

# The TMT Evolution



## MANAGING DIRECTOR'S REPORT





The net loss for the financial year ended 30 June 2003 was HK\$959.5 million, compared to a net loss of HK\$148.4 million in the prior year. This year featured significant changes in the operations of NWI. As part of the New World Group reorganization, NWI divested its portfolio of traditional infrastructure assets to focus on the Telecommunications, Media and Technology (TMT) sector. NWI emerged from the corporate reorganization prepared to deliver shareholder value on its existing portfolio of TMT assets.

#### **Corporate Reorganization**

This year NWI played a major role in the reorganization of New World Group. The reorganization proposed on

18 October 2002 highlighted the sale of the NWI traditional infrastructure assets. The NWI assets were sold for a combined cash, liability assumption and share consideration of HK\$10.227 billion, comprised (i) HK\$8.545 billion in cash, subject to adjustments, (ii) approximately 853 million newly issued shares of NWSH (the Consideration Shares) and (iii) the undertaking by NWSH to pay certain liabilities of NWI in the aggregate amount of approximately HK\$886 million. In addition, NWI also converted all preference shares of NWSH into ordinary shares and thereafter distributed all NWSH shares then held, including the Consideration Shares, to the shareholders. The reorganization was completed on 29 January 2003.

Shareholders ended up with one NWI share and 5.87 NWSH shares for every NWI share owned prior to the transaction. The end result of the reorganization was a reduction of the debt gearing and the realignment of the capital structure to serve the needs of two distinct businesses. Due to the reorganization, shareholders can benefit from an opportunity to own shares in two listed companies. In addition, the combined value of the NWI and NWSH shares held by shareholders increased by three fold on a market value basis by mid-October 2003.

The reorganization resulted in a gain of HK\$334.3 million for this financial year. The reorganization entailed use of the sale proceeds of the traditional infrastructure assets to pay down a substantial portion of NWI borrowings, loan prepayment fees and the unwinding cost of interest rate hedging contracts associated with repaid loans. These and other charges, which would have been avoided if not for repayment of borrowings, amounted to HK\$130.7 million and brought total financing costs to HK\$639 million, compared to HK\$849.3 million for FY2002. A reduction in overall borrowing of HK\$8.3 billion upon completion of the reorganization lowered the weighted average borrowing for FY2003 to HK\$7.69 billion from HK\$10.8 billion in FY2002.

Pending final approval from shareholders at the Annual General Meeting, NWI will change its name to New World TMT Limited to fully reflect the TMT business strategy and reinforce its commitment to maximize revenues and deliver shareholder value.

### Traditional Infrastructure Segment

The financial results reflect seven months of operation of the divested traditional infrastructure business, up to the completion of the reorganization. Traditional infrastructure remained a solid producer of recurring income and generated attributable operating profit (AOP) of HK\$637 million. In this respect, NWI is proud to report that a healthy and vibrant infrastructure business is being passed to NWSH.

### TMT Segment

On the TMT front, NWI continued to commercialize its TMT projects and focused on deriving income from digital information delivery services deployed via invested technologies. The HK\$1.1 billion loss registered by the TMT segment was the result of development costs, marketing expenses and provisions.

Strategic investments were made in S.T.U.B. SATertainment Inc. (STUB) and Athena Database Inc. (Athena) in the US. In addition, NWI's entire shareholding in chinadotcom was disposed of in January 2003, resulting in a loss of HK\$191.9 million. This reduced the overall net gain on the chinadotcom investment to HK\$571.8 million.

PrediWave Corp. (PrediWave) is a total solution provider of interactive TV services over one-way CATV, wireless terrestrial and satellite networks. PrediWave significantly increased development and operating activities during the year to support the launch of its interactive TV system in China. NWI's share of the loss generated by PrediWave and related companies increased to HK\$167 million from HK\$67.9 million in the previous year. As part of its initiative in the China interactive TV business, NWI invests in broadcast equipment, application software, set-top-boxes and component parts. Major product upgrades were carried out to broaden user-attractive features and expand interactive TV network functionality. Due to these upgrades NWI believes that the future rollout of the PrediWave system shall enjoy improved performance with lower deployment, equipment and operating costs. However, the upgrades resulted in a HK\$458.4 million provision being taken on this investment.

Sun Long Group (Sun Long) is engaged in value-added telecom services, system integration, wireless access products and related services. The attributable loss from Sun Long amounted to HK\$51.8 million.

## Others

NWI operated a coal depot in Shanxi Province that required an injection of working capital to continue operations. NWI decided the prospects of this coal depot operation did not justify further investment and accordingly made provisions of HK\$158.6 million in respect of the investment.

## Outlook

To tackle the vibrant evolution of the global and PRC TMT markets, NWI has built its business around the dynamic and timely delivery of customized information services to consumers and enterprises on a worldwide basis: anytime, anywhere, on any device at a reasonable price.

NWI emerged from the reorganization with Net Attributable Debt reduced to HK\$1.05 billion from HK\$9.93 billion in FY2002. This debt reduction allows NWI to focus on its core TMT business with confidence, flexibility and commitment.

The strategic initiative remains on generating revenue through delivery of advanced TMT applications to the China market and by marketing technologies in the global arena. NWI's global marketing efforts commenced with the establishment of STUB's interactive satellite TV platform for Asian communities in the US and Pine Global Marketing Ltd.'s (Pine) US-based distribution channels headquartered in the US.

The interactive technology of PrediWave is the basis of the rollout of CATV and satellite-based applications in China. PrediWave offers the only solution to provide interactive TV services over one-way networks. With increasing demand for interactive TV services in China, the existing community of 100 million cable subscribers present a very large market for

PrediWave solutions. In addition, the intention of the Chinese government to introduce Direct-to-Home (DTH) broadcast satellite services in 2005-2006 will provide PrediWave's interactive DTH TV solutions with great opportunities for years to come. Following the successful trial of PrediWave in the Fujian Province CATV network, negotiations with other provinces should be completed in the coming year.

Overall, the success of the TMT operation is fully supported by fundamentals that drive the China market. From a macro-economic view, China is expected to maintain its impressive market growth. With some 230 million mobile phone users, 240 million non-CATV users, 100 million CATV users, 60 million Internet users and 40 million online game players, PRC consumers have driven the TMT market to new heights year upon year.

Developments in the trade arena also favor NWI prospects. The opening of markets with China's accession to the World Trade Organization (WTO) benefits companies throughout the sector. Liberalized regulations in telecommunications and media are also important. In addition, the CEPA initiative is a step in the right direction. The benefits of WTO and the ability to operate in a more open manner as an enterprise under CEPA cannot be underestimated in the profit equation of the TMT business.

With all these factors coming into play, NWI expects the commercialization of its TMT business to proceed at full speed and the success of this evolution to deliver substantial value to shareholders.

**Chan Wing-Tak, Douglas**

*Managing Director*