

Management Discussion and Analysis

FINANCIAL REVIEW

CONSOLIDATED PROFIT AND LOSS ACCOUNT		
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
1 Turnover	353,774	368,847
Other revenue	38,884	7,254
2 Other charges, net	(460,912)	(5,105,902)
Staff costs	(76,066)	(82,769)
Depreciation and amortization	(23,438)	(41,961)
3 Other operating expenses, net	(420,763)	(451,979)
Operating loss	(588,521)	(5,306,510)
4 Finance costs	(106,302)	(82,875)
5 Share of results of		
Associated companies	(107,373)	(123,875)
Jointly controlled entities	(74,876)	(13,869)
Loss before taxation	(877,072)	(5,527,129)
Taxation	(4,164)	(737)
Loss after taxation	(881,236)	(5,527,866)
Minority interests	15,012	20,608
Loss for the year	(866,224)	(5,507,258)

In the financial year ended 30 June 2005, the Group focused on the ongoing launch of its TMT (telecom, media and technology) initiative. The management team repositioned the investment portfolio to address explosive growth in the core media market in Mainland China. This was accomplished by strengthening management at existing portfolio investments, divesting non-performing projects and setting the foundation for future growth in key TMT segments. The Group believes this repositioning is essential to the creation of shareholder value in the development of a TMT business.

The Group registered a net loss of HK\$866.2 million, a decrease of HK\$4,641.1 million compared to HK\$5,507.3 million in the prior year. In the last financial year major provisions were made for investments in the interactive digital cable TV business, all of which are currently the subject of PrediWave litigations.

- 1** Turnover for the current year was HK\$353.8 million, a decrease of HK\$15.0 million compared to HK\$368.8 million in the prior year. The decrease was due to a slight drop in revenue from the advertising business and content distribution.

- 2 Net other charges were HK\$460.9 million, compared to HK\$5,105.9 million in the prior year. Net other charges for the current year included certain impairment losses, such as HK\$376.9 million for investment in Intellambda Systems Inc. ("Intellambda"), a telecom optics equipment maker controlled by PrediWave management, HK\$70.3 million for investment in Mtone Wireless Corp. ("Mtone"), a mobile VAS entertainment and interactive service provider in Mainland China, HK\$62.2 million for an investment in LinkAir Communications, Inc., a developer of LAS-CDMA technology, and HK\$42.1 million for development costs in an educational software project. Net other charges also included a gain of HK\$154.9 million relating to disposal of Wuhan Bridge Construction Company Limited by NWSH, a fellow subsidiary.
- 3 Other operating expenses of HK\$420.8 million for the current year included cost of sales related to the advertising business of HK\$283.3 million and legal costs of HK\$73.9 million, compared to HK\$8.7 million last year, in connection with PrediWave litigations.
- 4 Finance costs increased from HK\$82.9 million to HK\$106.3 million as the Attributable Debt increased from HK\$2.67 billion as at 30 June 2004 to HK\$2.72 billion as at 30 June 2005, in addition to increase in interest rates.
- 5 In the current year, the Group has recorded share of losses of HK\$182.2 million from associated companies and jointly controlled entities which mainly from New QU Energy Limited and China Aerospace New World Technology Limited.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 30 June 2005, the cash and bank balances of the Group amounted to HK\$516.3 million, compared to HK\$649.2 million in 2004.

Attributable Debt profile

(HK\$ million)

Type	Outstanding amount		05/06	Repayment	
	Fixed rate	Floating rate		06/07	Onwards
Short-term Renminbi bank loan facilities	376	–	376	–	–
Long-term Renminbi bank loan facilities	11	–	8	–	3
Other loan	–	2,337	–	2,337	–
Total	387	2,337	384	2,337	3

Attributable Debt (being total bank and other borrowings less liabilities undertaken by NWSH) at 30 June 2005 increased to HK\$2.72 billion from HK\$2.67 billion at 30 June 2004, with corresponding increase in the gearing ratio (being the ratio of Attributable Debt to equity) to 383% from 169%. The existing bank borrowings are all in Renminbi at

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fixed interest rates and represented 14% of Attributable Debt. The remaining Attributable Debt is in Hong Kong dollars at floating rates. The Attributable Debt is mainly unsecured, except for HK\$360 million which are secured by pledged deposits and fixed assets. In addition, NWSH has undertaken to repay the principal and interest of a bank loan of the Group, of approximately HK\$505 million (2004: HK\$687 million) at 30 June 2005, from time to time as they fall due. The loan is secured by NWSH's interests in certain joint ventures in the Mainland China. Subsequent to the year-end date, the Group has repaid HK\$339 million equivalent short-term Renminbi bank loans before the appreciation of Renminbi on 21 July 2005. As most of the Renminbi borrowings were repaid, the management considered that the Group did not have a material exposure in exchange rate risk.

