

NEW WORLD PCS HOLDINGS LIMITED

STATEMENT OF ACCOUNTS

FOR THE NINE MONTHS ENDED

31 MARCH 2006

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
NEW WORLD PCS HOLDINGS LIMITED**

(incorporated in Cayman Islands with limited liability)

We have audited the accounts on pages 3 to 30 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of accounts which give a true and fair view. In preparing accounts 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 accounts 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.

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 ("HKICPA"). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Group, 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 accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
NEW WORLD PCS HOLDINGS LIMITED**
(incorporated in Cayman Islands with limited liability)

Qualified opinion arising from omission of comparative information

As explained in note 2(a) the accounts do not contain comparative information as required by Hong Kong Accounting Standard 1 "Presentation of Financial Statements". Except for the omission of comparative information, in our opinion the accounts give a true and fair view of the state of affairs of the Group as at 31 March 2006 and of the Group's profit and cash flows for the nine months then ended.

This report is intended solely for the information and use of the shareholders of New World PCS Holdings Limited in connection with the transaction as described in note 2(a) of the accounts, and is not intended to be and should not be used by any other than these specified parties or for any other purpose.

PricewaterhouseCoopers
PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 August 2006

NEW WORLD PCS HOLDINGS LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE NINE MONTHS ENDED 31 MARCH 2006**

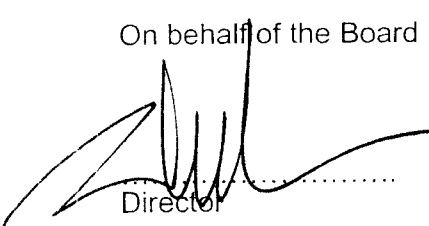
	Note	Nine months ended 31 March 2006 HK\$'000
Turnover	5	1,402,827
Cost of sales	6	(836,095)
Gross profit		<u>566,732</u>
Interest income		716
Selling expenses	6	(85,313)
Administrative expenses	6	(420,713)
Operating profit		<u>61,422</u>
Finance costs	7	(34,319)
Profit before taxation		<u>27,103</u>
Taxation	10	(4,874)
Profit attributable to shareholders		<u><u>22,229</u></u>


The notes on page 7 to 30 are integral part of these financial statements.

NEW WORLD PCS HOLDINGS LIMITED
CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2006

	Note	As at 31 March 2006 HK\$'000
Non-current assets		
Fixed assets	11	965,519
Deferred taxation	12	162,598
Rental and other deposits		5,949
		<u>1,134,066</u>
Current assets		
Inventories	13	25,594
Trade receivables		107,035
Prepayments and other receivables		31,252
Rental and other deposits		38,697
Amount due from immediate holding company	14	5,625
Amounts due from fellow subsidiaries	14	1,784
		<u>209,987</u>
Current liabilities		
Bank overdrafts		383
Trade payables		73,251
Accrued charges, other payables, deposits received and deferred income		334,709
Amount due to a related company	14	40
		<u>408,383</u>
Net current liabilities		<u>(198,396)</u>
Total assets less current liabilities		<u>935,670</u>
Representing:		
Share capital	16	1,112,039
Accumulated losses		(872,860)
Other reserves		689,792
Shareholders' funds		<u>928,971</u>
Non-current liabilities		
Asset retirement obligations		6,699
		<u>935,670</u>

On behalf of the Board


 Director


 Director

The notes on page 7 to 30 are integral part of these financial statements.

NEW WORLD PCS HOLDINGS LIMITED

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE NINE MONTHS ENDED 31 MARCH 2006**

	Note	Nine months ended 31 March 2006 HK\$'000
Operating activities		
Net cash inflow generated from operations	17	124,322
Interest paid		(29,534)
		<hr/>
Net cash inflow from operating activities		94,788
		<hr/>
Investing activities		
Purchase of fixed assets		(97,354)
Sales of fixed assets		337
Interests received		716
		<hr/>
Net cash outflow from investing activities		(96,301)
		<hr/>
Net cash outflow before financing		(1,513)
		<hr/>
Financing activities		
Repayment of bank loan		(102,500)
		<hr/>
Net cash outflow from financing activities		(102,500)
		<hr/> <hr/>
Net decrease in cash and cash equivalents		(104,013)
Cash and cash equivalents at 1 July 2005		103,630
		<hr/>
Cash and cash equivalents at 31 March 2006		(383)
		<hr/> <hr/>
Analysis of balances of cash and cash equivalents:		
Bank overdrafts		(383)
		<hr/>
		(383)
		<hr/> <hr/>

The notes on page 7 to 30 are integral part of these financial statements.

