

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounts are prepared under the historical cost convention as modified by the revaluation of non-trading securities.

In the current year, the Group has changed certain of its accounting policies following the adoption of new and revised Hong Kong Statements of Standard Accounting Practice ("SSAPs") which became effective during the current accounting period:

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 33	Discontinuing operations
SSAP 34 (revised)	Employee benefits

The adoption of these new and revised SSAPs has no material effect on the accounts except for certain reclassification of the comparative figures of the consolidated cash flow statement into operating, investing and financing activities and the presentation of the consolidated statement of changes in equity.

(b) Basis of consolidation

The consolidated accounts incorporate the accounts of the Company and all its subsidiaries made up to 30 June and include the Group's share of the results for the year and undistributed post-acquisition reserves of its associated companies and jointly controlled entities. The results of subsidiaries, associated companies and jointly controlled entities acquired or disposed of during the year are dealt with in the consolidated profit and loss account from the effective dates of acquisition or up to the effective dates of disposal respectively.

All material intra-group transactions and balances have been eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognized in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Intangible assets

(i) *Goodwill*

Goodwill represents the excess of the purchase consideration over the fair values ascribed to net assets of subsidiaries, associated companies or jointly controlled entities acquired.

Goodwill on acquisition of subsidiaries occurring on or after 1 July 2001 is included in intangible assets. Goodwill on acquisition of associated companies or jointly controlled entities occurring on or after 1 July 2001 is included in investments in associated companies or jointly controlled entities. Goodwill is amortized using the straight-line method over its estimated useful lives of not more than 20 years. Goodwill on acquisition that occurred prior to 1 July 2001 was previously taken to reserves on acquisition.

(ii) *Licenses and software*

Expenditure on acquired licenses and software is capitalized and amortized using the straight-line method over the shorter of their estimated useful lives and license period, but not exceeding 20 years from the date when they are available for use. Licenses and software are not revalued as there is no active market for these assets.

(iii) *Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of any intangible asset, including goodwill previously taken to reserves, is assessed and written down immediately to its recoverable amount.

(d) Subsidiaries

Subsidiaries are companies, including equity or co-operative joint ventures in the People's Republic of China (the "PRC"), in which the Group has the power to exercise control governing the financial and operating policies of the companies.

(e) Associated companies

An associated company is a company other than a subsidiary or a jointly controlled entity, in which the Group's interest is held for the long-term and is substantial, and significant influence is exercised through representations on the board of directors. The Group's investments in associated companies include the Group's share of net assets and goodwill (net of accumulated amortization) on acquisition. The Company's investments in associated companies are carried at cost less provision for impairment losses. Results of associated companies are accounted for by the Company only to the extent of dividends received and receivable.

(f) Jointly controlled entities

A jointly controlled entity is a joint venture established as a corporation, partnership or other entity in which the venturers have their respective interests and they have established a contractual arrangement among them to define their joint control over the economic activity of the entity.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)**(f) Jointly controlled entities (Continued)**

The Group's interests in jointly controlled entities are stated at cost plus the Group's share of their post-acquisition results and reserves, and goodwill (net of accumulated amortization) on acquisition less provision for impairment losses. The share of post-acquisition results and reserves is based on the relevant profit sharing ratios which vary according to the nature of the jointly controlled entities explained as follows:

(i) Equity joint ventures

Equity joint ventures are Sino-foreign joint ventures established in the PRC in respect of which the venturers' capital contribution ratios are defined in the joint venture contracts and the venturers' profit sharing ratios are in proportion to the capital contribution ratios.

(ii) Co-operative joint ventures

Co-operative joint ventures are Sino-foreign joint ventures established in the PRC in respect of which the venturers' profit sharing ratios and share of net assets upon the expiration of the joint venture periods are not in proportion to their capital contribution ratios but are as defined in the joint venture contracts. Where the Group is not entitled to share the net assets of a co-operative joint venture at the end of the joint venture period, the cost of investment in such co-operative joint venture is amortized over the joint venture period.

(iii) Companies limited by shares

Companies limited by shares are limited liability companies in respect of which each shareholder's beneficial interests therein is in accordance with the amount of the voting share capital held thereby.

(g) Joint ventures in the PRC

The Group's investments in these joint ventures are accounted for as subsidiaries (where the Group has the power to exercise control governing the financial and operating policies) or as jointly controlled entities (where the Group and the other venturers of the joint ventures established joint control over the economic activity thereof).

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Other investments

Other investments are long-term investments other than subsidiaries, associated companies and jointly controlled entities.

Non-trading securities

Non-trading securities are investments in which the Group's interest are held for non-trading purposes. They are stated at their fair values in the balance sheet. Fair value is estimated by the directors with reference to market price or, in case of unquoted investments, net asset value of the respective investment. Changes in fair value of individual securities are accounted for as movements in the investment revaluation reserve until the security is sold or is determined to be impaired. Upon disposal, the cumulative gain or loss is transferred from the investment revaluation reserve to the profit and loss account. Transfers from the investment revaluation reserve to the profit and loss account as a result of impairment are written back to the profit and loss account when the circumstances and events that led to the impairment cease to exist.

(i) Capitalization of fixed assets

All direct and indirect costs relating to the construction of fixed assets including borrowing costs and foreign exchange differences on the related borrowed funds during the construction period, are capitalized as the costs of the fixed assets.

(j) Repair and maintenance expenses

Toll roads and bridges repair and maintenance expenses are charged to the profit and loss account as incurred.

(k) Fixed assets and depreciation

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

Depreciation of toll roads and toll bridges is provided for on a sinking fund method or a straight-line method. For the sinking fund method, annual depreciation amounts compounded at rates ranging from 2% to 13% per annum will equal the costs of the relevant toll roads and toll bridges, at the expiry of the relevant joint venture periods. Certain toll roads and toll bridges are depreciated at rates sufficient to write off their costs less accumulated impairment losses on a straight-line basis over their remaining toll collection periods ranging from 21 to 29 years.

Depreciation of other fixed assets is calculated to write off their costs less accumulated impairment losses over their estimated useful lives, using the straight-line method. The estimated useful lives are summarized as follows:

Leasehold land	Remaining lease terms
Buildings	11 to 50 years
Port facilities and terminal equipment	7 to 44 years
Interactive television network system and equipment	7 to 10 years
Machinery and other equipment	5 years
Other fixed assets	3 to 14 years

1 PRINCIPAL ACCOUNTING POLICIES (Continued)**(k) Fixed assets and depreciation (Continued)**

No depreciation is provided in respect of construction in progress.

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalized and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognized to reduce the asset to its recoverable amount. Such impairment losses are recognized in the profit and loss account.

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 recognized in the profit and loss account.

(l) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in-first-out method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and estimated costs necessary to make the sale.

(m) Deferred expenditure

Expenses in relation to the issue of convertible bonds and obtaining bank loans and notes are deferred and amortized on the straight-line basis over the unexpired term of the bonds and the available period of the facility respectively. Where the bonds are converted, redeemed or repurchased before the maturity date, the relevant portion of the issue costs is charged to the profit and loss account in the year in which the conversion, redemption or repurchase occurs. Where the bank loans or notes are repaid before the due date, the relevant portion of unamortized cost is charged to the profit and loss account in the year in which the repayment occurs.

(n) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Contingent liabilities and contingent assets

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 recognized 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 recognized 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 recognized as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognized but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognized.

