

Audited Financial Statements

CSL NEW WORLD MOBILITY LIMITED
(formerly known as Telstra CSL Limited)

30 June 2006

CSL NEW WORLD MOBILITY LIMITED

CONTENTS

	Pages
REPORT OF THE AUDITORS	1
AUDITED FINANCIAL STATEMENTS	
Consolidated:	
Income statement	2
Balance sheet	3 - 4
Statement of changes in equity	5
Cash flow statement	6 - 7
Company:	
Balance sheet	8
Notes to financial statements	9 - 44

REPORT OF THE AUDITORS

To the directors
CSL New World Mobility Limited (formerly known as Telstra CSL Limited)
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 2 to 44 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2006 and of the profit and cash flows of the Group for year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.



Hong Kong
24 August 2006

CSL NEW WORLD MOBILITY LIMITED

CONSOLIDATED INCOME STATEMENT

Year ended 30 June 2006

	Notes	2006 HK\$'000	2005 HK\$'000
REVENUE	8	4,815,013	4,301,939
Operating costs		<u>(4,065,480)</u>	<u>(3,550,711)</u>
Operating profit		749,533	751,228
Amortisation of goodwill	16	-	(337,910)
Amortisation of intangible assets	17	(82,241)	(30,261)
Other income and gain	8	<u>34,951</u>	<u>23,016</u>
PROFIT FROM OPERATING ACTIVITIES	9	702,243	406,073
Finance costs	10	(81,665)	(60,547)
Share of loss of a jointly-controlled entity	19	<u>(733)</u>	<u>(1,351)</u>
PROFIT BEFORE TAX		619,845	344,175
Tax	12	<u>(136,750)</u>	<u>(134,264)</u>
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		<u>483,095</u>	<u>209,911</u>
DIVIDENDS	14		
Interim		344,764	-
Proposed final		<u>73,000</u>	<u>245,474</u>
		<u>417,764</u>	<u>245,474</u>

CSL NEW WORLD MOBILITY LIMITED

CONSOLIDATED BALANCE SHEET

30 June 2006

	Notes	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	3,287,866	2,387,823
Goodwill	16	2,694,466	985,574
Intangible assets	17	1,254,995	648,389
Interest in a jointly-controlled entity	19	5,715	6,448
Deposits, prepayments and other receivables		38,346	30,247
Pension scheme asset	26	65,810	54,288
Deferred tax assets	25	121,323	2,298
Total non-current assets		<u>7,468,521</u>	<u>4,115,067</u>
CURRENT ASSETS			
Inventories	20	115,630	70,126
Trade receivables	21	299,724	197,818
Deposits, prepayments and other receivables		169,824	113,757
Due from related companies	1	9,935	-
Due from the ultimate holding company	1	-	1,638,476
Cash and cash equivalents	22	387,578	154,931
Total current assets		<u>982,691</u>	<u>2,175,108</u>
CURRENT LIABILITIES			
Trade payables	23	256,222	199,810
Other payables and accruals, customer deposits and deferred revenue	24	1,482,655	1,178,422
Due to related companies	1	114,412	3,255
Dividend payable		5,806	-
Tax payable		155,043	109,701
Due to the immediate holding company	1	8,265	-
Loan from the ultimate holding company	1	-	1,700,000
Total current liabilities		<u>2,022,403</u>	<u>3,191,188</u>
NET CURRENT LIABILITIES		<u>(1,039,712)</u>	<u>(1,016,080)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,428,809</u>	<u>3,098,987</u>
NON-CURRENT LIABILITIES			
Other liabilities		742,685	511,681
Deferred tax liabilities	25	240,400	242,169
Total non-current liabilities		<u>983,085</u>	<u>753,850</u>
Net assets		<u>5,445,724</u>	<u>2,345,137</u>

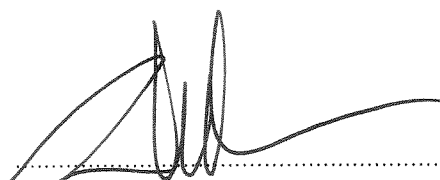
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CSL NEW WORLD MOBILITY LIMITED

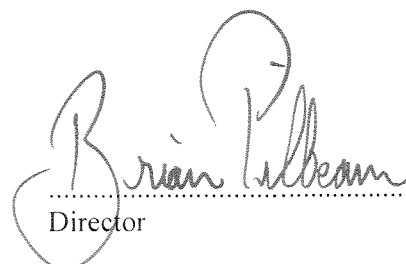
CONSOLIDATED BALANCE SHEET (continued)

30 June 2006

	Notes	2006 HK\$'000	2005 HK\$'000
EQUITY			
Issued capital	27	1,618,096	1,233,503
Reserves		3,754,628	866,160
Proposed final dividend	14	<u>73,000</u>	<u>245,474</u>
Total equity		<u>5,445,724</u>	<u>2,345,137</u>



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Director



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Director

CSL NEW WORLD MOBILITY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2006

	Notes	Issued share capital HK\$'000	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Proposed final dividend HK\$'000	Total HK\$'000
At 1 July 2004		1,233,503	-	480,102	421,621	26,120	2,161,346
Final 2004 dividend declared		-	-	-	-	(26,120)	(26,120)
Net profit for the year		-	-	-	209,911	-	209,911
Proposed final 2005 dividend	14	-	-	-	(245,474)	245,474	-
At 30 June 2005 and 1 July 2005		1,233,503	-	480,102	386,058	245,474	2,345,137
Final 2005 dividend declared	14	-	-	-	-	(245,474)	(245,474)
Issue of shares	27	384,593	2,823,137	-	-	-	3,207,730
Net profit for the year		-	-	-	483,095	-	483,095
Interim 2006 dividend	14	-	-	-	(344,764)	-	(344,764)
Proposed final 2006 dividend	14	-	-	-	(73,000)	73,000	-
At 30 June 2006		<u>1,618,096</u>	<u>2,823,137</u>	<u>480,102</u>	<u>451,389</u>	<u>73,000</u>	<u>5,445,724</u>

CSL NEW WORLD MOBILITY LIMITED
CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2006

