independent Auditor's Report

PRICEWATERHOUSECOOPERS

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**TO THE SHAREHOLDERS OF NEW WORLD MOBILE HOLDINGS LIMITED**

*(incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of New World Mobile Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 29 to 87, which comprise the consolidated and Company balance sheets as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

# Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 10 October 2007

# Consolidated Income Statement

| | | Year ended 30 June | |
|---|---|---|---|
| | | **2007** | 2006 |
| | *Note* | **HK$'000** | HK$'000 |
| **Continuing operations:** | | | |
| Turnover | *6* | **14,155** | 16,515 |
| Cost of sales | | **(5,590)** | (4,842) |
| Gross profit | | **8,565** | 11,673 |
| Other revenue | *9* | **1,770** | 823 |
| Other net gains/(losses) | *10* | **312,480** | (65,436) |
| Selling expenses | | **(7,234)** | (9,775) |
| Administrative expenses | | **(31,515)** | (35,797) |
| Operating profit/(loss) before finance costs | *11* | **284,066** | (98,512) |
| Finance costs | *12* | **(53,590)** | (62,786) |
| Operating profit/(loss) | | **230,476** | (161,298) |
| Share of results of associated companies | *22* | **62,577** | 27,731 |
| Profit/(loss) before income tax | | **293,053** | (133,567) |
| Income tax expense | *16* | **–** | – |
| Profit/(loss) from continuing operations | | **293,053** | (133,567) |
| **Discontinued operations:** | | | |
| Profit from discontinued operations | *8* | **–** | 1,045,209 |
| Profit attributable to equity holders of the Company | | **293,053** | 911,642 |
| **Earnings/(loss) per share attributable to the equity holders of the Company during the year** | | | |
| Basic earnings/(loss) per share | | | |
| – Continuing operations | *17* | **HK$3.03** | (HK$1.48) |
| – Discontinued operations | *17* | **–** | HK$11.56 |
| | | **HK$3.03** | HK$10.08 |
| Diluted earnings per share | *17* | **HK$3.03** | N/A |

The notes on pages 37 to 87 are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

| | Note | As at 30 June<br>2007<br>HK$'000 | <br>2006<br>HK$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *20* | **5,383** | 6,183 |
| Investments in associated companies | *22* | **–** | 2,142,737 |
| Intangible assets | *23* | **–** | – |
| Deferred taxation | *24* | **–** | – |
| | | **5,383** | 2,148,920 |
| **Current assets** | | | |
| Trade receivables | *25* | **1,185** | 4,266 |
| Prepayments, deposits and other receivables | | **1,556** | 1,368 |
| Amount due from an associated company | | **–** | 113,328 |
| Amount due from a related company | *26* | **813** | 813 |
| Cash and bank balances | *27* | **55,481** | 27,691 |
| | | **59,035** | 147,466 |
| **Total assets** | | **64,418** | 2,296,386 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | *29* | **97,692** | 16,154 |
| Other reserves | *30* | **12,901** | (82,905) |
| Accumulated losses | | **(54,907)** | (30,538) |
| **Total equity/(total equity holders' deficit)** | | **55,686** | (97,289) |

# Consolidated Balance Sheet

| | Note | As at 30 June 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Loans from a fellow subsidiary | *31* | – | 278,024 |
| Promissory note issued to a fellow subsidiary | *31* | – | 886,749 |
| Convertible bond | *31* | – | 28,261 |
| Subscription note | *31* | – | 1,178,008 |
| | | – | 2,371,042 |
| **Current liabilities** | | | |
| Trade payables | *28* | **190** | 809 |
| Accrued charges, other payables, deposits received and deferred income | | **8,542** | 15,779 |
| Amounts due to fellow subsidiaries | | – | 420 |
| Amount due to an associated company | | – | 5,625 |
| | | **8,732** | 22,633 |
| **Total liabilities** | | **8,732** | 2,393,675 |
| **Total equity and liabilities** | | **64,418** | 2,296,386 |
| **Net current assets** | | **50,303** | 124,833 |
| **Total assets less current liabilities** | | **55,686** | 2,273,753 |

On behalf of the Board

**Lo Lin Shing, Simon**
*Director*

**Ho Hau Chong, Norman**
*Director*

The notes on pages 37 to 87 are an integral part of these consolidated financial statements.

# Balance Sheet

| | | As at 30 June | |
|---|---|---|---|
| | | **2007** | 2006 |
| | *Note* | **HK$'000** | HK$'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *20* | **–** | – |
| Investments in subsidiaries | *21* | **47,335** | 2,497,576 |
| | | **47,335** | 2,497,576 |
| **Current assets** | | | |
| Amount due from an associated company | | **–** | 113,328 |
| Amount due from a related company | *26* | **225** | 225 |
| Prepayments, deposits and other receivables | | **188** | 87 |
| Cash and bank balances | *27* | **47,445** | 10,564 |
| | | **47,858** | 124,204 |
| **Total assets** | | **95,193** | 2,621,780 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the Company's equity holders** | | | |
| Share capital | *29* | **97,692** | 95,336 |
| Other reserves | *30* | **12,062** | 124,143 |
| (Accumulated losses)/retained earnings | | **(15,520)** | 16,781 |
| **Total equity** | | **94,234** | 236,260 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Loans from a fellow subsidiary | *31* | **–** | 278,024 |
| Promissory note issued to a fellow subsidiary | *31* | **–** | 886,749 |
| Convertible bond | *31* | **–** | 28,261 |
| Subscription note | *31* | **–** | 1,178,008 |
| | | **–** | 2,371,042 |

# Balance Sheet

| | Note | As at 30 June 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Current liabilities** | | | |
| Amount due to an associated company | | – | 5,625 |
| Amounts due to fellow subsidiaries | | – | 420 |
| Accrued charges and other payables | | **959** | 8,433 |
| | | **959** | 14,478 |
| **Total liabilities** | | **959** | 2,385,520 |
| **Total equity and liabilities** | | **95,193** | 2,621,780 |
| **Net current assets** | | **46,899** | 109,726 |
| **Total assets less current liabilities** | | **94,234** | 2,607,302 |

On behalf of the Board

**Lo Lin Shing, Simon**
*Director*

**Ho Hau Chong, Norman**
*Director*

The notes on pages 37 to 87 are an integral part of these financial statements.

# Consolidated Cash Flow Statement

| | Notes | Year ended 30 June 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash used in operations | *32* | **(39,888)** | (26,304) |
| Interest paid | | **(119,973)** | (16,108) |
| Net cash used in continuing operations | | **(159,861)** | (42,412) |
| Net cash generated from discontinued operations | | **–** | 131,421 |
| Net cash (used in)/generated from operating activities | | **(159,861)** | 89,009 |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | **(792)** | (86) |
| Acquisition of subsidiaries, net of cash acquired | | **–** | 9,896 |
| Proceeds from disposal of a subsidiary | *22 & 31* | **169,547** | – |
| Acquisition of associated company | *33* | **–** | (276,384) |
| Proceeds from disposal of subsidiaries | *34* | **–** | 384 |
| Dividend received from an associated company | *22* | **17,228** | 7,523 |
| Repayment of amount due from an associated company | | **113,328** | – |
| Proceeds from sale of property, plant and equipment | | **24** | – |
| Interest received | *9* | **1,770** | 823 |
| Net cash generated from/(used in) continuing operations | | **301,105** | (257,844) |
| Net cash used in discontinued operations | | **–** | (96,302) |
| Net cash generated from/(used in) investing activities | | **301,105** | (354,146) |
| **Cash flows from financing activities** | | | |
| Proceeds from issuance of ordinary shares | | **2,970** | – |
| Dividend paid to Company's equity holders | *18* | **(117,230)** | – |
| Proceeds from loans from a fellow subsidiary | | **–** | 278,024 |
| Net cash (used in)/generated from continuing operations | | **(114,260)** | 278,024 |
| Repayment of bank loan and amount due to ultimate holding company of discontinued operations | | **–** | (102,500) |
| Net cash (used in)/generated from financing activities | | **(114,260)** | 175,524 |

The notes on pages 37 to 87 are an integral part of these consolidated financial statements.