(p) Deferred taxation

Deferred taxation is accounted for at the current rate of taxation in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(q) Operating leases

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

(r) Employee benefits

(i) Retirement benefit costs

The Group operates a defined contribution retirement scheme (the "ORSO Scheme") which is available to all the Company's employees in Hong Kong whose employment commenced before 1 October 2000. The assets of the ORSO Scheme are held separately in an independently administered fund. The Group's contributions to the ORSO Scheme are based on rates ranging from 5% to 15% of employees' salaries depending on length of service and are expensed as incurred. The Group's contributions in respect of employees who leave the ORSO Scheme during the year are not forfeited to reduce the employer's contributions for the year.

A mandatory provident fund scheme (the "MPF Scheme") was established under the Hong Kong Mandatory Provident Fund Scheme Ordinance in December 2000. Commencing on 1 December 2000, newly-joined employees are compulsorily required to join the MPF Scheme. Employees under the ORSO Scheme were offered an option to elect between the ORSO Scheme and the MPF Scheme. The Group's contributions to the MPF Scheme are ranging from 5% to 15% of employees' salaries depending on length of service and are expensed as incurred.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)**(r) Employee benefits (Continued)****(i) Retirement benefit costs (Continued)**

The Group also contributes to employee pension schemes established by municipal government in respect of certain subsidiaries and joint ventures in the PRC. The municipal government undertakes to assume the retirement benefit obligations of all existing and retired employees of the Group. Contributions to these schemes are charged to the profit and loss account as incurred.

(ii) Employee leave entitlements

Employee entitlements to annual leave are recognized 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.

(s) Foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account, other than those dealt with in note 1(i) above.

The balance sheets of subsidiaries, associated companies and jointly controlled entities expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at average rates. Exchange differences arising therefrom are dealt with as a movement in reserves.

In prior years, the profit and loss accounts of foreign enterprises were translated at closing rates. This is a change in accounting policy, however, the translation of the profit and loss accounts of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

(t) Borrowing costs

Borrowing costs that are directly attributable to the financing of the Group's investments in joint ventures investing in infrastructural projects are capitalized as the cost of investments in these joint ventures up to the respective commissioning dates of the joint ventures' infrastructural assets.

All other borrowing costs are expensed in the profit and loss account in the year in which they are incurred, other than those dealt with in note 1(i) above.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(u) Revenue recognition

Toll revenues, income from cargo and container handling and storage are recognized when services are rendered.

Interest income is recognized on a time proportion basis that takes into account the principal outstanding and the effective interest rates applicable.

Dividend income is recognized when the shareholder's right to receive payment is established.

(v) 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, deposits with banks which are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes and bank overdrafts.

2 TURNOVER

Turnover represents income from the operation of toll roads and bridges, income from cargo and container handling and storage, interest income from joint ventures, net of business and withholding taxes, where applicable, and is analyzed as follows:

	2003 HK\$'000	2002 HK\$'000
Toll income	322,865	594,180
Cargo, container handling and storage income	7,643	129,283
	330,508	723,463
Business tax	(16,832)	(47,325)
	313,676	676,138
Interest income from		
Joint ventures	73,206	88,192
Third parties	6,581	11,168
	79,787	99,360
Withholding tax	(10,002)	(15,836)
	69,785	83,524
	383,461	759,662

3 SEGMENT INFORMATION

The Group is organized into five main business segments including energy and water treatment, toll roads, toll bridges (collectively the "Infrastructure Assets"), cargo handling and telecommunications, media and technology ("TMT"). Upon the completion of the Reorganization as further described in note 4, segments except TMT discontinued.

In respect of geographical segment reporting, segment revenues, segment assets and capital expenditure are where the investments/operating assets are located.

There are no sales or other transactions between the business and geographical segments. Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible and fixed assets, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure comprises additions to intangible assets and fixed assets.

Primary reporting format — business segments

	Year ended 30 June 2003					
	Energy and water treatment	Toll roads	Toll bridges	Cargo handling	TMT	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenues	2,350	307,144	62,635	10,687	645	383,461
Segment results	(3,805)	160,690	(8,533)	(47,262)	(937,519)	(836,429)
Gain from the Reorganization						334,258
Provision for an amount due from a jointly controlled entity engaged in coal operation						(158,559)
Net unallocated costs						(66,294)
Operating loss before financing						(727,024)
Finance costs						(638,980)
Share of results of:						
Associated companies	—	—	—	172,181	(156,647)	15,534
Jointly controlled entities	251,935	161,683	3,034	130,322	(30,864)	516,110
Loss before taxation						(834,360)
Taxation						(86,598)
Loss after taxation						(920,958)
Minority interests						(38,526)
Loss for the year						(959,484)

3 SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	As at 30 June 2003					Group HK\$'000
	Energy and water treatment HK\$'000	Toll roads HK\$'000	Toll bridges HK\$'000	Cargo handling HK\$'000	TMT HK\$'000	
Segment assets	—	—	—	—	4,795,162	4,795,162
Associated companies	—	—	—	—	2,513,856	2,513,856
Jointly controlled entities	—	—	—	—	18,948	18,948
Unallocated assets						2,245,341
Total assets						9,573,307
Segment liabilities	—	—	—	—	(61,830)	(61,830)
Unallocated liabilities						(2,422,920)
Total liabilities						(2,484,750)
Capital expenditure	—	9,526	1,245	1,802	853,577	
Depreciation	—	88,663	42,070	4,725	5,790	
Amortization charges	9,522	895	—	—	—	
Impairment losses	—	—	—	35,000	19,377	
Provisions	—	—	—	—	704,071	

3 SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	Year ended 30 June 2002					Group HK\$'000
	Energy and water treatment	Toll roads	Toll bridges	Cargo handling	TMT	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenues	53,962	423,734	151,791	130,175	—	759,662
Segment results	37,856	199,747	29,782	(6,698)	(195,026)	65,661
Net unallocated costs						(119,592)
Operating loss before financing						(53,931)
Finance costs						(849,277)
Share of results of:						
Associated companies	(8,006)	—	—	257,569	(75,435)	174,128
Jointly controlled entities	384,871	175,054	3,848	176,591	(11,709)	728,655
Loss before taxation						(425)
Taxation						(142,002)
Loss after taxation						(142,427)
Minority interests						(5,937)
Loss for the year						(148,364)

3 SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	As at 30 June 2002					Group HK\$'000
	Energy and water treatment HK\$'000	Toll roads HK\$'000	Toll bridges HK\$'000	Cargo handling HK\$'000	TMT HK\$'000	
Segment assets	16,364	5,750,724	2,081,283	630,638	3,845,653	12,324,662
Associated companies	393,801	—	—	730,675	1,639,382	2,763,858
Jointly controlled entities	2,557,145	4,134,686	79,336	2,357,125	1,709,311	10,837,603
Unallocated assets						<u>1,697,748</u>
Total assets						<u>27,623,871</u>
Segment liabilities	(366)	(854,315)	(52,085)	(19,627)	(46,529)	(972,922)
Unallocated liabilities						<u>(12,760,260)</u>
Total liabilities						<u>(13,733,182)</u>
Capital expenditure	—	49,121	268	24,017	379	
Depreciation	—	140,531	72,176	38,807	284	
Amortization charge	16,323	1,534	—	—	—	
Impairment losses	—	—	—	125,274	148,250	
Provision	—	—	—	—	30,662	