	Notes	2006 HK\$'000	2005 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		619,845	344,175
Adjustments for:			
Interest income	8	(14,773)	(17,248)
Finance costs	10	81,665	60,547
Gain on disposal of items of property, plant and equipment	8	(20,178)	(5,768)
Share of loss of a jointly-controlled entity	19	733	1,351
Depreciation	15	639,532	485,889
Amortisation of goodwill	16	-	337,910
Amortisation of intangible assets	17	82,241	30,261
Impairment/(reversal of impairment) of items of property, plant and equipment	15	(19,017)	30,000
Operating profit before working capital changes		1,370,048	1,267,117
Increase in inventories		(21,733)	(6,204)
Decrease/(increase) in receivables, prepayments and deposits		16,861	(32,572)
Increase in amounts due from related companies		(2,526)	-
Increase/(decrease) in payables, accruals and other liabilities		(4,955)	75,906
Increase in pension scheme asset		(11,522)	(9,779)
Decrease in amounts due to related companies		(2,211)	(5,241)
Decrease/(increase) in an amount due from the ultimate holding company		1,638,476	(560,876)
Increase in an amount due to the immediate holding company		10,971	-
Cash generated from operations		2,993,409	728,351
Interest received		14,773	17,248
Interest paid		(11,799)	(27,517)
Hong Kong profits tax paid		(93,316)	(138,771)
Net cash inflow from operating activities		2,903,067	579,311

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CSL NEW WORLD MOBILITY LIMITED

CONSOLIDATED CASH FLOW STATEMENT (continued)

Year ended 30 June 2006

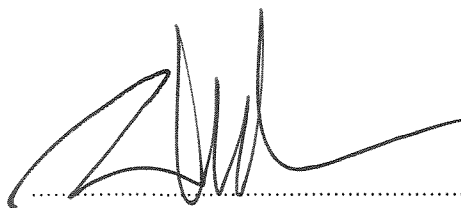
	Note	2006 HK\$'000	2005 HK\$'000
Net cash inflow from operating activities		<u>2,903,067</u>	<u>579,311</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in a jointly-controlled entity		-	(7,799)
Purchases of items of property, plant and equipment		(611,603)	(495,756)
Acquisition of a subsidiary	29	243,641	-
Payment of annual spectrum utilisation fees for a telecommunication licence		(50,000)	(50,000)
Proceeds from disposal of items of property, plant and equipment		<u>31,974</u>	<u>7,156</u>
Net cash outflow from investing activities		<u>(385,988)</u>	<u>(546,399)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of a loan from the ultimate holding company		(1,700,000)	-
Dividends paid		(584,432)	(26,120)
Net cash outflow from financing activities		<u>(2,284,432)</u>	<u>(26,120)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		232,647	6,792
Cash and cash equivalents at beginning of year		<u>154,931</u>	<u>148,139</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>387,578</u></u>	<u><u>154,931</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		56,476	21,931
Time deposits with original maturity of less than three months		<u>331,102</u>	<u>133,000</u>
		<u><u>387,578</u></u>	<u><u>154,931</u></u>

CSL NEW WORLD MOBILITY LIMITED

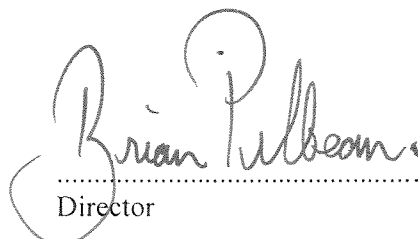
BALANCE SHEET

30 June 2006

	Notes	2006 HK\$'000	2005 HK\$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	18	<u>7,769,928</u>	<u>4,695,600</u>
CURRENT ASSET			
Due from a subsidiary	18	<u>5,806</u>	<u>4,093,905</u>
CURRENT LIABILITIES			
Due to a subsidiary	18	-	4,104,876
Due to the immediate holding company	1	8,265	-
Due to a related company	1	113,328	-
Dividend payable		<u>5,806</u>	-
Total current liabilities		<u>127,399</u>	<u>4,104,876</u>
NET CURRENT LIABILITIES		<u>(121,593)</u>	<u>(10,971)</u>
Net assets		<u><u>7,648,335</u></u>	<u><u>4,684,629</u></u>
EQUITY			
Issued capital	27	1,618,096	1,233,503
Reserves	28(ii)	5,957,239	3,205,652
Proposed final dividend	14	<u>73,000</u>	<u>245,474</u>
Total equity		<u><u>7,648,335</u></u>	<u><u>4,684,629</u></u>



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Director



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Director

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

1. CORPORATE INFORMATION AND AFFILIATION

CSL New World Mobility Limited (formerly known as Telstra CSL Limited) is a limited liability company incorporated in Bermuda. The principal place of business of the Company is located at Units 501-8, Cyberport 3, 100 Cyberport Road, Hong Kong.

During the year, the Group was principally engaged in the provision of mobile telecommunications services and products to customers in Hong Kong through its mobile systems and networks.

The Company is a subsidiary of Telstra Holdings (Bermuda) No. 2 Limited, a company incorporated in Bermuda. In the opinion of the directors, the ultimate holding company of the Company is Telstra Corporation Limited ("Telstra"), a company incorporated and listed in Australia.

Pursuant to an agreement dated 8 December 2005 and entered into between the Company, New World Mobile Holdings Limited ("NWM Holdings", a company listed on the Main Board of The Stock Exchange of Hong Kong Limited) and Telstra Holdings (Bermuda) No. 2 Limited, and the corresponding amendment agreements (collectively, the "Merger Agreements"), the Company issued and allotted, and Upper Start Holdings Limited, a wholly-owned subsidiary of NWM Holdings, subscribed for new shares in the Company, which represented 23.6% of the enlarged share capital of the Company, in exchange for the transfer of 100% interest in New World PCS Holdings Limited ("NWPCS Holdings") and a payment of HK\$244.024 million by way of a promissory note by NWM Holdings to the Company on 31 March 2006, followed by a remittance of HK\$113.328 million by the Company to NWM Holdings subsequent to the balance sheet date.

NWPCS Holdings and its subsidiaries (collectively, the "NWPCSH Group") are principally engaged in the provision of mobile telecommunications services and products in Hong Kong under the brandname of New World Mobility. Further details related to the Company's acquisition of the 100% interest in the NWPCSH Group are included in note 29 to the financial statements.

The amount due from the ultimate holding company as at 30 June 2005 was unsecured, bore interest at the Hong Kong Dollar Inter-Bank Offer Rate ("HIBOR") per annum and was fully repaid in the current year. The loan from the ultimate holding company as at 30 June 2005 was unsecured, bore interest at the HIBOR plus 0.5% per annum and was fully repaid in the current year.

The amount due to the immediate holding company is unsecured, interest-free, and has no fixed terms of repayment.

The amounts due to related companies are unsecured and interest-free. Except for an amount due to a jointly-owned entity of the ultimate holding company, which is repayable within one month, all other balances with related companies have no fixed terms of repayment.

The carrying amounts of all balances with affiliates approximate to their fair values.