# Consolidated Cash Flow Statement

| | | Year ended 30 June | |
|---|---|---|---|
| | | **2007** | 2006 |
| | *Note* | **HK$'000** | HK$'000 |
| **Net increase/(decrease) in cash and cash equivalents** | | **26,984** | (89,613) |
| Cash and cash equivalents as at the beginning of the year | | **26,921** | 116,534 |
| Effect of foreign exchange rate changes | | **747** | – |
| **Cash and cash equivalents as at the end of the year** | | **54,652** | 26,921 |
| Analysis of cash and cash equivalents: | | | |
| Cash and bank balances | | **55,481** | 27,691 |
| Less: Cash and bank balances with original maturities of more than three months | *27* | **(829)** | (770) |
| | | **54,652** | 26,921 |

The notes on pages 37 to 87 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2007

| | **Share capital** HK$'000 | **Other reserves** HK$'000 | **Accumulated losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 July 2005 | 300 | (88,051) | (942,180) | (1,029,931) |
| Issue of shares | 16,154 | 4,846 | – | 21,000 |
| Disposal of subsidiaries | (300) | 300 | – | – |
| Profit for the year | – | – | 911,642 | 911,642 |
| At 30 June 2006 | 16,154 | (82,905) | (30,538) | (97,289) |
| Issue of shares | 2,356 | 614 | – | 2,970 |
| Currency translation differences | – | 839 | – | 839 |
| Reversal of reserve due to early extinguishment of subscription note and convertible bond upon the Disposal *(Note 22)* | – | (26,657) | – | (26,657) |
| Transfer *(Notes 29 and 30(a))* | 79,182 | 121,010 | (200,192) | – |
| Dividend paid *(Note 18)* | – | – | (117,230) | (117,230) |
| Profit for the year | – | – | 293,053 | 293,053 |
| At 30 June 2007 | 97,692 | 12,901 | (54,907) | 55,686 |

The notes on pages 37 to 87 are an integral part of these consolidated 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") are principally engaged in technology related business including mobile Internet services in Mainland China.

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

The Company is listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. The consolidated financial statements have been approved for issue by the Board of Directors on 10 October 2007.

## 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.

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 Group'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.

# Notes to the Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) The adoption of new/revised HKFRS

For the year ended 30 June 2007, the Group adopted the below new standards, amendments to published standards and interpretations of HKFRS, which are relevant to its operations.

| | |
|---|---|
| HKAS 21 (Amendment) | The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation |
| HKAS 39 (Amendments) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions and The Fair Value Option |
| HKAS 39 and HKFRS 4 (Amendments) | Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts |
| HKFRS – INT 4 | Determining whether an Arrangement contains a Lease |
| HK (IFRIC) – INT 8 | Scope of HKFRS 2 |
| HK (IFRIC) – INT 9 | Reassessment of Embedded Derivatives |

The adoption of amendments to HKAS 21, 39, HKFRS 4, HKFRS Interpretation 4 and HK(IFRIC) Interpretation 8 and 9 did not result in substantial changes to the Group's accounting policies. In summary:

The amendment to HKAS 21 relates to circumstances under which loans from fellow subsidiaries can be regarded as part of net investment in a foreign operation, hence the exchange differences arising on those loans should be recorded directly.

The amendments to HKAS 39 and HKFRS 4 on financial guarantee contracts introduce a requirement to recognise the fair value of financial guarantee issued under HKAS 39, unless the entity has previously asserted that it regards such contracts as insurance contracts.

The amendment to HKAS 39 on cash flow hedge accounting of forecast intragroup transactions specifically permits hedge accounting to be adopted in consolidated financial statements in respect of the foreign exchange risk of a highly probable forecast intragroup transaction, but only if the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and if the foreign currency risk will affect consolidated profit or loss.

The amendment to HKAS 39 on the fair value option restricts the circumstances under which the fair value option in HKAS 39 can be taken advantage of, compared to the original HKAS 39.

# Notes to the Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (a) The adoption of new/revised HKFRS *(Continued)*

HKFRS – INT 4 looks at the question as to whether certain supply arrangements contain in substance a lease that should be recognised by both the lessor and lessee in accordance with HKAS 17 "Leases".

HK (IFRIC) – INT 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2.

HK (IFRIC) – INT 9, requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

Certain new standards, amendments and interpretations to existing standards have been published but are not effective for current financial year and have not been early adopted, are as follows:

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements – Capital Disclosures[1] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKFRS 7 | Financial Instruments: Disclosures[1] |
| HKFRS 8 | Operating Segments[2] |
| HK (IFRIC) – INT 10 | Interim Financial Reporting and Impairment[3] |
| HK (IFRIC) – INT 11 | HKFRS 2 – Group and Treasury Share Transactions[4] |
| HK (IFRIC) – INT 12 | Service Concession Arrangements[5] |

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 November 2006.
[4] Effective for annual periods beginning on or after 1 March 2007.
[5] Effective for annual periods beginning on or after 1 January 2008.

The Group has already commenced an assessment of the impact of the new standards, amendments or interpretations to existing standards but is not yet in a position to state whether these new standards, amendments or interpretations to existing standards would have a significant impact to its results of operations and financial position.

# Notes to the Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (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.

To comply with the Chinese laws and regulations that prohibit or restrict foreign ownership of companies that provide wireless value-added telecommunications services (the "VAS"), which includes wireless Internet services and Internet content services, the Group conducts substantially all of its VAS operations through 上海易圖通信息技術有限公司, 南京逆火軟件有限公司 and 北京新世界科技發展有限公司 and its subsidiaries (collectively the "Variable Interest Entities"). They are legally owned by certain citizens of the People's Republic of China (the "PRC") or the PRC local company whose equity interest are beneficially owned by citizens of the PRC (collectively "the Registered Shareholders").

Certain contractual arrangements have been made among Shanghai New Era Link Telecom Technology Co., Ltd ("Shg TDT"), a subsidiary of the Company, the Variable Interest Entities and the Registered Shareholders so that the decision–making rights and operating and financing activities of these Variable Interest Entities are ultimately controlled by Shg TDT. Shg TDT is also entitled to all of the operating profits and residual benefits generated by the Variable Interest Entities under these arrangements. In particular, the Registered Shareholders are required under their contractual arrangements with the Group to transfer these interests in the Variable Interest Entities to Shg TDT or Shg TDT's designee upon Shg TDT's request at a pre-agreed nominal consideration.

The Group has granted loans to the Registered Shareholders to finance their investments in the Variable Interest Entities. The direct equity interest in the Variable Interest Entities has been pledged as collateral for the loans.

As a result, the Variable Interest Entities are accounted for as subsidiaries of the Group for accounting purposes.

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.

# Notes to the Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

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.

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 a subsidiary represents the difference between the proceeds of the sale and the Group's share of its 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.