3 SEGMENT INFORMATION (Continued)

Secondary reporting format — geographical segments

	Year ended 30 June 2003			
	Segment revenues HK\$'000	Segment results HK\$'000	Total assets HK\$'000	Capital expenditure HK\$'000
China mainland	377,759	(330,018)	3,799,993	866,007
Hong Kong	5,702	(256,898)	406,504	143
Overseas	—	(249,513)	588,665	—
	383,461	(836,429)	4,795,162	866,150
Gain from the Reorganization		334,258		
Provision for an amount due from a jointly controlled entity engaged in coal operation		(158,559)		
Net unallocated costs		(66,294)		
Operating loss before financing		(727,024)		
Associated companies			2,513,856	
Jointly controlled entities			18,948	
Unallocated assets			2,245,341	
Total assets			9,573,307	

3 SEGMENT INFORMATION (Continued)

Secondary reporting format — geographical segments (Continued)

	Year ended 30 June 2002			
	Segment	Segment	Total assets	Capital
	revenues	results		expenditure
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
China mainland	751,625	123,721	9,048,045	73,405
Hong Kong	8,037	88,525	1,370,002	347
Overseas	—	(146,585)	1,906,615	33
	<u>759,662</u>	65,661	12,324,662	<u>73,785</u>
Net unallocated costs		<u>(119,592)</u>		
Operating loss before financing		<u>(53,931)</u>		
Associated companies			2,763,858	
Jointly controlled entities			10,837,603	
Unallocated assets			<u>1,697,748</u>	
Total assets			<u>27,623,871</u>	

4 REORGANIZATION AND DISCONTINUING OPERATIONS

On 21 October 2002, the Company entered into conditional agreements with New World Development Company Limited ("NWD"), the ultimate holding company, and NWS Holdings Limited ("NWSH", formerly known as Pacific Ports Company Limited), a then 75% owned subsidiary which was principally engaged in cargo handling and related businesses, to implement a reorganization (the "Reorganization"). The Reorganization was completed on 29 January 2003 and under the Reorganization, the Group disposed of its investments in the Infrastructure Assets to NWSH, and NWSH acquired the entire equity interest of New World Services Limited (renamed NWS Service Management Limited), a subsidiary of NWD. The consideration fulfilled by NWSH for the Infrastructure Assets of HK\$10,227 million comprised (i) HK\$8,545 million in cash, subject to adjustments, if any, (ii) approximately 853 million newly issued shares of NWSH (the "Consideration Shares") and (iii) the undertaking by NWSH to pay certain liabilities of the Group in the aggregate amount of approximately HK\$886 million. In addition, the Group converted all preference shares of NWSH into ordinary shares and thereafter distributed all the NWSH ordinary shares then held by the Group including the Consideration Shares to the shareholders of the Company. After the completion of the Reorganization, NWSH has become a fellow subsidiary of the Group.

The gain resulted from the Reorganization was approximately HK\$334 million. Following the disposal of the Infrastructure Assets, the Group applied the cash consideration to early repay certain bank and other borrowings aggregated approximately HK\$8.3 billion. After the Reorganization, the Group focuses on the TMT businesses.

4 REORGANIZATION AND DISCONTINUING OPERATIONS (Continued)

	As at 29.1.2003			As at 30.6.2002		
	Infrastructure Assets HK\$'000	Cargo handling HK\$'000	Total HK\$'000	Infrastructure Assets HK\$'000	Cargo handling HK\$'000	Total HK\$'000
Total assets	13,322,406	4,653,048	17,975,454	13,219,624	3,718,438	16,938,062
Total liabilities	(9,079,484)	(28,820)	(9,108,304)	(9,421,667)	(87,206)	(9,508,873)
Minority interests	(1,669,615)	(147,552)	(1,817,167)	(1,675,872)	(98,259)	(1,774,131)
	2,573,307	4,476,676	7,049,983	2,122,085	3,532,973	5,655,058
Net amount due to holding company	6,563,702	—	6,563,702	6,902,077	—	6,902,077
	9,137,009	4,476,676	13,613,685	9,024,162	3,532,973	12,557,135
Net assets sold	9,137,009					
Proceeds from sales	10,227,000					
Adjustments for cash consideration	(331,534)					
Net proceeds from sales	9,895,466					
Release of goodwill	(378,023)					
Write-off of finance costs capitalized	(46,176)					
	9,471,267					
Gain from the Reorganization	334,258					

5 OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Net gain on foreign currency forward contracts	—	14,974
Gain on disposal of unlisted investment	118,541	—
Gain on disposal of jointly controlled entities	—	113,676
Gain on disposal of subsidiaries	15,414	21,735
Write-back of impairment loss on other investments (note 29)	1,972	—
Interest income	34,700	42,235
Others	2,229	8,690
	172,856	201,310

6 OPERATING COSTS

	2003 HK\$'000	2002 HK\$'000
Impairment losses on other investments (note 29)	21,349	154,024
Impairment losses on fixed assets (note 25)	45,002	119,500
Provision for doubtful debts	39,180	25,000
Provision for an amount due from a jointly controlled entity	158,559	—
Provision for payments on account of proposed joint ventures	111,635	33,002
Provision for deposits for proposed investments	122,445	—
Write-down of inventories to net realizable value	458,362	—
Loss on disposal of other investments (note 29)	201,367	—
Depreciation	144,793	256,830
Management fees paid in connection with toll collection, maintenance and management services	35,154	60,445
Auditors' remuneration	6,536	6,953
Rental for leased premises	11,916	17,830
Loss on disposal of fixed assets	3,551	4,938
Amortization of cost of investments in co-operative joint ventures	10,417	17,857
Staff costs		
Salaries, wages and allowances	102,183	153,500
Retirement benefit costs	3,284	7,100
Other operating costs	141,866	157,924
	1,617,599	1,014,903

7 FINANCE COSTS

	2003	2002
	HK\$'000	HK\$'000
Interest on convertible bonds	8,908	15,417
Interest on bank and other borrowings		
Wholly repayable within five years	351,121	573,418
Not wholly repayable within five years	18,658	54,207
Amortization of deferred expenditure	50,997	30,657
Provision for premium on redemption of convertible bonds	209,296	220,914
	638,980	894,613
Amount capitalized as construction in progress (note)	—	(45,336)
	638,980	849,277

Note: To the extent that funds were borrowed generally and used for the purpose of financing the construction of fixed assets, the capitalization rate used to determine the amount of borrowing costs for capitalization as part of the costs of these assets was 6.6% for the year ended 30 June 2002.

8 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

Details of the emoluments paid to the directors are as follows:

	2003	2002
	HK\$'000	HK\$'000
Fees	700	850
Salaries and other emoluments	7,113	8,915
Contributions to retirement benefit scheme	432	497
	8,245	10,262

The above emoluments have been included as part of the staff costs in note 6 to the accounts.

8 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

The emoluments of the directors fell within the following bands:

Emolument band HK\$	Number of individuals	
	2003	2002
Nil – 1,000,000	15	11
1,000,001 – 1,500,000	—	1
3,000,001 – 3,500,000	1	—
3,500,001 – 4,000,000	1	1
4,000,001 – 4,500,000	—	1
	17	14

Directors' fees disclosed above include HK\$200,000 (2002: HK\$300,000) paid to independent non-executive directors during the year.