NEW WORLD PCS HOLDINGS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 31 MARCH 2006

	Share capital HK\$'000	Other reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2005, as previously stated	300	689,792	(771,097)	(81,005)
Initial adoption of HKAS16 - accretion and depreciation expenses arising from asset retirement obligations (Note 2)	-	-	(4,585)	(4,585)
Change in accounting policy for handset subsidies and prepayment (Note 2)	-	-	(119,407)	(119,407)
At 1 July 2005, as restated	<u>300</u>	<u>689,792</u>	<u>(895,089)</u>	<u>(204,997)</u>
Profit for the period	-	-	22,229	22,229
Issue of shares	1,111,739	-	-	1,111,739
At 31 March 2006	<u><u>1,112,039</u></u>	<u><u>689,792</u></u>	<u><u>(872,860)</u></u>	<u><u>928,971</u></u>

The notes on page 7 to 30 are integral part of these financial statements.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

1 General information

New World PCS Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) is principally engaged in offering superior mobile telecommunications services including voice and data services tailored to the specific needs of individual customer groups via advanced mobile technology and technology related business including mobile internet-related services and information technology outsourcing activities in Hong Kong.

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

2 Principal accounting policies

(a) Basis of preparation

On 8 December 2005, New World Mobile Holdings Limited (“NWMHL”), Telstra CSL Limited (“Telstra CSL”) and Telstra Holdings (Bermuda) No. 2 Limited (“Telstra SPV”) entered into an agreement (“Merger Agreement”) pursuant to which Telstra CSL has agreed to issue and allot and NWMHL has agreed to procure its subsidiary to subscribe for new shares in Telstra CSL in exchange for the transfer of all of NWMHL’s interests in the Group to Telstra CSL and a cash payment by NWMHL to Telstra CSL. An amendment agreement (“Amendment Agreement”) was entered into on 30 March 2006 further to the Merger Agreement. The transaction was completed on 31 March 2006. The accounts have been prepared at the completion date required under the Merger Agreement.

The accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) except that the accounts do not contain comparative information as required by Hong Kong Accounting Standard 1 “Presentation of Financial Statements”. The consolidated accounts have been prepared under the historical cost convention.

At 31 March 2006, the Group had net current liabilities of HK\$198,396,000. NWMHL and Telstra Corporation Limited have expressed its intention to provide financial support to the Group so as to enable it to meet its liabilities as and when they fall due and continue its operation for the foreseeable future. Consequently, the directors have prepared the accounts on a going concern basis.

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated accounts, are disclosed in Note 4.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (continued)

(a) Basis of preparation (continued)

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

- (i) From 1 July 2005, the Group adopted the HKFRSs below, which are relevant to its operations.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments Disclosure and Presentation
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS Int 15	Operating Leases – Incentives
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

The adoption of HKASs 1, 2, 7, 8, 10, 17, 21, 23, 24, 27, 37 and HKAS-Int 15 did not result in substantial changes to the Group’s accounting policies. In summary:

- HKAS 1 has affected certain presentation in the balance sheet, profit and loss account and statement of changes in equity.
- HKASs 2, 7, 8, 10, 17, 23, 27, 37 and HKAS-Int 15 had no material effect on the Group’s policies.
- The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets.
- HKAS 21 had no material effect on the Group’s policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity accounts.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (continued)

(a) Basis of preparation (continued)

- HKAS 24 has affected the identification of related parties and certain other related-party disclosures.

The adoption of HKAS 16 has resulted in a change in accounting policy of which the costs of fixed assets include the estimated obligations which arise from future reinstatement of leased properties.

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

- HKAS 39 - does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities for information prior to 1 July 2005. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 July 2005.