# Notes to the Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

*(ii) Associated companies*

Associates 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 associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' 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 associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates 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. Impairment losses on goodwill are not reversed. 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.

# Notes to the Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (c) Property, plant and equipment

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

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 in 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.

Historical costs of property, plant and equipment include expenditures that are directly attributable to the 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 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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within other net gains/(losses), 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.

# 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) 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 within administrative expenses.

### (f) 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 in hand and deposits held at call with banks.

### (g) Provisions

Provisions 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.

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.

# Notes to the Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

### (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, 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.

*(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.

# Notes to the Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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.

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 is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

### (k) Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### (l) Revenue recognition

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 (the "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.

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

# Notes to the Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (m) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

### (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.

### (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.

# Notes to the Financial Statements

## 3 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

*(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.

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.

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) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or Directors as appropriate.

# Notes to the Financial Statements

## 4 FINANCIAL RISK MANAGEMENT

### 4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk), credit risk, liquidity risk and cash flow and fair value interest rate risks.

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

*(i) Foreign exchange risk*

The Group operates mainly in the PRC and Hong Kong. The exchange rate of Reminbi to HK dollars is subject to the rules and regulations of foreign exchange control promulgated by the PRC government. At present, the Group does not have any financial instruments for hedging purposes.

Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The executive Directors are responsible for managing the net position in each foreign currency.

*(ii) Credit risk*

The Group has concentration of credit risk. Sales of services to the top five customers constituted 100% of the Group's turnover for the year ended 30 June 2007.

The executive Directors consider that the Group's exposure to bad debts is not significant since the Group primarily trades with reputable and creditworthy customers. In addition, the Group has credit policies in place to ensure that sales of services are made to customers with appropriate credit history. Collection of outstanding receivable balances is closely monitored on an ongoing basis.

*(iii) Liquidity risk*

The Group monitors current and expected liquidity requirements to ensure sufficient cash are maintained.

*(iv) 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.

At the year end, the Group had no borrowings.

### 4.2 Fair value estimation

The nominal value less impairment provision of trade receivables and payables approximates their fair values.

# Notes to the Financial Statements

## 5 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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.

### (a) Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage and wear and tear of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned.

### (b) Impairment of receivables

The executive Directors determine the provision for impairment of trade and other receivables based on the credit history of its customers and the current market condition. The Group reassess the provision on each of the balance sheet date.

Significant judgement is exercised on the assessment of the collectibility of trade receivables from each customer. In making its judgement, management considers a wide range of factors such as results of follow-up procedures performed by sales personnel, customer payment trends including subsequent payments and customers' financial position. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

## 6 TURNOVER

The Group is principally engaged in the provision of technology related services. Turnover recognised during the year are as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Technology related services | **14,155** | 16,381 |
| Gross rental income from an investment property | **–** | 134 |
| | **14,155** | 16,515 |

# Notes to the Financial Statements

## 7 SEGMENT INFORMATION

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

For the year ended 30 June 2007, the Group only operates in one business segment, which is the technology related business.

The segment results for the year ended 30 June 2007 are as follows:

| | Technology related services HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Turnover** | 14,155 | – | 14,155 |
| **Segment results** | (15,279) | (14,905) | (30,184) |
| **Other revenue** | – | 1,770 | 1,770 |
| **Other net gains** | – | 312,480 | 312,480 |
| **Operating profit** | | | 284,066 |
| **Finance costs** | – | (53,590) | (53,590) |
| **Operating profit** | | | 230,476 |
| **Share of results of associated companies** | – | 62,577 | 62,577 |
| **Profit before income tax expense** | | | 293,053 |
| **Income tax expense** | – | – | – |
| **Profit attributable to equity holders of the Company** | | | 293,053 |
| **Other segment information** | | | |
| **Depreciation** | 1,170 | 272 | 1,442 |
| **Capital expenditures** | 116 | 676 | 792 |
| **Gain on disposal of a subsidiary** | – | 305,790 | 305,790 |
| **Reversal of impairment of trade receivables** | 1,079 | – | 1,079 |

# Notes to the Financial Statements

## 7 SEGMENT INFORMATION *(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$'000 | Unallocated HK$'000 | Total HK$'000 | Mobile communications services HK$'000 |
| Turnover | 16,515 | – | 16,515 | 1,402,827 |
| Segment results | (14,759) | (19,140) | (33,899) | 60,706 |
| Other revenue | – | 823 | 823 | 716 |
| Other net (losses)/gains | (72,959) | 7,523 | (65,436) | 1,022,979 |
| Operating (loss)/profit | | | (98,512) | 1,084,401 |
| Finance costs | – | (62,786) | (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 income tax | | | (133,567) | 1,050,082 |
| Income tax expense | – | – | – | (4,873) |
| (Loss)/profit attributable to equity holders of the Company | | | (133,567) | 1,045,209 |
| Other segment information | | | | |
| Depreciation | 867 | 129 | 996 | 198,703 |
| Capital expenditures | 86 | – | 86 | 97,354 |
| Provision for/(reversal of) impairment of | | | | |
| – intangible assets | 72,959 | – | 72,959 | – |
| – investments in associated companies | – | (7,523) | (7,523) | – |
| – trade receivables | 215 | – | 215 | 8,706 |

# Notes to the Financial Statements

## 7 SEGMENT INFORMATION *(Continued)*

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

The segment assets and liabilities as at 30 June 2007 are as follows:

| | **Technology related services HK$'000** | **Unallocated HK$'000** | **Total HK$'000** |
|---|---|---|---|
| **Segment assets** | **9,050** | **55,368** | **64,418** |
| **Segment liabilities** | **7,624** | **1,108** | **8,732** |

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

| | Technology related services HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|
| Segment assets | 11,292 | 142,357 | 153,649 |
| Investments in associated company | – | 2,142,737 | 2,142,737 |
| Segment liabilities | 6,458 | 2,387,217 | 2,393,675 |

# Notes to the Financial Statements

## 7 SEGMENT INFORMATION *(Continued)*

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

The Group is operating in two main geographical areas:

Hong Kong: Technology related services for financial year 2007

Mobile communications services, which are classified as discontinued operations, and technology related services for financial year 2006

Mainland China: Technology related services

There are no sales or other transactions between the geographical segments.

| | Segment assets | |
|---|---|---|
| | **As at 30 June 2007 HK$'000** | As at 30 June 2006 HK$'000 |
| Hong Kong | **55,318** | 142,564 |
| Mainland China | **9,100** | 11,085 |
| | **64,418** | 153,649 |

| | Turnover | | Capital expenditure | |
|---|---|---|---|---|
| | **2007 HK$'000** | 2006 HK$'000 | **2007 HK$'000** | 2006 HK$'000 |
| Hong Kong | | | | |
| – continuing | **–** | – | **676** | – |
| – discontinued | **–** | 1,402,827 | **–** | 97,354 |
| Mainland China | **14,155** | 16,515 | **116** | 86 |
| | **14,155** | 1,419,342 | **792** | 97,440 |

# Notes to the Financial Statements

## 8 DISCONTINUED OPERATIONS

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

An analysis of the results and cash flows of the discontinued operations for the financial year 2006 is as follows:

| | 2006<br>HK$'000 |
|---|---|
| Turnover | 1,402,827 |
| Cost of sales | (836,095) |
| Gross profit | 566,732 |
| Other revenue | 716 |
| Other losses | (545) |
| Selling expenses | (85,313) |
| Administrative expenses | (420,168) |
| Operating profit | 61,422 |
| Finance costs | (34,319) |
| Gain on disposal of subsidiaries | 1,022,979 |
| Profit before income tax | 1,050,082 |
| Income tax expense | (4,873) |
| Profit from discontinued operations | 1,045,209 |
| Net cash inflow from operating activities | 131,421 |
| Net cash outflow from investing activities | (96,302) |
| Net cash outflow from financing activities | (102,500) |
| Total net cash outflow | (67,381) |