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

2. FUNDAMENTAL ACCOUNTING CONCEPT

These financial statements have been prepared under the going concern concept notwithstanding both the Company and the Group recorded net current liabilities at 30 June 2006, since Telstra and NWM Holdings have agreed to provide adequate funds to enable the Company and the Group to meet their liabilities as and when they fall due.

The financial support from Telstra and NWM Holdings will be in proportion to their effective indirect interests in the Group of 76.4% and 23.6%, respectively.

3. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations ("HK-Ints")) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirement of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the measurement of pension scheme asset as further explained and disclosed in note 6 to the financial statements. These financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000), except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of Company and its subsidiaries for the year ended 30 June 2006. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of a subsidiary during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

30 June 2006

4. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Company and the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

Except for the adoption of HKFRS 3 and HKAS 36 which impacts the Group's accounting policy for goodwill, as described further below, the adoption of the above new accounting standards has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets"

Prior to 1 July 2005, goodwill arising on acquisitions was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

The effects of the adoption of HKFRS 3 and HKAS 36 include the decrease in amortisation of goodwill for the year by HK\$337,910,000 and the transitional provisions of HKFRS 3 have required the Group to eliminate at 1 July 2005 the carrying amount of accumulated amortisation of HK\$2,393,528,000 with a corresponding adjustment to reduce the cost of goodwill. The effects of the above changes are summarised in note 16 to the financial statements.

30 June 2006

5. IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 <i>Financial Reporting in Hyperinflationary Economies</i>

HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of HKAS 32. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5 and HK(IFRIC)-Int 6 do not apply to the activities of the Group. HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 March 2006.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

30 June 2006

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as a jointly-controlled entity if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture.

Jointly-controlled entity

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of a jointly-controlled entity is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in a jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Goodwill

Goodwill arising on the acquisition of businesses and subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition. Such goodwill is recognised in the Group's balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually and more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

30 June 2006

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment review whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Customer base

A customer base has a finite useful life of 5 years and is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method.

Trademark

A trademark has a finite useful life of 15 years and is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method.

Mobile carrier licences

These comprise one-time expenditures on acquiring telecommunications spectrum rights and the discounted value of the minimum annual spectrum utilisation fees payable in accordance with the respective licences together with the corresponding interest accrued prior to the commercial launch of telecommunications services of the relevant technology. Expenditures are amortised on the straight-line basis over the period from the date of the commercial launch of the telecommunications services of the relevant technology to the end of the period of validity of the respective licences.

After the commercial launch of the telecommunications services of the relevant technology, interest accrued on the outstanding minimum annual spectrum utilisation fees payable are recognised as finance costs directly in the income statement. Any variable annual spectrum utilisation fees payable in addition to the minimum annual fees are recognised directly in the income statement.

30 June 2006

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, pension scheme assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than projects under construction, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life.

Leasehold land and buildings (Note)	Over the shorter of 50 years and the terms of the leases
Exchange equipment and other plant	2 - 10 years
Furniture and fittings	2 - 10 years

Note: These represent buildings situated on leasehold land where the fair values of the leasehold interests in land and buildings elements cannot be separated reliably at the inception of the respective leases.

30 June 2006

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Projects under construction are stated at cost less any impairment losses and are not depreciated. Certain costs relating to projects under construction are capitalised and included in the costs of assets, which include attributable staff costs, materials and overheads. Projects under construction are reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) telecommunications revenue, based on the usage of the Group's network and facilities, when the services have been rendered. Telecommunications revenue for services provided for fixed periods is recognised on the straight-line basis over the respective periods. Other telecommunications revenue is recognised when products have been delivered or services have been rendered to customers;
- (ii) property rental income, on a time proportion basis over the lease terms; and
- (iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Paid leave carried forward

An accrual is made at the balance sheet date for the expected future cost of paid annual leave provided to employees which remains untaken as at the balance sheet date and is permitted to be carried forward and utilised by the respective employees.

Pension schemes

The Group operates defined contribution Mandatory Provident Fund retirement benefits schemes (the "MPF Schemes") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Schemes. Contributions made to the MPF Schemes are based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable and vest fully with the employees.

30 June 2006

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension schemes (continued)

The Group also operates a separate retirement benefits scheme under the Occupational Retirement Schemes Ordinance (the "ORSO Scheme"), for those employees who are eligible to participate. The ORSO Scheme comprises a defined contribution section (the "DC Scheme") and three defined benefits sections (the "DB Schemes"). The DC Scheme operates in a similar way to the MPF Scheme, except when an employee leaves the scheme before his/her interest in the Group's employer contributions vests fully, the ongoing contributions payable by the Group can be reduced by the relevant amount of the forfeited employer contributions.

For the DB Schemes, an actuarial estimate is made annually by a professionally qualified independent actuary, using the projected unit credit actuarial valuation method, of the present value of future defined benefits obligation as at the balance sheet date (the "Scheme Obligation"). The net of actuarial gains and losses is initially recorded in the balance sheet and is subsequently recognised in the income statement only to the extent that the amount exceeds 10% of the higher of the Scheme Obligation and the fair value of assets contributed by the Group (the "Scheme Assets") at the beginning of the period. Such "excess" is recognised in the income statement over the expected average remaining service lives of the employees. The expected costs of providing pensions under the DB Schemes are charged to the income statement over the periods during which the employees provide the related service to the Group.

The net of the Scheme Obligation and the fair value of the Scheme Assets at the balance sheet date, together with the actuarial gains and losses remaining in the balance sheet at that date, are recognised in the balance sheet as non-current assets or non-current liabilities, as appropriate. If the net amount results in an asset, the amount of the asset is limited to the net total of any net cumulative actuarial losses and past service costs remaining in the balance sheet, and the present value of any future refunds from the DB Schemes or reductions in future contributions to the DB Schemes.

The amounts of the contributions payable by the Group to the DB Schemes are determined by the actuary using the attained age funding actuarial valuation method.

All assets of the Group's pension schemes are held separately from the assets of the Group in independently administered funds.

30 June 2006

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) and (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been declared and approved by the shareholders in a general meeting, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Trade and other receivables

Trade and other receivables are financial assets initially recognised at fair value (original invoice amounts) and subsequently at amortised cost using the effective interest method. Provision for impairment loss is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Impairment of financial assets carried at amortised cost

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

30 June 2006

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets carried at amortised cost (continued)

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Derecognition of financial assets (applicable to the year ended 30 June 2006)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value; where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Mobile telephone customer acquisition costs

The direct costs of acquiring new mobile telephone customers, which comprise the loss on the sale of mobile phones and accessories, are charged to the income statement as incurred.