The adoption of HKAS 16 resulted in:

	As at 31 March 2006 HK\$'000
Increase in fixed assets	1,535
Increase in accumulated losses	5,164
Increase in asset retirement obligations	6,699
	Nine months ended 31 March 2006 HK\$'000
Decrease in profit attributable to shareholders	579

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(a) Basis of preparation (continued)

In prior years, the costs of such asset retirement obligations were not recognised as part of the underlying fixed assets at the time when the fixed assets were acquired.

- (ii) On 1 July 2004, the Group early adopted the following new HKFRSs (the "HKFRS 3 Package"), which were effective for accounting periods beginning on or after 1 January 2005, in the accounts:

HKFRS 3	- Business Combinations
HKAS 36	- Impairment of Assets
HKAS 38	- Intangible Assets

The early adoption of the HKFRS 3 Package does not have any significant impacts on the accounting policies of the Group.

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

On 31 March 2006, the Group changed its accounting policy, pursuant to which handset subsidies are expensed as incurred. The directors consider that the new accounting policy involves less subjective judgement and estimates.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(a) Basis of preparation (continued)

The change in accounting policy resulted in:

	As at 31 March 2006 HK\$'000
Decrease in prepayments and other receivable	51,400
Increase in accrued charges, other payables, deposits received and deferred income	81,194
Increase in accumulated losses	<u>132,594</u>
	Nine months ended 31 March 2006 HK\$'000
Decrease in profit attributable to shareholders	<u>13,187</u>

(b) Group accounting

The consolidated accounts of the Group include the accounts of the Company and all its direct and indirect subsidiaries made up to 31 March 2006.

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

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

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(b) Group accounting (Continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair 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. 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 profit and loss account.

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.

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 by the Company on the basis of dividend received and receivable.

(c) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Fixed assets 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%

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

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(c) Fixed assets (Continued)

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

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

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.

(d) Inventories

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

(e) Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(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 on hand and deposits held at call with banks.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(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. Provisions are not recognised for future operating losses.

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

(h) 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.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(i) 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 accounts. Taxation rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation.

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

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

(j) Contingent liabilities

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

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

(k) Revenue recognition

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

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

Interest income is recognised 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.

(l) Operating leases

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

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

2 Principal accounting policies (Continued)

(m) Borrowing

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 profit and loss account 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.

3 Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: 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) Credit risk

The Group has no significant concentration of credit risk. It has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history, in cash or via major credit cards. The Group has policies that limit the amount of credit exposure to any customers.

(ii) Liquidity risk

The Group monitors current and expected liquidity requirements to ensure sufficient cash and adequate amount of committed credit facilities are maintained. Due to the nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iii) Cash flow and fair value interest rate risks

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

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

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

3 Financial risk management (Continued)

(b) Fair value estimation

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

4 Critical accounting estimates and assumptions

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

(i) Estimated useful economic lives and impairment of fixed assets

Fixed assets used in the network are long-lived but may be subject to technical obsolescence. The annual depreciation charges are sensitive to the estimated economic useful lives the Group allocates to each type of fixed assets. Management performs annual reviews to assess the appropriateness of their estimated economic useful lives. Such reviews take into account the technological changes, prospective economic utilisation and physical condition of the assets concerned. Management also regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset is lower than its recoverable amount which is the greater of its net selling price or its value in use. In determining the value in use, management assess 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, such as the market competition and development and the expected growth in subscribers and average revenue per subscriber.

(ii) Asset retirement obligations

The Group evaluates and recognises, on a regular basis, the fair value of fixed assets and obligations which arise from future reinstatement of leased properties upon end of lease terms. To establish the fair values of the asset retirement obligations, estimates and judgement are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as the types of leased properties, probability of renewal of lease terms and restoration costs. The discount rate used is referenced to the Group's historical weighted average cost of capital.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

4 Critical accounting estimates and assumptions (continued)

(iii) Deferred tax

The Group provides for deferred taxation in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated accounts. Deferred tax assets are only recognised to the extent that it is probable future taxation profits will be available against which the unused tax losses or unused tax credits can be utilised, and significant judgement is required in determining whether it is probable. If the Group is not able to generate sufficient future taxation profits to utilise the temporary differences, a provision for the deferred tax asset would need to be made.