The five individuals whose emoluments were the highest in the Group for the year include 2 (2002: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (2002: 3) individuals during the year are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other emoluments	4,981	5,671
Contributions to retirement benefit scheme	316	434
	5,297	6,105

The emoluments fell within the following bands:

Emolument band HK\$	Number of individuals	
	2003	2002
1,000,001–1,500,000	1	—
1,500,001–2,000,000	1	2
2,000,001–2,500,000	1	1
	3	3

9 TAXATION

	2003 HK\$'000	2002 HK\$'000
Company and subsidiaries		
PRC income tax	9,632	21,100
Deferred tax	122	9,318
	9,754	30,418
Associated companies		
Hong Kong profits tax	28,222	41,147
PRC income tax	35	48
	28,257	41,195
Jointly controlled entities		
Hong Kong profits tax	18,105	25,899
Macau income tax	15,362	18,277
PRC income tax	14,567	16,539
Deferred tax	553	9,674
	48,587	70,389
	86,598	142,002

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on income assessable to Hong Kong profits tax. PRC and Macau income tax have been provided on the estimated assessable profits for the year at their prevailing rates of taxation.

There was no material unprovided deferred tax for the year (2002: nil).

10 LOSS FOR THE YEAR

Loss for the year includes a profit of HK\$2,814,812,000 (2002: HK\$128,984,000) which is dealt with in the accounts of the Company.

11 DIVIDEND

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Special dividend	5,133,684	—	5,817,217	—

The special dividend by way of distribution in specie at the Company level of approximately HK\$5,817 million represents the book value of the shares of NWSH distributed to the shareholders of the Company on 29 January 2003. The distribution in specie at the Group level of approximately HK\$5,134 million represents the net assets of NWSH and its subsidiaries shared by the Group at the date of distribution of approximately HK\$4,477 million and release of goodwill and capital reserve of approximately HK\$657 million.

12 LOSS PER SHARE

The calculation of loss per share is based on the loss for the year of HK\$959,484,000 (2002: loss attributable to the shareholders of HK\$197,513,000 after adjusting for the interest of HK\$49,149,000 on the mandatorily convertible bonds which were fully converted in April 2002) and 952,180,007 (2002: weighted average of 871,516,679) shares in issue during the year.

Diluted loss per share for the year is not presented as the Company has no dilutive potential shares at year end (2002: n/a).

13 INVENTORIES

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
Raw materials	404,800	1,179,124

At 30 June 2003, the carrying amount of inventories that are carried at net realizable value amounted to HK\$348,240,000 (2002: nil).

14 DEBTORS, DEPOSITS AND PREPAYMENTS

- (a) Ageing analysis of trade debtors is not presented as the amount outstanding at year end is insignificant.
- (b) At 30 June 2003, the balance included a housing loan of HK\$2,010,000 (2002: HK\$2,398,000) to the Company Secretary, Mr. Chow Oi Wah, Fergus. The loan is secured by a legal mortgage over the subject property, carries interest at 3% (2002: 3%) per annum and is repayable by monthly installments up to March 2008. The maximum of the amount outstanding during the year was HK\$2,398,000 (2002: HK\$2,766,000).
- (c) Included in last year's balance were trade deposits of approximately HK\$969 million paid to an associated company for the purchase of inventories.

15 PLEDGED DEPOSITS

Deposits have been pledged to banks for short-term loans granted to subsidiaries.

16 DEFERRED EXPENDITURE

	Group and Company	
	2003 HK\$'000	2002 HK\$'000
Cost less amount amortized		
Convertible bonds and notes issuing expenses	—	6,812
Bank loan procurement expenses	—	44,185
	—	50,997

17 SUBSIDIARIES

	Company	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	2,035,905	4,842,899
Amounts due by subsidiaries, net of provision	2,577,572	10,735,940
	4,613,477	15,578,839
Amounts due to subsidiaries	(2,795,865)	(678,404)
	1,817,612	14,900,435

Particulars of the Company's subsidiaries, which, in the opinion of the directors, principally affect the results of the Group for the year and/or assets of the Group as at 30 June 2003, are given in note 37.

18 ASSOCIATED COMPANIES

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Group's share of net assets	2,095,281	2,479,712	—	—
Goodwill on acquisition	—	34,893	—	—
Amounts due by associated companies (note a)	418,575	249,253	238,579	233,011
	2,513,856	2,763,858	238,579	233,011

- (a) Except for amounts of HK\$46,800,000 (2002: HK\$46,800,000) and HK\$60,840,000 (2002: HK\$60,840,000) which carry interest at 8% per annum and the London Inter Bank Offered Rate respectively, the amounts due by associated companies are interest free, unsecured and have no fixed terms of repayment.
- (b) Particulars of associated companies, which, in the opinion of the directors, principally affect the results of the Group for the year and/or assets of the Group as at 30 June 2003, are given in note 38.

19 JOINTLY CONTROLLED ENTITIES

	Group	
	2003 HK\$'000	2002 HK\$'000
Equity joint ventures		
Group's share of net assets	—	709,371
Amounts due by joint ventures (note a)	—	34,186
	—	743,557
Co-operative joint ventures		
Cost of investments (2002: less accumulated amortization of HK\$27,444,000)	58,947	2,790,153
Share of undistributed post-acquisition results	(54,468)	305,990
	4,479	3,096,143
Amounts due by joint ventures, net of provision (note a)	14,469	2,759,399
	18,948	5,855,542
Companies limited by shares		
Share of net assets	—	2,628,873
Subordinated loans	—	215,934
Amounts due by jointly controlled entities (note a)	—	68,625
Promissory note due to a jointly controlled entity	—	(80,007)
	—	2,833,425
Payments on account of proposed joint ventures (note b)	—	1,405,079
	18,948	10,837,603

Particulars of a jointly controlled entity, which, in the opinion of the directors, principally affects the results of the Group for the year and/or assets of the Group as at 30 June 2003, are given in note 39.

19 JOINTLY CONTROLLED ENTITIES (Continued)

(a) The amounts due by jointly controlled entities, net of provision are analyzed as follows:

	Group	
	2003 HK\$'000	2002 HK\$'000
Interest bearing		
Fixed rates ranging from 6% to 15% per annum	—	1,179,213
Non-interest bearing	14,469	1,682,997
	14,469	2,862,210

The repayment terms of the amounts due by jointly controlled entities are specified in the relevant joint venture agreements.

(b) The balances represented payments on account of proposed joint ventures for which only preliminary agreements had been signed and the joint venture companies had not yet been established as at the year end. Upon the completion of the relevant joint venture contracts and the establishment of the respective joint venture companies, the relevant amounts would be reclassified to joint venture balances.

20 LOANS RECEIVABLE

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Loans receivable	1,001,114	381,114	981,114	381,114
Current portion included in current assets	(70,784)	—	(70,784)	—
	930,330	381,114	910,330	381,114

Included in loans receivable is a loan of HK\$600 million granted to a third party which is unsecured, bears interest at 3% per annum and is wholly repayable by December 2004. The Company has a right to apply the loan receivable as part of the consideration under the Option Agreement described in note 23.

21 OTHER INVESTMENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Non-trading securities				
Unlisted				
Shares, at fair value	596,835	589,127	—	1,961
Listed				
Shares listed in Hong Kong, at fair value	—	26,927	—	—
Shares listed outside Hong Kong, at fair value	—	264,279	—	2,104
	—	291,206	—	2,104
	596,835	880,333	—	4,065
Market value of listed shares	—	291,206	—	2,104

22 DEPOSITS FOR PURCHASE OF FIXED ASSETS

The balance represents trade deposits paid to an associated company for the purchases of interactive television network system and equipment.

23 DEPOSITS FOR PROPOSED INVESTMENTS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Cost less provision				
Deposits for the Network (note)	1,531,196	786,916	1,531,196	786,916
Others	168,676	—	—	—
	1,699,872	786,916	1,531,196	786,916

Note: In 2002, the Group entered into an option agreement (the "Option Agreement") with a PRC entity for the acquisition (the "Acquisition") of an interest in a fibre optic backbone network ("Network") in the PRC, and subject to certain conditions as stipulated in the Option Agreement, the Group is entitled to acquire up to 70% interest in the Network at a consideration of approximately HK\$2,563 million.