30 June 2006

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at banks and on hand, demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included in cash and cash equivalents.

For the purpose of the balance sheets, cash and cash equivalents comprise cash at banks and on hand, including term deposits, which are not restricted as to use.

Derecognition of financial liabilities (applicable to the year ended 30 June 2006)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to make the sale.

30 June 2006

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are provided in full on all taxable temporary differences while 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.

A deferred tax asset is also recognised for the carryforward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the carryforward of the unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes related to the same taxable entity and the same taxation authority.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

30 June 2006

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

7. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Group's accounting policies, management has made certain judgements, estimates and assumptions that have significant effects on the amounts recognised in the financial statements.

The key estimates and associated assumptions related to goodwill impairment, defined benefits retirement obligations and business combination have been included in notes 16, 26(iv) and 29, respectively.

Other key estimates and associated assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are summarised as follows:

- (a) Estimated useful economic lives and impairment of network exchange equipment and other plant

Network exchange equipment and other plant are long-lived but may be subject to technological obsolescence. The annual depreciation charges are affected by the estimated economic useful lives allocated to each item of these assets. Management performs annual review to assess the appropriateness of their estimated economic useful lives. Such reviews take into account the technological changes, prospective economic utilisation and physical condition the assets concerned. Management also regularly reviews whether there are any indications of impairment and an impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount which is the higher of the asset's net selling price and value in use. In assessing value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, including changes in technology and customers' needs over the types of mobile telecommunications services.

30 June 2006

7. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

(b) Deferred tax

Deferred tax liabilities are provided in full on all taxable temporary differences whereas deferred tax assets of certain entities of the Group are only recognised to the extent that it is probable that future taxable profits will be available therefrom and against which the deductible taxable differences or unused tax losses or credits belonging to the corresponding entities can be utilised. Estimates and judgements are involved in determining the probability and the extent of such future profits.

8. REVENUE, OTHER INCOME AND GAIN

Revenue is stated on a gross basis before allocations to other telecommunications operators and comprises the following:

- (i) telecommunications revenue from the sale of mobile equipment and accessories, airtime and service charges for the use of the digital mobile radio telephone networks and the associated value-added services; and
- (ii) property rental income.

An analysis of revenue, other income and gain is as follow:

	2006 HK\$'000	2005 HK\$'000
<u>Revenue</u>		
Telecommunications revenue	4,812,845	4,299,541
Property rental income	<u>2,168</u>	<u>2,398</u>
	<u>4,815,013</u>	<u>4,301,939</u>
<u>Other income and gain</u>		
Gain on disposal of items of property, plant and equipment	20,178	5,768
Interest income	<u>14,773</u>	<u>17,248</u>
	<u>34,951</u>	<u>23,016</u>

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

9. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Notes	2006 HK\$'000	2005 HK\$'000
Included in operating costs:			
Cost of inventories sold		1,193,244	1,010,440
Cost of services provided		1,057,956	937,304
Impairment/(reversal of impairment) of items of property, plant and equipment	15	(19,017)	30,000
Employee benefits expenses (including directors' remuneration (note 11)):			
Wages and salaries		434,853	384,884
Less: Amount capitalised in projects under construction		(67,305)	(67,259)
		<u>367,548</u>	<u>317,625</u>
Pension scheme contributions for the MPF Schemes and the DC Scheme		11,583	9,348
Net pension scheme costs for the DB Scheme	26(i)	8,108	10,379
Depreciation	15	639,532	485,889
Minimum lease payments under operating leases for land and buildings		398,195	417,027
Auditors' remuneration		1,694	550
Impairment/(reversal of impairment) of trade receivables		15,493	(30,700)
Other exchange losses, net		<u>155</u>	<u>596</u>

10. FINANCE COSTS

	2006 HK\$'000	Group 2005 HK\$'000
Interest on a loan from the ultimate holding company	11,086	27,517
Interest on an amount due to the ultimate holding company	713	-
Accretion of interest on other liabilities	<u>69,866</u>	<u>33,030</u>
	<u>81,665</u>	<u>60,547</u>

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

11. DIRECTORS' REMUNERATION

	Group	
	2006 HK\$'000	2005 HK\$'000
Fees	-	-
Other emoluments:		
Salaries, allowances and benefits in kind	5,859	5,416
Pension scheme contributions	<u>301</u>	<u>367</u>
	<u>6,160</u>	<u>5,783</u>

12. TAX

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits arising in Hong Kong during the year.

	2006 HK\$'000	2005 HK\$'000
Group:		
Provision for the year	123,608	91,268
Underprovision in prior periods	15,050	46
Deferred tax:		
Deferred tax assets (note 25)	(139)	135
Deferred tax liabilities (note 25)	<u>(1,769)</u>	<u>42,815</u>
Total tax charge for the year	<u>136,750</u>	<u>134,264</u>

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

12. TAX (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective rate, are as follows:

	2006		2005	
	HK\$'000	%	HK\$'000	%
Profit before tax	<u>619,845</u>		<u>344,175</u>	
Tax at the statutory tax rate	108,473	17.5	60,231	17.5
Adjustments in respect of current tax of previous periods	15,050	2.4	46	-
Income not subject to tax	(3,668)	(0.6)	(3,018)	(0.9)
Expenses not deductible for tax	15,579	2.5	64,325	18.7
Others	<u>1,316</u>	<u>0.3</u>	<u>12,680</u>	<u>3.7</u>
Tax expense at the effective rate	<u>136,750</u>	<u>22.1</u>	<u>134,264</u>	<u>39.0</u>

There was no significant unprovided deferred tax as at the balance sheet date and during the year.

13. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year dealt with in the financial statements of the Company was HK\$346,214,000 (2005: HK\$25,948,000) (note 28(ii)).