5 Turnover

The Group principally engages in the provision of mobile communications services and the sales of mobile handsets and accessories. Revenues recognised during the period are as follow:

	Nine months ended 31 March 2006 HK\$'000
Turnover	
Mobile communications services	971,494
Sales of mobile handsets and accessories	431,333
	<hr/>
	1,402,827
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NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

6 Expenses by nature

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

	Nine months ended 31 March 2006 HK\$'000
<u>Crediting</u>	
Net exchange gains	1,597
<u>Charging</u>	
Auditors' remuneration	748
Cost of inventories sold	299,360
Depreciation of fixed assets	198,703
Loss on disposal of fixed assets	545
Operating lease rentals for land and buildings	35,898
Operating lease rentals for transmission sites	130,492
Provision for bad and doubtful debts	8,706
Staff costs, including directors' emoluments (Note 8)	103,938

7 Finance costs

	Nine months ended 31 March 2006 HK\$'000
Interest on secured long-term bank loan	794
Interest on loan from a fellow subsidiary (Note 15)	30,572
Interest on other borrowings	2,464
Accretion expenses (Note)	489
	<u>34,319</u>

Note

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

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

8 Staff costs (including directors' emoluments)

	Nine months ended 31 March 2006 HK\$'000
Wages and salaries	93,446
Bonuses	6,708
Pension costs - defined contribution plans	3,763
Termination benefits	1,234
Medical insurance, staff welfare and other allowances	2,100
Less: staff costs capitalised as fixed assets	(3,313)
	<hr/>
	103,938
	<hr/> <hr/>

9 Directors' emoluments (equivalent to key management compensation)

No directors' emoluments were paid or payable to the directors of the Company during the period.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

10 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the period. The Group has sufficient tax losses brought forward to offset the estimated assessable profit for the period.

The amount of taxation charged to the consolidated profit and loss account for the period represents:

	Nine months ended 31 March 2006 HK\$'000
Deferred taxation relating to the origination and reversal of temporary differences (Note 12)	4,874

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the companies as follows:

	Nine months ended 31 March 2006 HK\$'000
Profit before taxation	27,103
Calculated at a taxation rate of 17.5%	4,743
Notional tax on profit before taxation	(111)
Income not subject to taxation	157
Expenses not deductible for taxation purpose	85
Others	4,874
Taxation charge	4,874

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

11 Fixed assets

	Computer equipment HK\$'000	Furniture and fittings HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Testing equipment HK\$'000	Digital, switching and transmission system HK\$'000	Construction in progress HK\$'000	Total HK\$'000
At 1st July 2005								
Cost, as previously reported	215,651	21,298	45,243	1,417	28,175	2,193,535	22,798	2,528,117
Asset retirement obligations	-	-	157	-	-	4,056	-	4,213
Cost, as restated	215,651	21,298	45,400	1,417	28,175	2,197,591	22,798	2,532,330
Accumulated depreciation, as previously reported	150,135	19,495	30,694	944	27,969	1,233,074	-	1,462,311
Asset retirement obligations	-	-	121	-	-	2,148	-	2,269
Accumulated depreciation, as restated	150,135	19,495	30,815	944	27,969	1,235,222	-	1,464,580
Net book amount	65,516	1,803	14,585	473	206	962,369	22,798	1,067,750
During the nine months ended 31st March 2006								
Opening net book amount	65,516	1,803	14,585	473	206	962,369	22,798	1,067,750
Additions	4,100	163	1,997	-	-	82,307	8,787	97,354
Transfer between classes	(744)	(46)	(30)	-	-	16	804	-
Charge for the period	18,134	800	6,004	108	151	173,506	-	198,703
Disposals	(22)	(1)	(18)	-	-	(841)	-	(882)
Closing net book amount	50,716	1,119	10,530	365	55	870,345	32,389	965,519
At 31st March 2006								
Cost	216,332	21,374	47,328	922	28,175	2,278,842	32,389	2,625,362
Accumulated depreciation	165,616	20,255	36,798	557	28,120	1,408,497	-	1,659,843
Net book amount	50,716	1,119	10,530	365	55	870,345	32,389	965,519