As at 30 June 2003, approximately HK\$1,531 million (2002: HK\$787 million) was paid as a deposit for the Acquisition. As a result, the Group is required to pay an additional sum of approximately HK\$1,032 million within two years from the date of the Option Agreement should the Group decide to increase its interest in the Network up to 70%.

24 INTANGIBLE ASSETS

	Group and Company		
	Licenses HK\$'000	Software HK\$'000	Total HK\$'000
Cost			
Additions and at 30 June 2003	327,600	73,632	401,232
Accumulated amortization			
Charge for the year and at 30 June 2003	—	—	—
Net book amount			
At 30 June 2003	327,600	73,632	401,232
At 30 June 2002	—	—	—

Licenses and software were acquired by the Company from an associated company for deployment of the interactive television network system in the PRC.

25 FIXED ASSETS

	Group								Total HK\$'000
	Toll roads HK\$'000	Toll bridges HK\$'000	Land and buildings HK\$'000	Port facilities and terminal equipment HK\$'000	Construction in progress HK\$'000	Machinery and other equipment HK\$'000	Interactive television network system and equipment HK\$'000	Others HK\$'000	
Cost									
At 1 July 2002	4,428,800	1,938,087	345,409	50,284	1,603,740	—	—	133,334	8,499,654
Additions	4,906	—	14,348	1,372	1,903	251	331,479	12,395	366,654
Disposals	—	—	—	—	—	(64)	—	(15,726)	(15,790)
Acquisition of subsidiaries	—	—	16,183	—	—	77,091	—	7,909	101,183
Disposal of subsidiaries	(4,433,706)	(1,938,087)	—	—	(1,533,999)	—	—	(103,088)	(8,008,880)
Distribution in specie	—	—	(305,901)	(51,656)	(71,644)	—	—	(6,382)	(435,583)
At 30 June 2003	—	—	70,039	—	—	77,278	331,479	28,442	507,238
Accumulated depreciation and impairment losses									
At 1 July 2002	465,768	316,858	149,500	8,209	2,500	—	—	63,661	1,006,496
Charge for the year	85,561	40,801	3,667	1,769	—	3,758	—	9,237	144,793
Impairment losses	—	—	30,002	—	15,000	—	—	—	45,002
Disposals	—	—	—	—	—	—	—	(8,709)	(8,709)
Acquisition of subsidiaries	—	—	3,004	—	—	19,969	—	2,819	25,792
Disposal of subsidiaries	(551,329)	(357,659)	—	—	—	—	—	(50,905)	(959,893)
Distribution in specie	—	—	(170,627)	(9,978)	(17,500)	—	—	(3,292)	(201,397)
At 30 June 2003	—	—	15,546	—	—	23,727	—	12,811	52,084
Net book value									
At 30 June 2003	—	—	54,493	—	—	53,551	331,479	15,631	455,154
At 30 June 2002	3,963,032	1,621,229	195,909	42,075	1,601,240	—	—	69,673	7,493,158

25 FIXED ASSETS (Continued)

	Company		
	Interactive television network system and equipment HK\$'000	Others HK\$'000	Total HK\$'000
Cost			
At 1 July 2002	—	22,104	22,104
Additions	409,473	944	410,417
Disposals	—	(15,306)	(15,306)
At 30 June 2003	409,473	7,742	417,215
Accumulated depreciation			
At 1 July 2002	—	11,616	11,616
Charge for the year	—	2,260	2,260
Disposals	—	(9,329)	(9,329)
At 30 June 2003	—	4,547	4,547
Net book value			
At 30 June 2003	409,473	3,195	412,668
At 30 June 2002	—	10,488	10,488

The Group's land and buildings at their net book values are analyzed as follows:

	2003 HK\$'000	2002 HK\$'000
Hong Kong		
Medium-term lease	27,086	37,894
PRC		
Short-term lease	4,614	—
Medium-term lease	8,445	158,015
Long-term lease	14,348	—
	54,493	195,909

At 30 June 2003, the net book value of fixed assets pledged as security for the Group's long-term bank loans amounted to HK\$14,348,000 (2002: nil).

26 CREDITORS AND ACCRUALS

Ageing analysis of trade payable is not presented as the amount outstanding as at year end is insignificant.

27 BANK AND OTHER BORROWINGS

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
1% Convertible bonds due 2003 (note a)	—	1,350,539	—	1,350,539
10% Fixed rate notes due 2004 (note b)	—	200,000	—	200,000
Floating rate notes due 2003 (note c)	—	351,000	—	351,000
Loan from a fellow subsidiary (note d)	513,000	1,400,000	513,000	1,400,000
Bank loans				
Unsecured (note e)	—	5,514,000	—	5,514,000
Secured (note e)	799,777	1,021,925	—	—
Loans from minority shareholders of subsidiaries				
Interest bearing	—	1,026,822	—	—
Non-interest bearing	—	263,057	—	—
	1,312,777	11,127,343	513,000	8,815,539
Current portion included in current liabilities	(104,687)	(2,236,935)	—	(2,138,339)
	1,208,090	8,890,408	513,000	6,677,200

- (a) The convertible bonds bore interest at 1% per annum payable semi-annually in arrears. The bonds were listed on the Luxembourg Stock Exchange. Each holder of the bonds had the option to convert the bonds into shares of HK\$1 each of the Company at a conversion price of HK\$23.05 per share, subject to adjustment, at any time until 1 April 2003. Subject to certain conditions, the bonds were redeemable at the option of the Company at any time on or after 15 April 2001, in whole or in part, in cash and/or for the Company's shares. Unless previously converted, redeemed or repurchased, the bonds would be redeemed at 143.4% of their principal amount together with the accrued interest on 15 April 2003.

During the year, the Company repurchased bonds with an aggregate principal amount of US\$3,900,000 (2002: US\$4,000,000) for a total consideration of HK\$40,373,000 (2002: HK\$39,567,000) and these bonds were then cancelled. Provision for premium on redemption of the bonds of HK\$9,953,000 (2002: HK\$8,367,000) was applied to set off against the deficit arising from the repurchase of the bonds. The remaining balance of the bonds was early redeemed by the Company on 3 March 2003.

- (b) The fixed rate notes were unsecured, transferable and bore interest at 10% per annum payable quarterly in arrears. The notes were early repaid by the Company at their principal amount on 29 January 2003.
- (c) The floating rate notes bore interest at U.S. dollar deposit rate in the London interbank market plus 1.4% per annum payable semi-annually in arrears. The notes were unsecured and repaid at their principal amount on 24 February 2003.

27 BANK AND OTHER BORROWINGS (Continued)

(d) Loan from a fellow subsidiary is unsecured, bears interest at prevailing market rate and is wholly repayable on 16 May 2005.

(e) Long-term bank and other loans are repayable as follows:

	Group		Company	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	104,687	535,396	—	436,800
Between one and two years	182,852	1,527,810	—	1,419,600
Between two and five years	509,082	4,296,856	—	3,657,600
After five years	3,156	175,863	—	—
	799,777	6,535,925	—	5,514,000

Following the completion of the Reorganization in January 2003, NWSH has undertaken to repay the principal and interest outstanding from the Group under certain bank loan, of approximately HK\$790 million at 30 June 2003, from time to time as they fall due. The loan is secured by NWSH's interests in certain joint ventures in the PRC.