14. DIVIDENDS

	Group	
	2006	2005
	HK\$'000	HK\$'000
First interim dividend - HK\$0.1899 per ordinary share (2005: Nil)	94,934	-
Second interim dividend - HK\$0.4880 per ordinary share (2005: Nil)	244,024	-
Third interim dividend - HK\$0.0116 per ordinary share (2005: Nil)	5,806	-
Proposed final - HK\$0.1113 per ordinary share (2005: HK\$0.4909 per ordinary share)	<u>73,000</u>	<u>245,474</u>
	<u>417,764</u>	<u>245,474</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Notes	Leasehold land and buildings HK\$'000	Exchange equipment and other plant HK\$'000	Furniture and fittings HK\$'000	Projects under construction HK\$'000	Total HK\$'000
Cost:						
At 1 July 2004		147,375	5,452,821	94,798	337,749	6,032,743
Additions		7,252	604,729	7,465	111,667	731,113
Transfers		-	308,192	3,765	(311,957)	-
Disposals		-	(992,509)	(969)	-	(993,478)
At 30 June 2005 and 1 July 2005		<u>154,627</u>	<u>5,373,233</u>	<u>105,059</u>	<u>137,459</u>	<u>5,770,378</u>
Additions		-	33,962	4,497	528,376	566,835
Acquisition of subsidiaries	29	-	921,116	12,014	32,389	965,519
Transfers		-	542,357	17,295	(559,652)	-
Disposals		(30,064)	(536,454)	(38,314)	-	(604,832)
At 30 June 2006		<u>124,563</u>	<u>6,334,214</u>	<u>100,551</u>	<u>138,572</u>	<u>6,697,900</u>
Accumulated depreciation and impairment:						
At 1 July 2004		77,890	3,716,101	64,765	-	3,858,756
Depreciation		3,105	467,102	15,682	-	485,889
Impairment	(i)	-	30,000	-	-	30,000
Disposals		-	(991,128)	(962)	-	(992,090)
At 30 June 2005 and 1 July 2005		<u>80,995</u>	<u>3,222,075</u>	<u>79,485</u>	<u>-</u>	<u>3,382,555</u>
Depreciation		2,833	614,342	22,357	-	639,532
Reversal of impairment	(ii)	(19,017)	-	-	-	(19,017)
Disposals		(20,630)	(534,092)	(38,314)	-	(593,036)
At 30 June 2006		<u>44,181</u>	<u>3,302,325</u>	<u>63,528</u>	<u>-</u>	<u>3,410,034</u>
Net book value:						
At 30 June 2006		<u>80,382</u>	<u>3,031,889</u>	<u>37,023</u>	<u>138,572</u>	<u>3,287,866</u>
At 30 June 2005		<u>73,632</u>	<u>2,151,158</u>	<u>25,574</u>	<u>137,459</u>	<u>2,387,823</u>

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

15. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

- (i) The impairment losses were provided for certain network equipment which were subject to replacement due to technical obsolescence. The impairment losses were determined by directors based on the estimated recoverable values from the disposal of the equipment.
- (ii) The impairment losses recognised in prior periods for certain leasehold buildings were reversed as a result of the increase in the recoverable amounts of the properties following the recovery of the property market in Hong Kong. The reversal of impairment losses was determined by the directors based on the estimated market values of these properties.

An analysis of the net book value of the leasehold land and buildings of the Group by lease term, which are all situated in Hong Kong, is as follows:

	2006 HK\$'000	Group 2005 HK\$'000
Long term leases	12,082	18,555
Medium term leases	68,126	55,077
Short term leases	174	-
	<u>80,382</u>	<u>73,632</u>

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

16. GOODWILL

Group

	HK\$'000
Cost:	
At 1 July 2004, 30 June 2005 and 1 July 2005	3,379,102
Elimination of accumulated amortisation upon adoption of HKFRS 3 (note 4)	(2,393,528)
Acquisition of subsidiaries (note 29)	<u>1,708,892</u>
At 30 June 2006	<u>2,694,466</u>
Accumulated amortisation:	
At 1 July 2004	2,055,618
Charge for the year	<u>337,910</u>
At 30 June 2005 and 1 July 2005	2,393,528
Elimination of accumulated amortisation upon adoption of HKFRS 3 (note 4)	<u>(2,393,528)</u>
At 1 July 2005 and 30 June 2006	<u>-</u>
Net carrying amount:	
At 30 June 2006	<u><u>2,694,466</u></u>
At 30 June 2005 and 1 July 2005	<u><u>985,574</u></u>

Up to 30 June 2005 and prior to the adoption of HKFRS 3 (note 4), goodwill was amortised over its estimated useful life of 10 years.

Impairment testing of goodwill

Goodwill relates to the Group's provision of mobile telecommunications services.

For the purpose of impairment testing of goodwill, the recoverable amounts of the Group's mobile telecommunications services businesses to which goodwill is allocated have been determined according to the value-in-use calculation using cash flow projections based on financial forecasts approved by management covering a 5-year period including a terminal value with 2% terminal growth rate. Assumptions have been made by management that the cash flows from the Group's existing mobile telecommunications services will continue at least the forecast period based on management's experience in the industry with due considerations for market and technological changes. The discount rates applied to the cash flow projections range from 11.14% to 12.50%.

The annual revenue growth rates used to extrapolate the cash flows for the Group's mobile telecommunications services business during the forecast period is between 4% and 9%, based on the forecast development of the mobile telecommunications market in Hong Kong and taking into account the changes in technology and customers' needs over the types of mobile telecommunications services.

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

17. INTANGIBLE ASSETS

	Customer base HK\$'000	Trademark HK\$'000	Mobile carrier licences HK\$'000	Total HK\$'000
Cost:				
At 1 July 2004	-	-	649,834	649,834
Addition	-	-	28,816	28,816
At 30 June 2005 and 1 July 2005	-	-	678,650	678,650
Addition	-	-	85,847	85,847
Acquisition of subsidiaries (note 29)	367,000	115,000	121,000	603,000
At 30 June 2006	367,000	115,000	885,497	1,367,497
Accumulated amortisation:				
At 1 July 2004	-	-	-	-
Amortisation	-	-	30,261	30,261
At 30 June 2005 and 1 July 2005	-	-	30,261	30,261
Amortisation	18,350	1,916	61,975	82,241
At 30 June 2006	18,350	1,916	92,236	112,502
Net carrying amount:				
At 30 June 2006	348,650	113,084	793,261	1,254,995
At 30 June 2005	-	-	648,389	648,389

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

18. INVESTMENTS IN SUBSIDIARIES

	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>7,769,928</u>	<u>4,695,600</u>

Particulars of the subsidiaries of the Company are as follows:

Name of subsidiary	Place of incorporation and operation	Nominal value of issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Bestclass Holdings Limited	British Virgin Islands/ Hong Kong	US\$50,000	100	-	Investment holding
Hong Kong CSL Limited	Hong Kong	HK\$2,031,043,443	-	100	Provision of mobile telecommunications services and products
Integrated Business Systems Limited	Hong Kong	HK\$2	-	100	Property investment
One2Free PersonalCom Limited	Hong Kong	HK\$2	-	100	Inactive
CSL Limited	Hong Kong	HK\$2	-	100	Dormant
New World PCS Holdings Limited	Cayman Islands/ Hong Kong	HK\$1,112,039,279	100	-	Investment holding
New World PCS Limited	Hong Kong	HK\$887,749,279	-	100	Provision of mobile telecommunications services and products
New World 3G Limited	Hong Kong	HK\$1	-	100	Dormant
New World Mobility Limited	Hong Kong	HK\$2	-	100	Dormant

On 31 March 2006, the Group acquired a 100% interest in the NWPCSH Group from NWM Holdings. Further details of this acquisition are included in notes 1 and 29 to the financial statements.