# Notes to the Financial Statements

## 9 OTHER REVENUE

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Bank interest income | 1,770 | 823 |

## 10 OTHER NET GAINS/(LOSSES)

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Loss on disposal of property, plant and equipment | (218) | – |
| Gain on early extinguishment of non-current liabilities *(Note 22)* | 6,908 | – |
| Gain on disposal of a subsidiary *(Note 22)* | 305,790 | – |
| Impairment loss on intangible assets | – | (72,959) |
| Reversal of impairment on investment in an associated company | – | 7,523 |
| | 312,480 | (65,436) |

## 11 OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after crediting and charging the following:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Auditor's remuneration | 700 | 1,347 |
| Depreciation of property, plant and equipment | 1,442 | 996 |
| Net exchange (gains)/losses | (235) | 384 |
| Operating lease rentals for land and buildings | 1,729 | 1,021 |
| Provision for impairment of trade receivables | – | 215 |
| Staff costs, including directors' emoluments *(Note 13)* | 16,204 | 20,213 |

# Notes to the Financial Statements

## 12 FINANCE COSTS

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Interest on loans from a fellow subsidiary | **5,544** | 3,618 |
| Interest on promissory note issued to a fellow subsidiary | **22,855** | 11,499 |
| Interest on convertible bond | **443** | 860 |
| Interest on subscription note | **24,748** | 46,809 |
| | **53,590** | 62,786 |

## 13 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Wages and salaries | **11,514** | 12,182 |
| Bonuses | **2,736** | 6,165 |
| Pension costs – defined contribution plans | **1,954** | 1,866 |
| | **16,204** | 20,213 |

## 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:

| | 2007 HK$'000 | 2006 HK$'000 |
|---|---|---|
| Fees | **682** | 780 |
| Other emoluments: | | |
| Salaries and allowances | **1,954** | 3,000 |
| Bonuses | **2,485** | 6,505 |
| Pension costs – defined contribution plans | **131** | 225 |
| | **5,252** | 10,510 |

# Notes to the Financial Statements

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

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

*Note:* For the financial year ended 2006, HK$5,786,000 was included in staff costs of loss from continuing operations and included in note 13 presented above. Remaining HK$4,724,000 was included in profit from discontinued operations.

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

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

| | Year ended 30 June 2007 | | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Fees** | **Salaries and allowances** | **Bonuses** | **Pension costs** | **Total** |
| | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** | **HK$'000** |
| ***Executive Directors*** | | | | | |
| **Dr. Wai Fung Man, Norman *** | **30** | **1,954** | **1,775** | **131** | **3,890** |
| **Dr. Cheng Kar Shun, Henry *** | **71** | **–** | **–** | **–** | **71** |
| **Mr. Doo Wai Hoi, William, *JP* *** | **30** | **–** | **–** | **–** | **30** |
| **Mr. To Hin Tsun, Gerald *** | **30** | **–** | **355** | **–** | **385** |
| **Mr. Chow Yu Chun, Alexander *** | **30** | **–** | **355** | **–** | **385** |
| **Mr. Lo Lin Shing, Simon** | **70** | **–** | **–** | **–** | **70** |
| **Mr. Ho Hau Chong, Norman** | **70** | **–** | **–** | **–** | **70** |
| ***Independent Non-Executive Directors*** | | | | | |
| **Mr. Wei Chi Kuan, Kenny (Resigned on 8 September 2006)** | **53** | **–** | **–** | **–** | **53** |
| **Mr. Kwong Che Keung, Gordon *** | **71** | **–** | **–** | **–** | **71** |
| **Mr. Hui Chiu Chung, *JP* *** | **71** | **–** | **–** | **–** | **71** |
| **Mr. Tsui Hing Chuen, William, *JP*** | **97** | **–** | **–** | **–** | **97** |
| **Mr. Lau Wai Piu** | **38** | **–** | **–** | **–** | **38** |
| **Mr. Lee Kee Wai, Frank** | **21** | **–** | **–** | **–** | **21** |
| | **682** | **1,954** | **2,485** | **131** | **5,252** |

# Notes to the Financial Statements

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

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

| | Year ended 30 June 2006 | | | | |
|---|---|---|---|---|---|
| Name of Director | Fees HK$'000 | Salaries and allowances HK$'000 | Bonuses HK$'000 | Pension costs HK$'000 | Total HK$'000 |
| *Executive Directors* | | | | | |
| 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 |
| *Non-Executive Directors* | | | | | |
| Mr. Lo Lin Shing, Simon # | 50 | – | – | – | 50 |
| Mr. Ho Hau Chong, Norman # | 50 | – | – | – | 50 |
| *Independent Non-Executive Directors* | | | | | |
| Mr. Wei Chi Kuan, Kenny (Resigned on 8 September 2006) | 120 | – | – | – | 120 |
| Mr. Kwong Che Keung, Gordon * | 120 | – | – | – | 120 |
| Mr. Hui Chiu Chung, *JP* * | 120 | – | – | – | 120 |
| | 780 | 3,000 | 6,505 | 225 | 10,510 |

* They have resigned as executive Directors or independent non-executive Directors of the Company on 1 February 2007.

\# Mr. Lo Lin Shing, Simon and Mr Ho Hau Chong, Norman have been re-designated as executive Directors from non-executive Directors of the Company on 1 February 2007.

# 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 (2006: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2006: four) individuals during the year are as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and allowances | **1,459** | 4,636 |
| Bonuses | **192** | 2,188 |
| Pension costs – defined contribution plans | **75** | 281 |
| | **1,726** | 7,105 |

The emoluments of the individuals fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2007** | 2006 |
| Emolument bands | | |
| Below HK$1,000,000 | **4** | – |
| HK$1,000,001 to HK$1,500,000 | **–** | 2 |
| HK$1,500,001 to HK$2,000,000 | **–** | 1 |
| HK$2,000,001 to HK$2,500,000 | **–** | 1 |

## 15 RETIREMENT BENEFITS

The Group contributes to two defined contribution retirement schemes in Hong Kong which include an Occupational Retirement Scheme (the "ORSO Scheme") and a mandatory provident fund scheme (the "MPF Scheme"). 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.

# Notes to the Financial Statements

## 15 RETIREMENT BENEFITS *(Continued)*

The MPF Scheme has been established under Hong Kong Mandatory Provident Fund Scheme Ordinance in December 2000. The then existing employees of the Group in Hong Kong could elect to join the MPF Scheme, while all new employees joining the Group in Hong Kong from then onwards are required to join 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 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:

| | **2007**<br>**HK$'000** | 2006<br>HK$'000 |
|---|---|---|
| Gross scheme contributions | **1,954** | 6,272 |
| Less: Forfeited contributions utilised to offset contributions for the year | **–** | (643) |
| Net scheme contributions | **1,954** | 5,629 |
| Less: Amount included in discontinued operations | **–** | (3,763) |
| Net scheme contributions of continuing operations | **1,954** | 1,866 |

As at 30 June 2007, no forfeited contributions were available to reduce future contributions (2006: Nil). No contributions were payable by the Group as at 30 June 2007 (2006: Nil).

