

CEO'S REPORT

The roll-out of the New World TMT telecom, media and technology (TMT) initiative was the primary focus of management during the financial year ended 30 June 2005. The objective of the management team was to reposition the investment portfolio so that enterprises could be well prepared to benefit from the rapid expansion and liberalization of the Mainland China TMT market. In so doing, NWTMT focused on strengthening management at portfolio companies, divesting non-core assets and non-performing projects and investing in a range of select businesses that are synergistic with the TMT-oriented growth strategy.

Over the course of the year, NWTMT enacted its repositioning strategy by reducing exposure to non-core projects and repositioning the portfolio to focus on promising investments with high growth potential. As such, NWTMT took a more hands-on approach to business development, the formation of strategy and financial controls. A number of non-core assets were divested during the year, with provisions made for certain non-performing projects. On the investment front, NWTMT continued to add quality TMT projects to its investment portfolio and reinforced performing enterprises with additional capital to better realize expansion plans.

In the meantime, significant headway was made in the case against PrediWave Corp and its affiliates. With legal proceedings to recover a substantial investment in the digital TV sector commencing in June 2006, it was necessary for NWTMT management to spend considerable time this year in order to plan the case and provide depositions. NWTMT continues to stand by the strength of its case and expects the US judicial system to view its argument in a positive light.

Tied in part to the PrediWave case was the major provision for Intellambda, a project led by PrediWave executives. In assessing the necessity for this provision, NWTMT took into account the latest financial information, advice from an industry expert, funding requirements and expected returns from launching products.

Business Strategy

The NWTMT business strategy is based on providing profit generating services and applications to the Greater China TMT arena. TMT is a fast growing industry that is heavily influenced by the trend to convergence of telemedia services and the merge of voice, IP and multimedia applications. The convergence of fixed and IP networks as well as services related to IP, multimedia and data create exciting business opportunities. As the TMT investment flagship of New World Group, NWTMT is more than able to capitalize on a long and deep experience in the Mainland China marketplace.

CEO's Report

NWTMT plans to deliver results by pursuing the following strategy:

- **Strengthen Portfolio Companies:** Integrate and streamline portfolio companies to create synergies and maximize financial performance.
- **Regional Play, China Focus:** Derive first mover benefits by bringing regional advanced technology and innovative concepts to China.
- **Media Mix:** Create a compelling mix of media interests with technology-enabled advertising, traditional advertising and digital TV to build a leading market position as an integrated telemedia company.
- **Reinforce Synergy with New World Group (NWG):** Capitalize on the NWG network and expertise, in particular subsidiaries focused on telecom services.
- **New Capital and Growth:** Bring capital and revenue growth to NWTMT interests through creative financing, joint ventures and strategic alliances.

Operational Review

Media operations form the largest component of the NWTMT revenue contribution. In this regard, Xintong Media continues to lead the investment portfolio in terms of revenue generation. Overall, revenues rose as Xintong Media continued its transformation into a multimedia advertising and content provider. Particular headway was made on the content front. Xintong TV and Film Control Centre produced a 30-part dynasty TV series for the national network. Jindun Xintong Movie & TV Culture Company, specialized in police movies for the Ministry of Public Security, produced its first non-police movie.

Mtone performed relatively well in the highly competitive Mainland China mobile VAS market, though revenues decreased slightly due to alterations in the product mix and revenue sharing agreements with mobile telecom operators. Working off a base of over 4.5 million customers, Mtone can effectively introduce new services. One recent highlight is the launch of China's first fantasy sports game. Through an alliance with the National Basketball Association (NBA) and China Mobile Communications Corp, Mtone produced "*Fantasy NBA 2005 Pick'n Win*". In addition, Mtone launched Msport and Mmusic and entered into new marketing co-operations with both Coca-Cola and McDonald's.

The China Aerospace New World Technology Ltd (CANW) venture is a driving force in the NWTMT digital TV initiative. This partnership combines the resources of NWTMT with those of Hong Kong-listed China Aerospace International Holdings (CASIL), a subsidiary of China Aerospace Science and Technology Corp (China Aerospace). CANW will play a major role in the China Aerospace effort to become a Direct-to-Home (DTH) satellite TV VAS provider. With the issuance of a license pending, regulators discussed the role which China Aerospace may assume in the broadcast component of a DTH TV business that is expected to be launched in late 2006.

The Digital Bus Stop (DBS) is a promising project for NWTMT. This year DBS took the important step of testing its technology on the streets of Beijing. DBS is a real time information system that consists of an electronic kiosk installed at bus stops, a data collection and communication system installed on buses and an information management centre. The DBS business model is largely based on the ability of the kiosk to host commercial outdoor advertising. NWTMT expects to roll out the DBS prior to the 2008 Beijing Olympics.

New World ZGM Ltd (NWZGM), a venture to produce heat transfer technology, is making strides in commercialization. Patent applications are pending and NWZGM is in the process of producing component parts to house heat transfer technology for heat dissipation in computers and domestic heating systems. Further investment was made to strengthen the R&D aspect of the business.