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

12 Deferred taxation

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The amounts offset are as follows:

	<u>Group</u> As at 31 March 2006 HK\$'000
Deferred income tax assets:	
- Deferred income tax assets to be recovered after more than 12 months	210,309
- Deferred tax assets to be recovered within 12 months	29,960
	<u>240,269</u>
Deferred income tax liabilities:	
- Deferred income tax assets to be recovered after more than 12 months	54,210
- Deferred income tax liabilities to be recovered within 12 months	23,461
	<u>77,671</u>

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:

	As at 31 March 2006 HK\$'000
At the beginning of the period	167,472
Deferred taxation charged to profit and loss account (Note 10)	(4,874)
At the end of the period	<u>162,598</u>

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. There is no limitation in Hong Kong on the year in which the Group's tax losses carried forward can be utilised.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

12 Deferred taxation (Continued)

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

Deferred tax assets	Group		
	Provision HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 30 June 2005	2,076	260,663	262,739
Charged to profit and loss account	(24)	(22,446)	(22,470)
At 31 March 2006	<u>2,052</u>	<u>238,217</u>	<u>240,269</u>
			<u>Group</u>
Deferred tax liabilities			Accelerated tax depreciation HK\$'000
At 30 June 2005			95,267
Credited to profit and loss account			(17,596)
At 31 March 2006			<u>77,671</u>

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

13 Inventories

	<u>Group</u>
	As at
	31 March
	2006
	HK\$'000
Merchandise	25,594

14 Amounts due from/(to) fellow subsidiaries, immediate holding company and a related company - Group

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

The carrying amounts due from/(to) fellow subsidiaries, immediate holding company and a related company approximate their fair values.

15 Loan from a fellow subsidiary

On 29 March 2004 a sale and purchase agreement (the "S&P Agreement") was entered into between New World Telephone Holdings Limited ("NWTHL"), a wholly-owned subsidiary of New World Development Company Limited, and the Company's immediate holding company, New World Mobile Holdings Limited ("NWMHL"), pursuant to which NWMHL agreed to purchase the 100% equity interest of the Company and its subsidiaries (the "Group") from NWTHL at an aggregate cash consideration of HK\$1,250,000,000. This transaction (the "Acquisition") was completed on 6 July 2004 (the "Completion Date").

Pursuant to the S&P Agreement, if the total of the bank loan and amounts due to immediate holding company and ultimate holding company (collectively, the "Aggregate Liabilities") by the Group on the business day prior to the completion of the Acquisition exceeds HK\$1,250,000,000, the exceeding amount due to immediate holding company and ultimate holding company would be capitalised so that the Aggregate Liabilities at the Completion Date would not exceed HK\$1,250,000,000.

As such, prior to the completion of the Acquisition, an amount of approximately HK\$914,092,000 due to the then immediate holding company by the Group was capitalised through the issuance of 298,911,000 shares of ordinary shares on 6 July 2004. The remaining balance of amounts due to the then immediate holding company and ultimate holding company of HK\$877,500,000 was repaid by a fresh loan from a fellow subsidiary which will be repayable upon demand after 29 September 2005 and interest bearing at 0.65% above HIBOR per annum.

On 30 March 2006, the loan from the fellow subsidiary was capitalised through the issuance of 886,749,279,000 shares of ordinary shares and was repaid by a fresh promissory note issued by NWMHL endorsed in favour of New World PCS Limited, a wholly-owned subsidiary of the Company, to the fellow subsidiary.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

16 Share capital

	Authorised				
	Non-voting redeemable convertible preference shares of HK\$0.001 each		Ordinary shares HK\$0.001 each		Total
	No. of shares	HK\$'000	No. of shares	HK\$'000	HK\$'000
At 1 July 2005	200,000	-	300,000,000	300	300
Creation of new shares (note a)	-	-	1,499,700,000,000	1,499,700	1,499,700
At 31 March 2006	200,000	-	1,500,000,000,000	1,500,000	1,500,000