28 SHARE CAPITAL

	2003 HK\$'000	2002 HK\$'000
Authorized:		
2,000,000,000 shares of HK\$1 each	2,000,000	2,000,000
Issued and fully paid:		
952,180,007 (2002: 952,180,007) shares of HK\$1 each	952,180	952,180

In 2002, 96,854,667 shares were issued upon the conversion of US\$15,000 5% convertible bonds due 2001 and US\$150,000,000 mandatorily convertible bonds at a conversion price of HK\$19.61 and HK\$12.00 per share respectively.

28 SHARE CAPITAL (Continued)

Pursuant to the share option schemes adopted on 3 October 1997 (the "1997 Share Option Scheme") and 6 December 2001 (the "2001 Share Option Scheme"), the Company may grant options to directors and employees of the Company. No option had been granted under the 2001 Share Option Scheme since its adoption. The movements in the number of share options under the 1997 Share Option Scheme during the year and the balance outstanding at 30 June 2003 are as follows:

Exercise price per share HK\$	At 1 July 2002	Lapsed during the year	At 30 June 2003
10.20(a)	2,282,000	(1,319,200)	962,800
10.20(b)	240,000	—	240,000
12.00(c)	10,391,000	(6,201,000)	4,190,000
12.00(d)	960,000	—	960,000
	13,873,000	(7,520,200)	6,352,800

(a) Exercisable from 1 July 1999 to 1 June 2004.

(b) Exercisable from 1 July 2000 to 1 June 2005.

(c) Divided into 3 or 5 tranches exercisable from 1 July 1999 to 1 June 2004, from 1 July 2000 to 1 June 2004, from 1 July 2001 to 1 June 2004, from 1 July 2002 to 1 June 2004 and from 1 July 2003 to 1 June 2004 respectively.

(d) Divided into 3 tranches exercisable from 1 July 2001 to 1 June 2005, from 1 July 2002 to 1 June 2005 and from 1 July 2003 to 1 June 2005 respectively.

(e) Number of options exercisable at 30 June 2003 was 5,928,800 (2002: 9,080,800).

29 RESERVES

	Contributed surplus	Share premium	Capital reserve	Retained profit	Investment revaluation reserve	Total
	HK\$'000	(note a) HK\$'000	(note b) HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group						
At 1 July 2001	1,367,342	4,594,600	341,886	4,057,387	(212,442)	10,148,773
Loss for the year	—	—	—	(148,364)	—	(148,364)
Interest on mandatorily convertible bonds	—	—	—	(49,149)	—	(49,149)
Transfer to capital reserve account	—	—	7,177	(7,177)	—	—
Release of capital reserve upon utilization	—	—	(14,512)	14,512	—	—
Net deficit on revaluation of non-trading investments	—	—	—	—	(126,022)	(126,022)
Impairment losses charged to profit and loss account (note 6)	—	—	—	—	154,024	154,024
Premium on shares issued	—	1,065,447	—	—	—	1,065,447
Release of reserves upon disposal of interests in associated companies, jointly controlled entity and a subsidiary	10,257	—	(44,502)	—	—	(34,245)
At 30 June 2002	1,377,599	5,660,047	290,049	3,867,209	(184,440)	11,010,464
Company and subsidiaries	1,377,599	5,660,047	290,049	2,385,150	(184,440)	9,528,405
Jointly controlled entities	—	—	—	1,233,088	—	1,233,088
Associated companies	—	—	—	248,971	—	248,971
	1,377,599	5,660,047	290,049	3,867,209	(184,440)	11,010,464

29 RESERVES (Continued)

	Contributed surplus	Share premium	Capital reserve	Retained profit	Investment revaluation reserve	Total
	HK\$'000	(note a) HK\$'000	(note b) HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group						
At 1 July 2002	1,377,599	5,660,047	290,049	3,867,209	(184,440)	11,010,464
Foreign exchange adjustment	—	—	—	(390)	—	(390)
Loss for the year	—	—	—	(959,484)	—	(959,484)
Transfer to capital reserve account	—	—	4,491	(4,491)	—	—
Distribution in specie (note 11)	895,369	(5,000,000)	(238,361)	(133,684)	—	(4,476,676)
Net deficit on revaluation of non-trading investments	—	—	—	—	(36,304)	(36,304)
Impairment losses charged to profit and loss account (note 6)	—	—	—	—	21,349	21,349
Write-back of impairment loss transferred to profit and loss account (note 5)	—	—	—	—	(1,972)	(1,972)
Net realized loss on disposal transferred to profit and loss account (note 6)	—	—	—	—	201,367	201,367
Release of reserves upon disposal of subsidiaries and jointly controlled entities	378,023	—	(56,179)	56,179	—	378,023
At 30 June 2003	2,650,991	660,047	—	2,825,339	—	6,136,377
Company and subsidiaries	2,650,991	660,047	—	3,147,513	—	6,458,551
Jointly controlled entities	—	—	—	(54,468)	—	(54,468)
Associated companies	—	—	—	(267,706)	—	(267,706)
	2,650,991	660,047	—	2,825,339	—	6,136,377

29 RESERVES (Continued)

	Contributed surplus (note a) HK\$'000	Share premium (note a) HK\$'000	Retained profit HK\$'000	Investment revaluation reserve HK\$'000	Total HK\$'000
Company					
At 1 July 2001	3,269,219	4,594,600	159,070	(3,231)	8,019,658
Profit for the year	—	—	128,984	—	128,984
Premium on shares issued	—	1,065,447	—	—	1,065,447
Interest on mandatorily convertible bonds	—	—	(49,149)	—	(49,149)
Net deficit on revaluation of non-trading investments	—	—	—	(3,279)	(3,279)
Impairment losses charged to profit and loss account	—	—	—	3,310	3,310
At 30 June 2002	3,269,219	5,660,047	238,905	(3,200)	9,164,971
At 1 July 2002	3,269,219	5,660,047	238,905	(3,200)	9,164,971
Profit for the year	—	—	2,814,812	—	2,814,812
Distribution in specie (note 11)	—	(5,000,000)	(817,217)	—	(5,817,217)
Net deficit on revaluation of non-trading investments	—	—	—	(2,131)	(2,131)
Impairment losses charged to profit and loss account	—	—	—	1,961	1,961
Net realized loss on disposal transferred to profit and loss account	—	—	—	3,370	3,370
At 30 June 2003	3,269,219	660,047	2,236,500	—	6,165,766

- (a) Under the Cayman Islands Company Law, the contributed surplus and share premium are both distributable. Accordingly, total distributable reserves of the Company amount to HK\$6,165,766,000 (2002: HK\$9,164,971,000) as at 30 June 2003.

The contributed surplus of the Company arose in 1995 when the Company issued shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired.

- (b) Included in the capital reserve were the Group's share of the statutory reserves of PRC subsidiaries and capital reserve arising from the reorganization of the port and port-related businesses in 2000.

30 CONTINGENCIES

The Wuhan government required five bridges in Wuhan, including Yangtze Bridge No. 2, a toll bridge operated by a then subsidiary of the Group (the "Wuhan Bridge"), to cease toll collection with effect from 1 October 2002. The Wuhan government had undertaken to compensate the investors on mutually acceptable terms. As part of the Reorganization, NWSH has acquired the interest in Wuhan Bridge from the Company at the book value as at 30 June 2002 of approximately HK\$751 million (the "Book Value"), subject to adjustment depending on the net cash consideration which may be received by NWSH as compensated by the Wuhan government and/or the proceeds, if any, from the sales of the effective interest in Wuhan Bridge to the Chinese shareholders or the Wuhan government (the "Compensation Amount").