The balances with subsidiaries included in the Company's current assets and current liabilities are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of the balances with subsidiaries approximate to their fair values.

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	2006 HK\$'000	2005 HK\$'000
Unlisted shares, at cost	-	-
Share of net assets	<u>5,715</u>	<u>6,448</u>
	<u>5,715</u>	<u>6,448</u>

Particulars of the jointly-controlled entity of the Group are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
Bridge Mobile Pte Ltd.	Corporate	Republic of Singapore	12.5	12.5	12.5	Services development for an alliance of mobile telecommunications service operators

The Group's share of the assets and liabilities of the jointly-controlled entity as at balance sheet date is as follows:

	2006 HK\$'000	2005 HK\$'000
Current assets	6,097	6,378
Non-current assets	1,701	1,173
Current liabilities	<u>(2,083)</u>	<u>(1,103)</u>
Net assets	<u>5,715</u>	<u>6,448</u>

The Group's share of results of the jointly-controlled entity during the year is as follows:

	2006 HK\$'000	2005 HK\$'000
Revenue	2,816	-
Other income	205	24
Operating costs	<u>(3,754)</u>	<u>(1,375)</u>
Loss for the year	<u>(733)</u>	<u>(1,351)</u>

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

20. INVENTORIES

As at 30 June 2006 and 30 June 2005, the inventories of the Group represented mobile handsets and accessories.

21. TRADE RECEIVABLES

The Group generally allows an average credit period of one month for customers. The Group seeks to maintain strict control over its outstanding receivables and has credit control departments to minimise the credit risk. Overdue balances are reviewed regularly by senior management. As the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

The carrying amounts of the trade receivables approximate to their fair values.

22. CASH AND CASH EQUIVALENTS

	2006 HK\$'000	2005 HK\$'000
Cash and bank balances	56,476	21,931
Fixed deposits	<u>331,102</u>	<u>133,000</u>
	<u>387,578</u>	<u>154,931</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are due within one month and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

23. TRADE PAYABLES

Trade payables are non-interest-bearing and are normally settled within one month. The carrying amounts of trade payables approximate to their fair values.

24. OTHER PAYABLES AND ACCRUALS, CUSTOMER DEPOSITS AND DEFERRED REVENUE

Included in the balance are customer deposits and other payables which are non-interest-bearing and generally have terms of less than one year. The carrying amounts of customer deposits and other payables approximate to their fair values.

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

25. DEFERRED TAX

The movements in deferred tax liabilities and assets of the Group are as follows:

Deferred tax liabilities

	Accelerated tax depreciation HK\$'000	Others HK\$'000	Total HK\$'000
Gross deferred tax liabilities at 1 July 2004	307,623	(108,269)	199,354
Deferred tax charged to the income statement (note 12)	<u>23,337</u>	<u>19,478</u>	<u>42,815</u>
Gross deferred tax liabilities at 30 June 2005 and 1 July 2005	330,960	(88,791)	242,169
Deferred tax charged/(credited) to the income statement (note 12)	<u>(4,929)</u>	<u>3,160</u>	<u>(1,769)</u>
Gross deferred tax liabilities at 30 June 2006	<u>326,031</u>	<u>(85,631)</u>	<u>240,400</u>

Deferred tax assets

	Loss available for offset against future taxable profits HK\$'000	Accelerated tax depreciation HK\$'000	Others HK\$'000	Total HK\$'000
Gross deferred tax assets at 1 July 2004	-	-	2,433	2,433
Deferred tax charged to the income statement (note 12)	<u>-</u>	<u>-</u>	<u>(135)</u>	<u>(135)</u>
Gross deferred tax assets at 30 June 2005 and 1 July 2005	-	-	2,298	2,298
Acquisition of subsidiaries (note 29)	238,217	(77,671)	(41,660)	118,886
Deferred tax (charged)/credited to the income statement (note 12)	<u>(7,356)</u>	<u>5,050</u>	<u>2,445</u>	<u>139</u>
Gross deferred tax assets at 30 June 2006	<u>230,861</u>	<u>(72,621)</u>	<u>(36,917)</u>	<u>121,323</u>

As at 30 June 2006, a subsidiary of the Group acquired during the year had tax losses arising in Hong Kong of HK\$1,319,208,000. Such losses are available indefinitely for offsetting against future taxable profits of the subsidiary. Deferred tax assets have been recognised in respect of these losses to the extent that it is probable that taxable profit will be available against which the carryforward of the unused tax losses can be utilised.

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

26. PENSION SCHEME ASSET

(i) The movements in the net asset of the DB Scheme are as follows:

	Notes	2006 HK\$'000	2005 HK\$'000
At beginning of year		54,288	44,509
Net pension scheme costs recognised in the consolidated income statement	9, 26(iii)	(8,108)	(10,379)
Contributions paid to the DB Scheme		<u>19,630</u>	<u>20,158</u>
At 30 June	26(ii)	<u>65,810</u>	<u>54,288</u>

(ii) The components of the net asset of the DB Scheme as at the balance sheet date are as follows:

	Note	2006 HK\$'000	2005 HK\$'000
Present value of defined benefits obligation		(406,166)	(442,631)
Fair value of scheme assets		<u>544,196</u>	<u>472,302</u>
		138,030	29,671
Net cumulative actuarial losses/(gains)		<u>(72,220)</u>	<u>24,617</u>
Net pension scheme asset recognised	26(i)	<u>65,810</u>	<u>54,288</u>

(iii) The components of the net pension scheme cost recognised for the year, together with the actual return on DB Scheme assets, are as follows:

	Note	2006 HK\$'000	2005 HK\$'000
Current service costs		24,076	20,549
Interest cost on a defined benefits obligation		16,199	17,608
Expected return on DB Scheme assets		<u>(32,167)</u>	<u>(27,778)</u>
	26(i)	<u>8,108</u>	<u>10,379</u>
Actual return on DB Scheme assets		<u>68,828</u>	<u>53,231</u>

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

26. PENSION SCHEME ASSET (continued)

- (iv) The principal actuarial assumptions used in determining the net asset of the DB Scheme as at the balance sheet date are as follows:

	2006 % per annum	2005 % per annum
Discount rate	5.0	3.8
Expected rate of return on the DB Scheme assets	6.8	6.8
Future salary increase rate:		
First year	4.0	2.5
Second year	4.0	4.0
Third year	4.0	4.0
Fourth year onwards	<u>4.0</u>	<u>4.0</u>

- (v) The actuarial valuation of the DB Scheme as at 30 June 2006 was performed by Ms. Elaine Hwang of Watson Wyatt Hong Kong Limited (“Watson Wyatt”), a fellow of the Faculty of Actuaries of the United Kingdom, using the valuation method detailed under the heading “Employee benefits: Pension schemes” in note 6 to the financial statements.