One strategic acquisition was completed during the year. NWTMT took a minority stake in eBank Corp (eBank). This top Japanese Internet bank holds a Japanese banking license and serves over 1.2 million customers. eBank provides payment/settlement and related bank depository services over the Internet and through 39,000 ATMs in 7-Eleven stores and Postal Savings Offices. Existing shareholders include HSBC, GE Consumer Finance, Sumitomo Corp and GEMS. eBank registered a solid net profit in its first quarter (ended June 2005) and is exploring business opportunities in China in conjunction with NWTMT.

On the telecom front, Sunlong Group (Sunlong), which holds a number of licenses and marketing rights for telecom VAS in Mainland cities, improved its core business. One of the leading call centre operators in South China, Sunlong is studying the possibility of expansion in Beijing and Shanghai. In addition, Apex-Pro Systems Ltd (Apex-Pro), a subsidiary focused on ERP solutions, joined with NWT to serve the China enterprise market.

Outlook 2006

The commercialization and development of a range of new services and technologies is central to an improved performance of NWTMT in the coming year. The roll-out of services and applications should be enhanced by a steady growth in the underlying Mainland economy, though forecasts call for slower expansion due to a stronger RMB currency and the possibility of a global economic downturn. The past rate of expansion will be hard to match, but all TMT markets are expected to increase in size over the coming period. While more players will compete for market share, Hong Kong and global investors like NWTMT will benefit from liberalization policies in the telecom and media sectors.

The 2006 operational strategy encompasses the following initiatives:

- **Sustain and grow revenues:** Focus on promoting quality projects, such as Xintong Media, Sunlong, NWZGM and Digital Bus Stop.

- **Monitor progress of DTH TV:** Closely study the progress of DTH TV as the position of China Aerospace in the satellite TV market is clarified.
- **Identify equity partnerships:** Maximize returns for select projects through the identification of co-investment opportunities.
- **Monitor PrediWave legal proceedings:** Closely monitor progress and execute a major initiative to optimize the cost of litigation.

On a company-by-company basis, progress in terms of business development and revenue generation is expected across the board. Xintong Media will continue to develop its multimedia advertising and content business. The TV and film production arm should register revenue growth as production rises to meet the substantial needs of cable subscribers and TV viewers. In addition, regulations will loosen once again in 2006, permitting foreign entities to own up to 100% of a Mainland advertising agency, up from the current 70%.

The regulatory landscape will stabilize for Mtone and revenue generation will improve in a bullish mobile VAS industry that serves over 360 million mobile subscribers. Based on WAP and 2.75G technology, Mtone will build on its NBA relationship in 2006 and new strategic alliances with other global franchises and multinationals will come into play. The internally generated services of Msport and Mmusic should begin to produce revenues.

China Aerospace is expected to launch its DTH TV satellite in mid-2006. This is an important step in the introduction of satellite TV. The government views DTH TV as an important part of its digital media, pay TV and Olympic broadcast programme. With the satellite launch, and the granting of a DTH TV license, the role of China Aerospace as a network operator and a VAS provider will be clarified. Upcoming events in the DTH TV arena should create significant new business opportunities for CANW. With one million DTH TV subscribers targeted for China in 2006, rising to 20 million by 2010 and 40 million by 2015, the China Aerospace brand provides a solid platform from which CANW can explore DTH TV VAS opportunities.

DBS is expected to enter the commercialization phase next year. The introduction of thousands of DBS kiosks will provide NWTMT an exclusive right to capture a share of the outdoor advertising market. Outdoor advertising has experienced strong growth in recent years and a number of media companies have listed on the strength of this business. The DBS kiosk has already attracted interest from flagship advertisers.

Another commercialization project is set for completion with the packaging and manufacturing of NWZGM heat transfer technology products. The first target for this technology is the energy hungry Mainland market. Plans are also progressing to internationalize the business by working with strategic partners and forming joint ventures. The estimated global market for NWZGM technology is expected to be sizeable.

eBank is a new addition to the portfolio. On the domestic front, eBank's record of profitability is a precursor to a possible IPO in Tokyo next year. NWTMT feels that the eBank platform could be suitable for a roll-out in Mainland China and management is looking at business opportunities. On other fronts, the NWT relationship will be enhanced. This strategic cooperation with Hong Kong's leading IP-based telecom network is an important component of the convergence story for China. With NWTMT acting as the financial partner and NWT providing operational experience this cooperation can create opportunities in Mainland China.

In the coming year, management expects to see improvement in the financial picture. The investment portfolio has been reduced to a select group of businesses that are ready to contribute to the bottom line in the near-term. A strong economic environment, an ever enlarging playing field and the desire of Chinese consumers to embrace new forms of entertainment and telemedia services all bode well for the future of NWTMT.

Wong Chi-Chiu, Albert

Chief Executive Officer