Taking into account the increase of existing unsecured revolving credit facilities granted by a fellow subsidiary from HK\$2.7 billion to HK\$3.53 billion with approximately HK\$1.12 billion undrawn at 30 June 2005, the Group has adequate financial resources to meet its commitments and working capital requirements.

CONTINGENCIES

Details of the Group's pending litigations have been set out in note 29 to the accounts.

DETAILS OF ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

For the year ended 30 June 2005, the Group has acquired additional 19.1% equity interest in 北京信通傳之媒文化發展有限公司.

SUBSEQUENT EVENT

On 4 October 2005, the Group entered into an equity transfer agreement with Golden Strength Inc. in connection with the transfer of the entire equity interest in Dalian Shang Li De Heat Conduction Technology Co., Limited by Golden Strength Inc. to the Group in exchange for the Company's rights, title and interests in the loan in an aggregate amount of US\$8.5 million due from Sunnet International Corporation. Upon completion of the transfer, the Company becomes the indirect sole owner of Dalian Shang Li De Heat Conduction Technology Co., Limited.

EMPLOYEES AND REMUNERATION POLICIES

The Group has approximately 360 employees as at 30 June 2005. Total staff related costs were approximately HK\$76.1 million (2004: HK\$82.8 million). Remuneration policy is reviewed yearly. Remuneration, bonus and share options may be granted to employees based on individual performance and market practices. Education subsidies will be granted to employee taking job-related courses. Periodic in-house training programs are also offered.

DETAILS OF CHARGES ON GROUP ASSETS

As at 30 June 2005, net book values of land and buildings of HK\$20,976,000 (2004: HK\$21,464,000), a motor vehicle of HK\$59,000 (2004: HK\$62,000) and bank deposits of HK\$360,664,000 (2004: HK\$446,940,000) were pledged as securities for the Group's short-term and long-term bank loans.

ADVANCES TO ENTITIES

In accordance with Rule 13.13 and 13.20 of the Listing Rules, the details of advances provided by the Group to entities, which individually exceeds 8% of the Company's market capitalization of approximately HK\$476.1 million ("Market Capitalization", basing on the average closing price of the Company's shares as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding 30 June 2005 and 952,180,007 shares of the Company in issue as at 30 June 2005), are as follows:

Name of entity	Advances as at 30 June 2005 <i>HK\$'000</i>	Interest rate	Repayment term	Collateral
Zhuhai Municipal Government (Note 1)	262,980	Prime	semi-annually until 30.9.2008	unsecured
中廣媒體傳播有限公司 (Chinacable Allmedia Co., Ltd.) (Note 2)	600,000	3%	on demand	unsecured
New QU Energy Limited (Note 3)	(i) 60,840	LIBOR	on demand	unsecured
	(ii) 5,460	interest-free	on demand	unsecured
	66,300			

Notes:

- (1) Advance to facilitate discussion to acquire infrastructure projects. Repayment with interest by instalments was agreed upon cessation of the discussion in 2002.
- (2) Advance to facilitate procurement of investments on behalf of the Company. Details of the investments have been set out in note 21 to the accounts.
- (3) Advance to provide for working capital.

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FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES

In accordance with Rule 13.16 of the Listing Rules, the amount of financial assistance to affiliated companies of the Group is approximately HK\$66,711,000 which exceeds 8% of the Market Capitalization. Breakdown and details are given in the following table:

Name of affiliated company	Amount <i>HK\$'000</i>	Shareholder loan/advance		Collateral
		Interest rate	Repayment term	
New QU Energy Limited	60,840	LIBOR	on demand	unsecured
	5,460	interest-free	on demand	unsecured
Concerto Software New World Limited	411	interest-free	on demand	unsecured
Total	66,711			

In accordance with Rule 13.22 of the Listing Rules, a proforma combined balance sheet of the above affiliated companies and the Group's attributable interest in those affiliated companies are presented below:

Proforma combined balance sheet	<i>HK\$'000</i>
Non-current assets	127,729
Current assets	207,030
Current liabilities	(206,553)
Net current assets	477
Total assets less current liabilities	128,206
Financed by:	
Shareholders' funds	128,206
The Group's attributable interest	122,013