According to the latest actuarial valuation carried out at 30 June 2003 by Watson Wyatt using the attained age funding actuarial valuation method to value the pension scheme obligation under the Occupational Retirement Schemes Ordinance, the level of funding of the pension scheme was 100%.

27. SHARE CAPITAL

	2006 HK\$'000	2005 HK\$'000
Authorised:		
655,886,331 (30 June 2005: 500,000,000) ordinary shares of US\$0.3163 each	<u>1,618,096</u>	<u>1,233,503</u>
Issued and fully paid up:		
655,886,331 (30 June 2005: 500,000,000) ordinary shares of US\$0.3163 each	<u>1,618,096</u>	<u>1,233,503</u>

Pursuant to an ordinary resolution passed on 30 March 2006, the authorised share capital of the Company was increased from HK\$1,233,503,000 to HK\$1,618,096,000 by the creation of 155,886,331 additional shares of US\$0.3163 each, ranking pari passu in all respects with the existing share capital of the Company.

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

27. SHARE CAPITAL (continued)

On 30 March 2006, 1,097,157 ordinary shares of US\$0.3163 each were issued at par to its existing shareholders. The purpose of the issuance was to rationalise the shareholding structure of the Company prior to the completion of the Merger Agreements.

On 31 March 2006, 154,789,174 ordinary shares of US\$0.3163 each, which represented 23.6% of the enlarged share capital of the Company, were issued to Upper Start Holdings Limited, a subsidiary of NWM Holdings, and credited as fully paid with a fair value of HK\$3,205,024,000 for the purpose of the completion of the Merger Agreements.

28. RESERVES

(i) The Group

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 5 of the financial statements.

(ii) The Company

	Note	Share premium account HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 July 2004		-	795,694	2,629,484	3,425,178
Net profit for the year		-	-	25,948	25,948
Proposed final 2005 dividend		-	-	(245,474)	(245,474)
At 30 June 2005 and 1 July 2005		-	795,694	2,409,958	3,205,652
Issue of shares	27	2,823,137	-	-	2,823,137
Net profit for the year		-	-	346,214	346,214
Interim 2006 dividend		-	-	(344,764)	(344,764)
Proposed final 2006 dividend		-	-	(73,000)	(73,000)
At 30 June 2006		<u>2,823,137</u>	<u>795,694</u>	<u>2,338,408</u>	<u>5,957,239</u>

(iii) The contributed surplus balances of the Company and the Group represent the difference between the consolidated shareholder's fund of the subsidiaries acquired and the nominal value of the Group's shares issued in exchange therefor at the time of the group reorganisation completed in 2001 which resulted in the formation of Group.

Under the Bermuda Companies Act 1981 (as amended), a company may make distributions to its members out of the contributed surplus in certain circumstances.

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

29. BUSINESS COMBINATION

On 31 March 2006, the Group acquired a 100% interest in the NWPCSH Group from NWM Holdings. Pursuant to the Merger Agreements, the Company issued and allotted, and Upper Start Holdings Limited, a wholly-owned subsidiary of NWM Holdings, subscribed for new shares in the Company, which represented 23.6% of the enlarged share capital of the Company, in exchange for the transfer of 100% interest in NWPCS Holdings and a payment of HK\$244.024 million by way of a promissory note by NWM Holdings to the Company on 31 March 2006, followed by a remittance of HK\$113.328 million by the Company to NWM Holdings subsequent to the balance sheet date.

The fair values of the identifiable assets and liabilities of the NWPCSH Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition HK\$'000	Carrying amount HK\$'000
Property, plant and equipment	15	965,519	965,519
Intangible assets	17	603,000	-
Cash and bank balances		(383)	(383)
Trade receivables		107,035	107,035
Inventories		23,771	25,594
Amounts due from related companies		7,409	7,409
Amount due to a related company		(40)	(40)
Prepayments and other receivables		75,898	75,898
Payables and accruals		(407,960)	(407,960)
Other liabilities		(127,699)	(6,699)
Deferred tax assets	25	118,886	162,598
		<u>1,365,436</u>	<u>928,971</u>
Goodwill on acquisition	16	<u>1,708,892</u>	
		<u>3,074,328</u>	
Satisfied by:			
Fair value of the Company's shares issued		3,205,024	
Cash and cash equivalents payable		113,328	
Less: Cash and cash equivalents received		(244,024)	
		<u>3,074,328</u>	

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

29. BUSINESS COMBINATION (continued)

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	HK\$'000
Cash received	244,024
Cash and bank balances acquired	<u>(383)</u>
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>243,641</u>

Since the acquisition, the NWPCSH Group contributed HK\$387,056,000 and HK\$6,495,000 to the Group's consolidated revenue and net profit for the year ended 30 June 2006, respectively.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been HK\$6,216,246,000 and HK\$443,717,000, respectively.

In the absence of a quoted market price for the shares of the Company, the Group determined the fair value of the issued shares using cash flow projections for the enlarged group based on forecasts approved by management covering the period from 1 April 2006 to 30 June 2015 including a terminal value with 1.75% terminal growth rate. Assumptions have been made by management that the cash flows from the enlarged group's mobile telecommunications services will continue at least the forecast period based on management's experience in the industry with due considerations for market and technological changes, and long term synergies expected to arise from the acquisition.

The discount rate applied to cash flow projections is 9.99% and the annual revenue growth rate used to extrapolate the cash flows during the forecast period is between 1% and 6% based on the forecasted development of the mobile telecommunications market in Hong Kong, taking into account the changes in technology and customers' needs over the types of mobile telecommunications services.

The Group has also considered public information from a variety of sources for an analysis of the fair value of the issued shares as determined using cash flow projections, including the capitalisation of earnings of companies also involved in the provision of mobile telecommunications services and similar business combination transactions.

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

- (a) During the current year, the Group capitalised a newly granted telecommunications spectrum right as an intangible asset. The total capitalised value of the telecommunication spectrum right, which is determined by the discounted value of the minimum annual spectrum utilisation fees payable in accordance with the respective licence, is HK\$85,847,000.
- (b) On 30 March 2006, the Company issued 1,097,157 additional shares, ranking pari passu, of US\$0.3163 each to Telstra Holding (Bermuda) No. 2 Ltd. ("THB"), the Company's immediate holding company at par (note 27). The amount was settled by the issuance of a promissory note by THB.