	Issued and fully paid ordinary shares HK\$0.001 each	
	No. of shares	HK\$'000
At 1 July 2005	300,000,000	300
Issue of shares (note b)	1,111,739,279,000	1,111,739
At 31 March 2006	1,112,039,279,000	1,112,039

Notes:

- a) 1,499,700,000,000 shares were created on 22 February 2006 by a sole ordinary shareholder's resolution.
- b) On 30 March 2006, 886,749,279,000 and 224,990,000,000 shares were issued for the capitalisation of loan from a fellow subsidiary and an amount due to the immediate holding company respectively.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

17 Notes to consolidated cash flow statement

Reconciliation of profit before taxation to net cash inflow generated from operations:

	Nine months ended 31 March 2006 HK\$'000
Profit before taxation	27,103
Depreciation	198,703
Loss on disposal of fixed assets	545
Interest income	(716)
Interest expenses	34,319
	<hr/>
Operating profit before working capital changes	259,954
Decrease in inventories	12,430
Increase in trade receivables	(13,020)
Decrease in prepayments and other receivables	10,707
Decrease in rental and other deposits	3,657
Increase in amounts due from fellow subsidiaries	(1,755)
Decrease in trade payables	(37,299)
Decrease in amounts due to immediate holding company, fellow subsidiaries and a related company	(40,592)
Decrease in accrued charges, other payables, deposits received and deferred income	(69,441)
Decrease in asset retirement obligations	(319)
	<hr/>
Net cash inflow generated from operations	<u>124,322</u>

18 Contingent liabilities

	As at 31 March 2006 HK\$'000
Bank guarantees in lieu of deposits	<u>8,590</u>

Directors anticipate that no material liabilities will arise from the above bank and other guarantees which arose in the ordinary course of business.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

19 Commitments

(a) Capital commitments

	As at 31 March 2006 HK\$'000
Contracted but not provided for	55,703
Authorised but not contracted for	32,318
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	88,021
	<hr/> <hr/>

(b) Commitments under operating leases

At 31 March 2006, the Group had total future aggregate minimum lease payments under non-cancellable operating leases which expire as follows:

	As at 31 March 2006 HK\$'000
Land and buildings	
Within one year	138,064
In the second to fifth year inclusive	85,846
After the fifth year	15,337
	<hr/>
	239,247
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NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

20 Related party transactions

The Group is controlled by NWMHL, a company incorporated in Cayman Islands and listed on The Stock Exchange of Hong Kong Limited, which owns 100% of the Company's shares. The ultimate parent of the Group is New World Development Company Limited, a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited.

- (i) The Group undertook the following material transactions with related parties, which were carried out in the normal course of the business, during the period:

	Note	Nine months ended 31 March 2006 HK\$'000
Purchase from fellow subsidiaries	(a)	(29,649)
Purchase of fixed assets from a related company	(b)	(1,615)
Service fee income from a fellow subsidiary	(c)	3,208
Rental expenses paid/payable to fellow subsidiaries	(d)	(15,584)
Loan interest paid/payable to a fellow subsidiary	(e)	(30,572)
Reimbursement of office administrative expenses and fee charged from a related company	(f)	<u>(9,970)</u>

Notes:

- (a) Purchases were conducted in the normal course of business which are subject to the contract terms as negotiated by the parties involved.
- (b) Purchases were conducted in the normal course of business which are subject to the contract terms as negotiated by the parties involved. Certain directors of the Company are also directors of the related company.
- (c) Service fee was subject to the terms of the contracts entered by the parties involved.
- (d) Rental expenses were charged at a fixed monthly fee subject to the terms of the contract signed by the parties involved.
- (e) The interest was charged at 0.65% above HIBOR per annum.
- (f) The reimbursement of office administrative expenses were charged on actual cost basis and the fee were calculated at 15% mark-up on actual costs incurred.

NEW WORLD PCS HOLDINGS LIMITED

NOTES TO THE ACCOUNTS

20	Related party transactions (Continued)	Note	As at 31 March 2006 HK\$'000
	Receivables from fellow subsidiaries	14	1,784
	Payable to a related company	14	40

21 Approval of the accounts

The accounts were approved by the board of directors on 24 August 2006.