# Notes to the Financial Statements

## 16 INCOME TAX EXPENSE

No provision for Hong Kong profits tax and overseas taxation (2006: Nil) has been made for the year as the Company and a number of its subsidiaries have no assessable profit for the year and certain subsidiaries have sufficient tax losses brought forward to offset their estimated assessable profit for the year.

The taxation on the Group's operating profit/(loss) before share of results of associated companies differs from the theoretical amount that would arise using the taxation rate of the home country of the consolidated entities as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Operating profit/(loss) before share of results of associated companies | **230,476** | (161,298) |
| Calculated at a taxation rate of | **17.5%** | 17.5% |
| Notional tax charge/(credit) on operating profit/(loss) | **40,334** | (28,227) |
| Effect of different taxation rates in other countries | **(1,927)** | (2,195) |
| Income not subject to tax | **(55,262)** | (321) |
| Expenses not deductible for taxation purposes | **5,531** | 22,840 |
| Unrecognised tax losses | **11,324** | 7,903 |
| Income tax expense | **–** | – |

# Notes to the Financial Statements

## 17 EARNINGS/(LOSS) PER SHARE

The calculations of basic and diluted earnings/(loss) per shares are based on following data:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Profit/(loss) from continuing operations attributable to equity holders | **293,053** | (133,567) |
| Profit from discontinued operations attributable to equity holders for purpose of calculating basic and diluted earnings per share | **–** | 1,045,209 |
| Profit attributable to equity holders | **293,053** | 911,642 |
| **Number of shares** | | |
| Weighted average number of ordinary shares in issue for the purpose of calculating basic earnings/(loss) per share | **96,692,965** | 90,379,272 |
| Effect of dilutive potential ordinary shares *(Note)*: | | |
| Share options | **35,951** | – |
| Weighted average number of ordinary shares in issue for the purpose of calculating diluted earnings per share | **96,728,916** | 90,379,272 |

*Note:* No diluted earnings/(loss) per share are presented for the year ended 30 June 2006 as the conversion of convertible bond, subscription note and exercise of share options would not have dilutive effect on the loss from continuing operations.

## 18 DIVIDEND

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Special dividend of HK$1.2 (2006: Nil) per share | **117,230** | – |

At a meeting held on 4 January 2007, the Directors declared a special dividend of HK$1.2 per ordinary share. The Directors do not propose to declare a final dividend for the year ended 30 June 2007. (2006: Nil).

# Notes to the Financial Statements

## 19 LOSS ATTRIBUTABLE TO EQUITY HOLDERS

The loss attributable to equity holders is dealt with in the financial statements of the Company to the extent of HK$1,109,000 for the year ended 30 June 2007 (2006: HK$145,573,000).

## 20 PROPERTY, PLANT AND EQUIPMENT

### (a) Group

| | Investment properties | Leasehold buildings | Computer equipment | Furniture and fittings | Leasehold improve-ments | 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 | | | | | | | | | | |
| At 1 July 2005 | – | – | 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 |
| Additions | – | – | 75 | 97 | 228 | 392 | – | – | – | 792 |
| Exchange difference | – | – | 82 | 21 | – | 6 | – | – | – | 109 |
| Disposals | – | – | (10) | (210) | (343) | (489) | – | – | – | (1,052) |
| At 30 June 2007 | – | 3,900 | 2,343 | 148 | – | 767 | – | – | – | 7,158 |

# Notes to the Financial Statements

## 20 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 improve-ments 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 1 July 2005 | – | – | 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 |
| Charge for the year | – | 102 | 921 | 106 | 77 | 236 | – | – | – | 1,442 |
| Disposals | – | – | (4) | (137) | (192) | (477) | – | – | – | (810) |
| Exchange difference | – | – | – | – | 17 | – | – | – | – | 17 |
| At 30 June 2007 | – | 127 | 1,523 | 69 | – | 56 | – | – | – | 1,775 |
| Net book value | | | | | | | | | | |
| At 30 June 2006 | – | 3,875 | 1,590 | 140 | 17 | 561 | – | – | – | 6,183 |
| At 30 June 2007 | – | 3,773 | 820 | 79 | – | 711 | – | – | – | 5,383 |

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

# Notes to the Financial Statements

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

### (b) Company

| | Leasehold improvement HK$'000 | Computer equipment HK$'000 | Furniture and fixtures HK$'000 | Motor vehicle HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Cost | | | | | |
| At 1 July 2005 | – | – | – | 242 | 242 |
| Disposals | – | – | – | (242) | (242) |
| At 30 June 2006 | – | – | – | – | – |
| Additions | 228 | 10 | 91 | 32 | 361 |
| Disposals | (228) | (10) | (91) | (32) | (361) |
| At 30 June 2007 | – | – | – | – | – |
| Accumulated depreciation | | | | | |
| At 1 July 2005 | – | – | – | 152 | 152 |
| Disposals | – | – | – | (152) | (152) |
| At 30 June 2006 | – | – | – | – | – |
| Charge for the year | 77 | 4 | 30 | 32 | 143 |
| Disposals | (77) | (4) | (30) | (32) | (143) |
| At 30 June 2007 | – | – | – | – | – |
| Net book value | | | | | |
| At 30 June 2006 | – | – | – | – | – |
| At 30 June 2007 | – | – | – | – | – |

# Notes to the Financial Statements

## 21 INVESTMENTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Unlisted investments, at costs *(Note a)* | **31,939** | 31,939 |
| Amounts due from subsidiaries *(Note b)* | **322,860** | 2,753,071 |
| | **354,799** | 2,785,010 |
| Less: Provision for impairment | **(307,464)** | (287,434) |
| | **47,335** | 2,497,576 |

*Notes:*

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

| **Name** | **Place of incorporation and operation** | **Particulars of issued share/ registered capital** | **Interest held by the Company** | **Interest held by the Group** | **Principal activities** |
|---|---|---|---|---|---|
| Jetco Technologies Limited | Hong Kong | 1,250,000 Ordinary shares of HK$1 each | – | 100% | Investment holding |
| 上海易圖通信息技術有限公司 | The PRC | Registered capital of Renminbi ("RMB") 10,000,000 | – | 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.

# Notes to the Financial Statements

## 22 INVESTMENTS IN ASSOCIATED COMPANIES

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| At beginning of the year | **2,142,737** | – |
| Acquisition of associated companies | **–** | 2,115,006 |
| Share of results of associated companies | | |
| – Profit before income tax | **78,434** | 34,952 |
| – Income tax expense | **(15,857)** | (7,221) |
| Reversal of impairment loss *(Note a)* | **–** | 7,523 |
| | **2,205,314** | 2,150,260 |
| Dividend income *(Note a)* | **(17,228)** | (7,523) |
| Disposal of associated companies *(Note b)* | **(2,188,086)** | – |
| At end of the year | **–** | 2,142,737 |

*Notes:*

(a) During the year, the Group received dividend income of HK$17,228,000 from an associated company, CSL NWM, in which the Company indirectly held 23.6% interest of its issued share capital. The associated company was disposed of on 4 January 2007.

In prior 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 an associated company was reversed by HK$7,523,000. The associated company was subsequently dissolved in January 2006.

(b) On 4 January 2007, the Company completed the disposal of associated companies through the disposal of entire issued share capital of Upper Start Holdings Limited ("Upper Start"), the wholly owned subsidiary which holds 23.6% interest in the CSL NWM Group (the "Disposal"), at the consideration of HK$2,500 million to New World Development Limited ("NWD").