If the Compensation Amount exceeds the Book Value, NWSH will pay to the Company an amount equivalent to half of the amount by which the Compensation Amount exceeds the Book Value. If the Compensation Amount is less than the Book Value, NWI will pay to NWSH an amount equivalent to the amount by which the Book Value exceeds the Compensation Amount. NWSH is currently under negotiation with the Wuhan government and the directors of the Company consider that there should be no material adverse impact to the Group.

31 COMMITMENTS

- (a) At 30 June 2003, the capital commitments, principally for purchases of fixed assets and acquisition of licenses and other investments were as follows:

	2003 HK\$'000	2002 HK\$'000
Contracted but not provided for	347,662	6,621
Authorized but not contracted for	—	181,211
	347,662	187,832

- (b) At 30 June 2003, the Group had future aggregate minimum lease payments under operating leases as follows:

	2003 HK\$'000	2002 HK\$'000
Land and buildings		
In the first year	1,911	9,516
In the second to fifth years inclusive	142	6,934
	2,053	16,450

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating loss before financing to net cash used in operations

	2003 HK\$'000	2002 HK\$'000
Operating loss before financing	(727,024)	(53,931)
Depreciation	144,793	256,830
Gain on disposal of unlisted investment	(118,541)	—
Gain from the Reorganization	(334,258)	—
Loss on disposal of other investments	201,367	—
Impairment losses on other investments	21,349	154,024
Impairment losses on fixed assets	45,002	119,500
Provision for payments on account of proposed joint ventures	111,635	33,002
Provision for deposits paid for proposed investments	122,445	—
Provision for amount due from a jointly controlled entity	158,559	—
Write-down of inventories to net realizable value	458,362	—
Loss on disposal of fixed assets	3,551	4,938
Gain on disposal of		
Subsidiaries	(15,414)	(21,735)
Jointly controlled entities	—	(113,676)
Write-back of impairment loss on other investments	(1,972)	—
Amortization of deferred interest income	(209)	(7,403)
Amortization of cost of investment in co-operative joint ventures	10,417	17,857
Interest income	(114,278)	(134,192)
Operating (loss)/profit before working capital changes	(34,216)	255,214
Decrease/(increase) in debtors, deposits and prepayments	29,319	(121,710)
Decrease in creditors and accruals	(31,065)	(10,381)
Net change in amounts with minority shareholders	5,243	191
Increase in inventories	—	(678,877)
Net cash used in operations	(30,719)	(555,563)

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital	Contributed surplus	Mandatorily convertible bonds	Short-term bank loans and bank		Minority interests	Deferred expenditure	Total
	including share premium			Pledged deposits	and other borrowings			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As 1 July 2001	5,449,925	1,367,342	1,162,185	—	12,918,619	1,923,901	(81,425)	22,740,547
Net cash outflow from financing	—	—	—	(838,666)	(1,055,523)	(10,300)	(628)	(1,905,117)
Issue of shares upon conversion of convertible bonds	1,162,302	—	(1,162,185)	—	(117)	—	—	—
Deficit on repurchase of convertible bonds	—	—	—	—	8,367	—	—	8,367
Amortization of deferred expenditure	—	—	—	—	—	—	31,056	31,056
Minority interests' share of profit	—	—	—	—	—	5,937	—	5,937
Dividend to minority interests	—	—	—	—	—	(4,153)	—	(4,153)
Acquisition of additional interest in a subsidiary	—	—	—	—	4,615	(3,939)	—	676
Release of reserves upon disposal of interest in associated companies, a jointly controlled entity and a subsidiary	—	10,257	—	—	—	67,681	—	77,938
Deconsolidation of subsidiaries	—	—	—	—	(130,522)	(70,007)	—	(200,529)
Disposal of a subsidiary	—	—	—	—	(19,965)	18,925	—	(1,040)
At 30 June 2002	6,612,227	1,377,599	—	(838,666)	11,725,474	1,928,045	(50,997)	20,753,682
As 1 July 2002	6,612,227	1,377,599	—	(838,666)	11,725,474	1,928,045	(50,997)	20,753,682
Net cash inflow/(outflow) from financing	—	—	—	589,283	(8,576,929)	—	—	(7,987,646)
Loan repayment in respect of the loan undertaken by NWSH	—	—	—	—	(96,251)	—	—	(96,251)
Amortization of deferred expenditure	—	—	—	—	—	—	50,997	50,997
Minority interests' share of profit	—	—	—	—	—	38,526	—	38,526
Distribution in specie	(5,000,000)	895,369	—	—	(12,489)	(147,552)	—	(4,264,672)
Acquisition of subsidiaries	—	—	—	(113,100)	902,804	—	—	789,704
Disposal of subsidiaries	—	—	—	—	(1,530,767)	(1,819,019)	—	(3,349,786)
Release of reserves upon disposal of subsidiaries and jointly controlled entities	—	378,023	—	—	—	—	—	378,023
At 30 June 2003	1,612,227	2,650,991	—	(362,483)	2,411,842	—	—	6,312,577

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Deconsolidation of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets deconsolidated		
Fixed assets	—	694,816
Debtors, deposits and prepayments	—	24,094
Bank balances and cash	—	81,186
Creditors and accruals	—	(12,170)
Bank and other borrowings	—	(130,522)
Minority interests	—	(70,007)
	—	587,397

(d) Analysis of the net outflow of cash and cash equivalents in respect of the deconsolidation of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Bank balances and cash deconsolidated	—	81,186

(e) Acquisition of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets acquired		
Fixed assets	75,391	—
Pledged deposits and short-term deposits	204,984	—
Bank balances and cash	33,370	—
Other investments	4,346	—
Debtors, deposits and prepayments	70,376	—
Amount due from holding company	760,010	—
Creditors and accruals	(23,165)	—
Bank and other borrowings	(902,804)	—
	222,508	—
Satisfied by:		
Payments on account of proposed joint ventures and investments in jointly controlled entities originally held by the Group	222,508	—

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(f) Analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Bank balances and cash acquired	33,370	—

(g) Disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets/(liabilities) disposed		
Fixed assets	7,048,987	78,651
Debtors, deposits and prepayments	35,428	49,291
Short-term deposits	138,785	—
Bank balances and cash	366,214	29,346
Investment in jointly controlled entities	6,676,778	—
Creditors and accruals	(1,147,481)	(30,083)
Net amount due from/(to) a minority shareholder of a subsidiary	117,913	(130,380)
Taxation	(943)	—
Bank and other borrowings	(1,530,767)	(19,965)
Minority interests	(1,819,019)	18,925
Deferred interest income	(101,032)	—
Deferred taxation	(9,441)	—
	9,775,422	(4,215)
Contributed surplus	378,023	—
Exchange reserve	—	(690)
Gain on disposal	349,672	21,735
	10,503,117	16,830
Satisfied by:		
Cash received	8,821,113	16,830
Consideration Shares	795,593	—
Undertaking of loans by NWSH	886,411	—
	10,503,117	16,830

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(h) Analysis of the net inflow/(outflow) of cash and cash equivalents in respect of the disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Cash received	8,821,113	16,830
Bank balances and cash disposed of	(366,214)	(29,346)
	8,454,899	(12,516)

(i) Distribution in specie

	2003 HK\$'000	2002 HK\$'000
Net assets distributed		
Fixed assets	234,186	—
Debtors, deposits and prepayments	70,262	—
Bank balances and cash	419,673	—
Other investments	3,644	—
Investment in associated companies	1,328,565	—
Investment in jointly controlled entities	1,801,125	—
Creditors and accruals	(16,260)	—
Taxation	(71)	—
Loan from minority shareholder	(12,489)	—
Minority interests	(147,552)	—
	3,681,083	—
Consideration Shares received on the Reorganization	795,593	—
	4,476,676	—

(j) Analysis of the net outflow of cash and cash equivalents in respect of the distribution in specie

	2003 HK\$'000	2002 HK\$'000
Bank balances and cash distributed	419,673	—

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)**(k) Major non-cash transactions**

- (i) Trade deposits of approximately HK\$969 million included in debtors, deposits and prepayments at 30 June 2002 were reclassified to deposits for purchase of fixed and intangible assets during the year.
- (ii) During the year, the Group's consideration on disposal of its interest in certain investments of approximately HK\$660 million was applied as a further payment for the acquisition of the Network.