31. CONTINGENT LIABILITIES

- (a) On 22 October 2001, the Group arranged a bank to provide a performance bond to the Office of the Telecommunications Authority of Hong Kong (the "OFTA") in respect of the mobile carrier licence awarded for the provision of third generation telecommunications service (the "3G Licence"). The 3G Licence requires the performance bond to remain in force for five years (or until the expiry of the 3G Licence, if shorter) and to equal the minimum annual fees payable to the OFTA for the forthcoming five years (or until the expiry of the 3G Licence, if shorter).

As at 30 June 2006, the performance bond issued in favour of the OFTA amounted to HK\$351 million (30 June 2005: HK\$311 million). The performance bond was issued with an indemnity from Telstra.

- (b) The Group had contingent liabilities amounting to HK\$13,445,068 as at 30 June 2006 (30 June 2005: HK\$4,630,000) in respect of bank guarantees issued in favour of third parties.

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

32. OPERATING LEASE ARRANGEMENTS

(i) As lessor

The Group leases certain of its leasehold buildings under operating lease arrangements, with leases negotiated for terms ranging from one to two years. The terms of leases also require the tenants to pay security deposits.

At 30 June 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	1,400	1,121
In the second to fifth years, inclusive	<u>245</u>	<u>484</u>
	<u><u>1,645</u></u>	<u><u>1,605</u></u>

(ii) As lessee

The Group leases certain properties under operating lease arrangements. As at 30 June 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2006 HK\$'000	2005 HK\$'000
Within one year	386,653	240,119
In the second to fifth years, inclusive	227,480	127,310
After five years	<u>4,883</u>	<u>2,587</u>
	<u><u>619,016</u></u>	<u><u>370,016</u></u>

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

33. COMMITMENTS

In addition to the operating lease commitment detailed in note 32(ii) above, the Group had the following capital commitments not provided for in the financial statements at the balance sheet date:

	2006 HK\$'000	2005 HK\$'000
Contracted, but not provided for, purchases of items of property, plant and equipment	<u>119,478</u>	<u>59,435</u>
Authorised, but not contracted for, purchases of items of property, plant and equipment	<u>390,159</u>	<u>540,716</u>
Contracted, but not provided for, capital contributions payable to a jointly-controlled entity	<u>23,400</u>	<u>23,400</u>

In addition, the Group's share of a jointly-controlled entity's own capital commitments, which are not included above, as at the balance sheet date was as follows:

	2006 HK\$'000	2005 HK\$'000
Contracted, but not provided for, purchases of property, plant and equipment	<u>-</u>	<u>3,960</u>

34. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

	Notes	2006 HK\$'000	2005 HK\$'000
<u>Transactions with Telstra</u>			
Purchases of roaming services	(i)	8,834	9,384
Sale of roaming services	(ii)	(21,775)	(15,135)
Purchases of international call services	(iii)	78,455	29,913
Interest charges	(iv)	11,799	27,517
Interest income	(iv)	(10,021)	(15,471)
<u>Transactions with related companies</u>			
Purchases of international call services	(v)	12,591	46,163
Purchases of items of property, plant and equipment	(vi)	216	-
Recharge of office administrative expenses	(vii)	2,533	-
Rental charges	(viii)	7,749	-
Purchases of products	(ix)	4,954	-
Service fee income	(x)	<u>(1,004)</u>	<u>-</u>

CSL NEW WORLD MOBILITY LIMITED

NOTES TO FINANCIAL STATEMENTS

30 June 2006

34. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

Notes:

- (i) The purchases of roaming services were charged by Telstra on the basis of the usage of Telstra's network by the Group's customers at rates specified on invoices.
- (ii) The roaming services were charged against Telstra on the basis of the usage of the Group's network by Telstra's customers at rates specified on invoices.
- (iii) The international call services were charged against the Group on the basis of the Group's usage at rates specified on invoices.
- (iv) Details of the interest terms for the balances with Telstra are included in note 1 to the financial statements.
- (v) The international call services were provided by a jointly-owned entity of Telstra. The services were charged against the Group on the basis of the Group's usage at rates specified on invoices.
- (vi) Purchases of items of property, plant and equipment were conducted in the normal course of business and subject to the contract terms agreed between the parties which have certain common directors.
- (vii) The recharge of office administrative expenses between the parties which have certain common directors was based on the actual costs plus 15% mark-up.
- (viii) Rental costs were charged at fixed monthly fees according to the terms of the contract agreed between the parties involved.
- (ix) Purchases were conducted in the normal course of business and subject to the contract terms agreed between the parties involved.
- (x) Service fee income was based on the terms of the contracts agreed between the parties involved.

(b) Compensation of the key management personnel of the Group for the year

	2006 HK\$'000	2005 HK\$'000
Short term employee benefits	20,192	20,194
Post-employment benefits	<u>1,225</u>	<u>1,185</u>
Total compensation paid to key management personnel	<u>21,417</u>	<u>21,379</u>

30 June 2006

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial assets and liabilities are, in the normal course of business, exposed to foreign currency risk, interest rate risk and credit risk. The Group's risk management strategy aims to minimise the adverse effects of financial risks on the financial performance of the Group. Financial instruments, if any, are only used to hedge underlying commercial exposures and are not held or sold for speculative purposes.

(a) Foreign currency risk

The Group incurs foreign currency risk on transactions for receipts and payments for international telecommunications traffic settled in foreign currencies and other purchase transactions priced in foreign currencies.

The Group manages this risk by initially seeking contracts effectively denominated in Hong Kong dollar where possible and economically favourable to do so. The Group will continue to monitor its foreign currency risk exposure and market conditions to determine if any hedging is required. The Group does not conduct any foreign currency speculative activities.

(b) Interest rate risk

As the Group has fully settled all the interest-bearing balances with its ultimate holding company in the current year and any further advances to or from the ultimate holding company are not expected to be significant in the near future, the Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

The Group has cash balances placed with reputable banks which generate interest income for the Group. The Group manages its interest rate risks by placing such balances on varying maturities and interest rate terms.

(c) Credit risk

The Group's credit risk is mitigated by its combination of cash and credit sales. For credit sales, the Group has no significant concentration of credit risk due to its diverse customer base. Credit risk is managed by formulating a credit policy for credit checks, credit reviews and monitoring procedures that include a formal collection process.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 August 2006.