The consideration of the Disposal was satisfied by way of set-off against a sum equivalent to the aggregate amounts due to fellow subsidiaries, owing under the subscription note, the convertible bond, the promissory note and the loans from the group companies of NWD, which resulting in full discharge of the subscription note, the convertible bond, the promissory note and the loans; and the remaining amount of HK$169,547,000 (Note 31) was settled in cash upon the completion of Disposal. The disposal resulted in a gain on disposal of a subsidiary, net of the related legal and professional fees of HK$6,124,000, of HK$305,790,000 (Note 10). The early extinguishment of the subscription note and convertible bond upon the Disposal resulted in a gain of HK$6,908,000 (Note 10) and a reversal of convertible bond reserve of HK$26,657,000 (Note 30(a)).

# Notes to the Financial Statements

## 23 INTANGIBLE ASSETS

| | | Group | |
|---|---|---|---|
| | **Licence** | **Goodwill** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 July 2005 | – | 65,964 | 65,964 |
| Acquisition of subsidiaries | 1,470 | 5,525 | 6,995 |
| Impairment loss *(Note)* | (1,470) | (71,489) | (72,959) |
| At 30 June 2006 and 2007 | – | – | – |

*Note:* In prior year, the impairment loss was provided for the licence for the operation of a music website. As at 30 June 2006, the carrying amounts of the assets of the business unit were less than the recoverable amount of the business unit, which was 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 discount rate of 5%. Hence, impairment loss was provided for the goodwill.

## 24 DEFERRED TAXATION

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

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

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| At beginning of the year | **–** | 167,472 |
| Deferred taxation charged to consolidated income statement *(Note 8)* | **–** | (4,873) |
| Disposal of subsidiaries | **–** | (162,599) |
| At end of the year | **–** | – |

# Notes to the Financial Statements

## 24 DEFERRED TAXATION *(Continued)*

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. As at 30 June 2007, the Group has unrecognised tax losses of HK$270,091,000 (2006: HK$257,767,000) to carry forward against future taxable income. Except for tax losses of HK$84,343,000 (2006: HK$90,091,000) expiring within 5 years, the balance has no expiry date. These tax losses have not been recognised due to uncertainty of their future recoverability.

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

| | | **Group** | |
|---|---|---|---|
| **Deferred tax assets** | **Provision** | **Tax losses** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 |
| At 1 July 2005 | 2,076 | 260,663 | 262,739 |
| Charged to consolidated income statement | (24) | (22,446) | (22,470) |
| Disposal of subsidiaries | (2,052) | (238,217) | (240,269) |
| At 30 June 2006 and at 30 June 2007 | – | – | – |

| | **Group** |
|---|---|
| **Deferred tax liabilities** | **Accelerated tax depreciation** |
| | HK$'000 |
| At 1 July 2005 | 95,267 |
| Credited to consolidated income statement | (17,597) |
| Disposal of subsidiaries | (77,670) |
| At 30 June 2006 and at 30 June 2007 | – |

# Notes to the Financial Statements

## 25 TRADE RECEIVABLES

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| Trade receivables | **7,382** | 10,629 |
| Less: Provision for impairment of trade receivables | **(6,197)** | (6,363) |
| Trade receivables – net | **1,185** | 4,266 |

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

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| 1 – 30 days | **137** | 2,483 |
| 31 – 60 days | **245** | 1,648 |
| 61 – 90 days | **329** | 112 |
| Over 90 days | **474** | 23 |
| | **1,185** | 4,266 |

The Group' sales are made to several major customers and there is concentration of credit risks. Collections of outstanding receivable balances are closely monitored on an ongoing basis to minimise such credit risk.

The Group has recognised a write back of provision of HK$1,079,000 (2006: HK$215,000) upon the settlement of trade receivables previously provided for. These amounts have been included in administrative expenses in the consolidated income statement.

The carrying amount of trade receivables approximates its fair value.

# Notes to the Financial Statements

## 26 AMOUNT DUE FROM A RELATED COMPANY – GROUP AND COMPANY

It is unsecured, interest free and repayable on demand.

Mr. Lo Lin Shing, Simon, a director of the Company, is also a director of the related company.

## 27 CASH AND BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2007** | 2006 | **2007** | 2006 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Balance with original maturities of three months or less *(Note a)* | **54,652** | 26,921 | **47,445** | 10,564 |
| Balances with original maturities of more than three months *(Note b)* | **829** | 770 | **–** | – |
| | **55,481** | 27,691 | **47,445** | 10,564 |

*Notes:*

(a) Included in the cash and bank balances of the Group as at 30 June 2007 included balances with the PRC banks totalling HK$1,568,000 (30 June 2006: HK$804,000) 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.

The weighted average effective interest rate on short-term bank deposits was 4.02% (2006: 4.11%) per annum. The maturity days of the short-term bank deposit was ranging from one week to one month.

(b) As at 30 June 2007, bank balances denominated in RMB of certain subsidiaries of the Group in the amount of approximately HK$829,000 (2006: HK$770,000) have been frozen under the PRC court order in relation to claims filed against the subsidiaries.

# Notes to the Financial Statements

## 28 TRADE PAYABLES

The aging analysis of the trade payables is as follows:

| | Group | |
|---|---|---|
| | **2007** | 2006 |
| | **HK$'000** | HK$'000 |
| 1 – 30 days | **55** | 80 |
| 31 – 60 days | **–** | 120 |
| 61 – 90 days | **–** | 172 |
| Over 90 days | **135** | 437 |
| | **190** | 809 |

The carrying amount of trade payables approximates its fair value.

## 29 SHARE CAPITAL

| | **Group** |
|---|---|
| | HK$'000 |
| At 1 July 2005 | 300 |
| Issue of new ordinary shares | 16,154 |
| Disposal of subsidiaries | (300) |
| At 30 June 2006 | 16,154 |
| Issue of new ordinary shares *(Note a)* | 2,356 |
| Transfer from accumulated losses *(Note b)* | 79,182 |
| At 30 June 2007 | 97,692 |

# Notes to the Financial Statements

## 29 SHARE CAPITAL *(Continued)*

| | Company | |
|---|---|---|
| | **Ordinary shares of HK$1.00 each** | |
| | No. of shares | HK$'000 |
| Authorised: | | |
| At 1 July 2005, 30 June 2006 and 2007 | 2,000,000,000 | 2,000,000 |
| Issued and fully paid: | | |
| At 1 July 2005 | 79,182,223 | 79,182 |
| Issue of new ordinary shares | 16,153,846 | 16,154 |
| At 30 June 2006 | 95,336,069 | 95,336 |
| Issue of new ordinary shares *(Note a)* | 2,356,000 | 2,356 |
| At 30 June 2007 | 97,692,069 | 97,692 |

*Notes:*

**(a) 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 there under 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.

# Notes to the Financial Statements

## 29 SHARE CAPITAL *(Continued)*

*Notes: (Continued)*

**(a) 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.

Movements in the share options are as follows:

| | **Exercise period** | **Exercise price** | **Number of options** |
|---|---|---|---|
| | | HK$ | |
| *1998 Share Option Scheme:* | | | |
| 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 | 2.440 | (900,000) |
| | | *(Note ii)* | |
| At 31 December 2003 | | | 45,000,000 |
| Adjusted *(Note i)* | | | (44,352,000) |
| Lapsed | | | (448,000) |
| At 30 June 2006 and at 30 June 2007 | | | 200,000 |

# Notes to the Financial Statements

## 29 SHARE CAPITAL *(Continued)*

*Notes: (Continued)*

**(a) Share option schemes** *(Continued)*

*Notes:*

(i) The number and the exercise price of these share options were adjusted on 28 July 2004 and upon consolidation of the Company's shares.

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

| | **Exercise period** | **Exercise price** | **Number of options** |
|---|---|---|---|
| | | HK$ | |
| *2002 Share Option Scheme:* | | | |
| At 1 January 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 |
| Exercised | 28.1.2005 to 31.12.2010 | 1.260 | (2,278,000) |
| Exercised | 8.4.2005 to 31.12.2010 | 1.276 | (78,000) |
| Cancelled | 28.1.2005 to 31.12.2010 | 1.260 | (482,000) |
| At 30 June 2007 | | | 78,000 |

# Notes to the Financial Statements

## 29 SHARE CAPITAL *(Continued)*

*Notes: (Continued)*

**(a) Share option schemes** *(Continued)*

Share options outstanding at the end of the year have the following expiry date and exercise prices:

| Exercise period | Exercise price | As at 30 June 2007 Number of options | As at 30 June 2006 Number of options |
|---|---|---|---|
| | HK$ | | |
| *Directors* | | | |
| 9.2.2002 to 8.2.2008 | 2.440 | **200,000** | 200,000 |
| 28.1.2005 to 31.12.2010 | 1.26 | **78,000** | 2,838,000 |
| 8.4.2005 to 31.12.2010 | 1.276 | **–** | 78,000 |
| | | **278,000** | 3,116,000 |

**(b)** On 4 January 2007, the Company disposed of the entire issued share capital of Upper Start which holds 23.6% equity interest in the CSL NWM Group and CSL NWM Group ceased to be the associated companies of the Group accordingly. After the Disposal (Note 22), a total of HK$85,784,000 has been transferred from accumulated losses to share capital of HK$79,182,000 and share premium of HK$6,602,000 (Note 30(a)) so as to restate the equity structure of the Group to be consistent with that of the Company.

# Notes to the Financial Statements

## 30 OTHER RESERVES

### (a) Group

| | Share premium HK$'000 | Consolidation reserve HK$'000 | Convertible bond reserve HK$'000 | Currency translation reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 July 2005 | 914,792 | (1,115,538) | 112,695 | – | (88,051) |
| Premium on issue of new ordinary shares | 4,846 | – | – | – | 4,846 |
| Disposal of subsidiaries | (914,792) | 915,092 | – | – | 300 |
| At 30 June 2006 | 4,846 | (200,446) | 112,695 | – | (82,905) |
| Premium on issue of new ordinary shares | 614 | – | – | – | 614 |
| Currency translation differences | – | – | – | 839 | 839 |
| Reversal of reserve due to early extinguishment of subscription note and convertible bond upon the Disposal *(Note 22)* | – | – | (26,657) | – | (26,657) |
| Transfer from/(to) accumulated losses *(Note)* | 6,602 | 200,446 | (86,038) | – | 121,010 |
| At 30 June 2007 | 12,062 | – | – | 839 | 12,901 |

*Note:*

Upon the completion of the Disposal on 4 January 2007, the Group has eliminated the consolidation reserve arising from the reverse acquisition completed on 6 July 2004 by transferring it to accumulated losses. Simultaneously, the Group also eliminated convertible bond reserve by transferring it from accumulated losses as full repayments of the convertible bond and subscription note have been made by the Group upon the Disposal.

# Notes to the Financial Statements

## 30 OTHER RESERVES *(Continued)*

### (b) Company

| | Share premium HK$'000 | Convertible bond reserve HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1 July 2005 | 6,602 | 112,695 | 119,297 |
| Premium on issue of new ordinary shares | 4,846 | – | 4,846 |
| At 30 June 2006 | 11,448 | 112,695 | 124,143 |
| Premium on issue of new ordinary shares | 614 | – | 614 |
| Reversal of reserve due to early extinguishment of subscription note and convertible bond upon the Disposal *(Note 22)* | – | (26,657) | (26,657) |
| Transfer to accumulated losses | – | (86,038) | (86,038) |
| At 30 June 2007 | 12,062 | – | 12,062 |

*Note:* The share premium, 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.

# Notes to the Financial Statements

## 31 PROMISSORY NOTE ISSUED TO AND LOANS FROM A FELLOW SUBSIDIARY, CONVERTIBLE BOND AND SUBSCRIPTION NOTE – GROUP AND COMPANY

All the amounts have been repaid on 4 January 2007 by way of set-off against the considerations of the Disposal (Note 22).

The carrying values are as follows:

| | Group and Company | |
|---|---|---|
| | **4 January 2007 HK$'000** | 30 June 2006 HK$'000 |
| Promissory note and loans | **1,222,488** | 1,164,773 |
| Convertible bond | **28,863** | 28,261 |
| Subscription note | **1,079,102** | 1,178,008 |
| | **2,330,453** | 2,371,042 |
| Less: Consideration | **2,500,000** | |
| Net cash received from the Disposal | **169,547** | |

# Notes to the Financial Statements

## 32 NOTE TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of operating profit/(loss) before income tax to net cash used in operations:

| | 2007<br>HK$'000 | 2006<br>HK$'000 |
|---|---|---|
| Operating profit/(loss) | **293,053** | (133,567) |
| Depreciation | **1,442** | 996 |
| Loss on disposal of property, plant and equipment | **218** | – |
| Gain on early extinguishment of non-current liabilities | **(6,908)** | – |
| Gain on disposal of a subsidiary | **(311,914)** | – |
| Interest income | **(1,770)** | (823) |
| Interest expenses | **53,590** | 62,786 |
| Impairment loss on intangible assets | **–** | 72,959 |
| Reversal of impairment of investment in associated company | **–** | (7,523) |
| Share of profit from associated companies | **(62,577)** | (27,731) |
| Operating loss before working capital changes | **(34,866)** | (32,903) |
| Decrease/(increase) in trade receivables | **3,081** | (1,252) |
| (Increase)/decrease in prepayments, deposits and other receivables | **(188)** | 490 |
| Decrease in amounts due from fellow subsidiaries and a related company | **–** | (48) |
| Decrease in trade payables | **(619)** | (393) |
| (Decrease)/increase in accrued charges, other payables, deposits received and deferred income | **(7,237)** | 7,785 |
| (Increase)/decrease in bank balances with maturities of more than three months | **(59)** | 17 |
| Net cash used in operations | **(39,888)** | (26,304) |

# Notes to the Financial Statements

## 33 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 had become associated companies of the Group.

Details of net assets acquired and goodwill were as follows:

| | HK$'000 |
|---|---|
| Purchase consideration: | |
| Carrying amounts of 23.6% of net assets of the NWPCS Group at the date of disposal | 219,237 |
| Fair value of 76.4% of net assets of the NWPCS Group at the date of acquisition | 1,732,713 |
| Amount due from an associated company | (113,328) |
| Sales consideration of disposal of the NWPCS Group | 1,838,622 |
| Cash consideration | 244,024 |
| Professional fee incurred for the acquisition | 32,360 |
| | 2,115,006 |
| Fair values of share of net assets acquired – shown as below | (1,107,071) |
| Goodwill | 1,007,935 |

# Notes to the Financial Statements

## 33 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 were as follows:

| | **Fair values** | **Carrying amounts** |
|---|---|---|
| | HK$'000 | HK$'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 |

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

## 34 DISPOSAL OF SUBSIDIARIES

(a) 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 were as follows:

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

# Notes to the Financial Statements

## 34 DISPOSAL OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

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

| | HK$'000 |
|---|---|
| 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) |
| | 928,971 |

(b) As mentioned in Note 22, the Group disposed of its interests in Upper Start on 4 January 2007.

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

| | HK$'000 |
|---|---|
| Sales consideration | 2,500,000 |
| Net book values of net assets disposed of | (2,188,086) |
| Legal and professional fees incurred for the Disposal | (6,124) |
| Gain on disposal of a subsidiary | 305,790 |

The assets disposed of at the date of disposal were as follows:

| | |
|---|---|
| Investments in associated companies | 2,188,086 |

# Notes to the Financial Statements

## 35 OPERATING LEASE COMMITMENTS

At 30 June 2007, the Group had total future aggregate minimum lease payments under non-cancellable operating leases which expire as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Land and buildings | | |
| No later than 1 year | **352** | 873 |
| Later than 1 year and no later than 5 years | **–** | 368 |
| | **352** | 1,241 |

## 36 RELATED PARTY TRANSACTIONS

The Group is controlled by Moral Glory International Limited (incorporated in the British Virgin Islands), which owns 56.66% of the Company's shares. The remaining 43.34% of the shares are widely held. In the opinion of the Directors, the ultimate holding company of the Company is Moral Glory International Limited (incorporated in the British Virgin Islands).

(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:

| | | **2007** | 2006 |
|---|---|---|---|
| | *Note* | **HK$'000** | HK$'000 |
| Purchases from fellow subsidiaries | *(a)* | **–** | (25,853) |
| Purchases of property, plant and equipment from a related company | *(b)* | **–** | (1,615) |
| Service fee income from fellow subsidiaries | *(c)* | **–** | 3,443 |
| Rental expenses paid/payable to fellow subsidiaries | *(d)* | **(382)** | (14,469) |
| Loan interest paid/payable to a fellow subsidiary | *(e)* | **(5,544)** | (34,190) |
| Interest paid/payable for the promissory note issued to a fellow subsidiary | *(e)* | **(22,855)** | (11,499) |
| Interest paid/payable for the subscription note to an immediate holding company | *(f)* | **(24,748)** | (9,000) |
| Interest paid/payable for the convertible bond to a fellow subsidiary | *(g)* | **(443)** | (849) |
| Reimbursement of office administrative expenses and fee charged from a related company | *(h)* | **–** | (6,636) |

# Notes to the Financial Statements

## 36 RELATED PARTY TRANSACTIONS *(Continued)*

(a) *(Continued)*

*Notes:*

(a) Purchases were conducted in the normal course of business which were subject to the contract terms as negotiated by the parties involved.

(b) Purchases were conducted in the normal course of business which were subject to the contract terms as negotiated by the parties involved. Certain directors of the Company were 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 was charged at 0.75% per annum.

(g) Interest charged 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%.

# Notes to the Financial Statements

## 36 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Year end balances with related parties are as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Receivable from a related company | | |
| Mongolia Energy Corporation (Greater China) Ltd | **813** | 813 |
| Receivable from an associated company | | |
| CSL NWM | – | 113,328 |
| Payables to a fellow subsidiaries | | |
| Loans from a fellow subsidiary | – | 278,024 |
| Promissory note issued to a fellow subsidiary | – | 886,749 |
| Convertible bond | – | 28,261 |
| Subscription note | – | 1,178,008 |
| Amounts to fellow subsidiaries | – | 420 |
| Payable to an associated company | | |
| NWPCS Holdings | – | 5,625 |

A related company is a company owned by a Director and a substantial shareholder of the Company.

The balances with related parties are unsecured, interest free and repayable on demand.

(c) Key management compensation of the continuing and discontinued operations of the Group for the year is as follows:

| | **2007** | 2006 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other short-term employee benefits | **5,074** | 17,747 |
| Post-employment benefits | – | 506 |
| | **5,074** | 18,253 |

# Five-Year Financial Summary

The historical figures represent financial information of NWPCS Group for the period from 2003 to 2004 and the Group for 2005 to 2007.

## CONSOLIDATED INCOME STATEMENT

| | For the year ended 30 June | | | | |
|---|---|---|---|---|---|
| | 2003<br>HK$'000<br>(Restated) | 2004<br>HK$'000<br>(Restated) | 2005<br>HK$'000<br>(Restated) | 2006<br>HK$'000 | **2007**<br>**HK$'000** |
| Turnover *(Note a)* | – | – | 4,261 | 16,515 | **14,155** |
| Profit/(loss) attributable to shareholders | 187,875 | 111,177 | (10,399) | 911,642 | **293,053** |
| Basic earnings/(loss) per share *(Note b)* | HK$4.51 | HK$2.67 | (HK$0.13) | HK$10.08 | **HK3.03** |

## CONSOLIDATED BALANCE SHEET

| | As at 30 June | | | | |
|---|---|---|---|---|---|
| | 2003<br>HK$'000<br>(Restated) | 2004<br>HK$'000<br>(Restated) | 2005<br>HK$'000<br>(Restated) | 2006<br>HK$'000 | **2007**<br>**HK$'000** |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 1,289,694 | 1,186,236 | 1,068,301 | 6,183 | **5,383** |
| Investments in associated companies | – | – | – | 2,142,737 | **–** |
| Intangible assets | – | – | 65,964 | – | **–** |
| Deferred taxation | 224,353 | 188,487 | 167,472 | – | **–** |
| Rental and other deposits | 14,121 | 10,659 | 8,882 | – | **–** |
| Total non-current assets | 1,528,168 | 1,385,382 | 1,310,619 | 2,148,920 | **5,383** |
| **Net current (liabilities)/assets** | (1,258,676) | (1,274,163) | (297,072) | 124,833 | **50,303** |
| **Total assets less current liabilities** | 269,492 | 111,219 | 1,013,547 | 2,273,753 | **55,686** |
| Representing: | | | | | |
| Share capital | 1 | 1 | 300 | 16,154 | **97,692** |
| Other reserves | 999 | 999 | (88,051) | (82,905) | **12,901** |
| Accumulated losses | (1,042,958) | (931,781) | (942,180) | (30,538) | **(54,907)** |
| **Total equity/(total equity holders' deficit)** | (1,041,958) | (930,781) | (1,029,931) | (97,289) | **55,686** |
| **Non-current liabilities** | | | | | |
| Non-current portion of long-term liabilities | 372,500 | 102,500 | – | – | **–** |
| Amount due to the immediate holding company | 933,602 | 933,592 | – | – | **–** |
| Loans from a fellow subsidiary | – | – | 877,500 | 278,024 | **–** |
| Promissory note issued to a fellow subsidiary | – | – | – | 886,749 | **–** |
| Convertible bond | – | – | 28,250 | 28,261 | **–** |
| Subscription note | – | – | 1,131,199 | 1,178,008 | **–** |
| Asset retirement obligations | 5,348 | 5,908 | 6,529 | – | **–** |
| | 269,492 | 111,219 | 1,013,547 | 2,273,753 | **55,686** |

*Notes:*

(a) The turnover of the NWPCS Group has been reclassified to profit from discontinued operations as a result of the adoption of HKFRS 5.

(b) The calculation of basic earnings per share for the year 2003 and 2004 is based on the NWPCS Group's profit attributable to shareholders and the deemed ordinary shares outstanding of 41,666,666 shares.