33 RELATED PARTY TRANSACTIONS

In addition to those transactions with related parties disclosed in notes 4 and 27(e), the following significant related party transactions have been entered into by the Group during the year:

	2003	2002
	HK\$'000	HK\$'000
Interest income from jointly controlled entities (gross of withholding tax) (note a)	(73,206)	(88,192)
Staff costs reimbursed from a fellow subsidiary (note b)	(9,883)	—
Management fee received from a jointly controlled entity (note c)	(2,229)	(8,690)
Purchases from an associated company (note d)	810,705	673,772
Rental for leased premises to a fellow subsidiary (note e)	5,018	8,192
Interest paid a fellow subsidiary (note f)	32,836	5,719
Share of rental for leased premises to an associated company (note g)	701	—

Notes:

- (a) This represents interest income in respect of loan financing provided to jointly controlled entities. These loans are unsecured, carry interest at Hong Kong prime rate (2002: Hong Kong prime rate) or at fixed rates ranging from 2% to 15% per annum (2002: 6% to 15% per annum) and have repayment terms as specified in the respective joint venture agreements.
- (b) This represents the reimbursement on an actual basis from NWSH in respect of employees seconded to NWSH.
- (c) This represents management fee income in respect of management and administrative services rendered by the Company to a jointly controlled entity. The management fee is charged at a fixed annual amount as specified in the management and administrative services agreement.
- (d) Balance for the year represents purchases of software, licenses, interactive television network system and equipment which are developed by an associated company at prices mutually agreed by both parties. In previous year, the amount represented purchases of inventories from that associated company which were sold to the Group at its original purchase costs from third party suppliers. As at 30 June 2003, the Group also paid approximately HK\$937 million (2002: HK\$969 million) as trade deposits to the associated company.
- (e) The rental is charged at fixed monthly fees as specified in the tenancy agreements.
- (f) The interest is charged at rate as specified in the loan agreement.
- (g) This represents the reimbursement of rental for office premises to an associated company which is the lessee of the premises. The reimbursement is based on the actual office space occupied by the Group.
- (h) In October 2003, the Group obtained an unsecured revolving credit facility of HK\$1.5 billion from a fellow subsidiary for a period of 18 months.

34 COMPARATIVE FIGURES

Interest income on bank deposits of HK\$42,235,000 for the year ended 30 June 2002 has been reclassified from turnover to other operating income to conform with current year's presentation.

35 ULTIMATE HOLDING COMPANY

The directors of the Company consider New World Development Company Limited, incorporated and listed in Hong Kong, as being the ultimate holding company.

36 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 16 October 2003.

37 SUBSIDIARIES

As at 30 June 2003

	Share capital issued		Percentage of equity shares held		Principal activities
	Number	Par value per share	By the Company	By the Group	
<i>Incorporated in the British Virgin Islands and operating in Hong Kong</i>					
Lotsgain Limited	100 ordinary	US\$1	100	—	Investment holding
<i>Incorporated in the British Virgin Islands and operating in the PRC</i>					
General Wireless Technologies Inc.	10 ordinary	US\$1	—	100	Exploration of wireless telecommunication network
<i>Incorporated and operating in Hong Kong</i>					
NWI Allmedia Services Limited	2 ordinary	HK\$1	—	100	Development of multimedia business

37 SUBSIDIARIES (Continued)

As at 30 June 2003 (Continued)

	Registered capital Amount	Percentage of equity interest held		Principal activities
		By the Company	By the Group	
<i>Incorporated and operating in the PRC</i>				
New World Infrastructure (China) Investment Limited	US\$130,000,000	100	—	Investment holding
Shenzhen New World Xianglong Network Technology Company Limited	Rmb200,000,000	—	100	Exploration of wireless telecommunication network
Shenzhen New World Xianglong Technology Development Company Limited	Rmb100,000,000	—	100	Exploration of wireless telecommunication network
Sun Long Communication Limited*	Rmb100,000,000	—	100	Provision of telecommunication related services

Note: Except for the equity interest in Shenzhen New World Xianglong Network Technology Company Limited and Shenzhen New World Xianglong Technology Development Company Limited each increased from 84.46% to 100%, and a subsidiary acquired during the year marked with an asterisk, percentage of equity shares/interest is unchanged from 30 June 2002.

38 PRINCIPAL ASSOCIATED COMPANIES

As at 30 June 2003

	Share capital issued		Percentage of equity shares held		Principal activities
	Number	Par value per share	By the Company	By the Group	
<i>Incorporated and operating in the United States</i>					
Athena Database, Inc*	35,000,000	—	—	—	Development of database application tools
Common					
15,000,000 Series A Preferred		—	—	100	
CyberLancet Corporation	50,000,000	—	—	—	Development of internet technology
Common					
21,000,000 Series A Preferred		—	—	100	
CyberNova Corporation	31,000,000	—	—	—	Development of cable modem
Common					
20,000,000 Series A Preferred		—	—	100	
PrediWave Corporation	35,000,000	—	—	—	Development of interactive television network system technology
Common					
15,000,000 Series A Preferred		—	—	100	
S.T.U.B SATertainment Inc*	60,000,000	—	—	—	Distribution of satellite products
Common					
40,000,000 Series A Preferred		—	—	100	
TechStock, Inc.	30,000,000	—	—	—	Investment holding
Common					
20,000,000 Series A Preferred		—	—	100	
Visionaire Technology Corporation	34,000,000	—	—	—	Development of copyright protection technology
Common					
15,000,000 Series A Preferred		—	—	100	
WarpEra Corporation	42,000,000	—	—	—	Development of computer hardware and software
Common					
18,000,000 Series A Preferred		—	—	100	

38 PRINCIPAL ASSOCIATED COMPANIES (Continued)

	Share capital issued		Percentage of equity shares held		Principal activities
	Number	Par value per share	By the Company	By the Group	
<i>Incorporated in the British Virgin Islands and operating in Hong Kong</i>					
New QU Energy Limited	65,000,000	—	—	—	Development of heat transfer devices
	Common				
	35,000,000 Series A Preferred	—	—	64.29	

Note: Except for the associated companies acquired during the year which are marked with an asterisk, percentage of equity interest is unchanged from 30 June 2002.

39 PRINCIPAL JOINTLY CONTROLLED ENTITY

As at 30 June 2003 and 30 June 2002

	Registered capital	Attributable interest (note)		Principal activities
		Amount	To the Company	
<i>Incorporated and operating in the PRC</i>				
Co-operative joint venture				
Neworgen Limited	US\$6,000,000	—	57	Development of biochemical technology

Note: profit sharing percentage in the co-operative joint venture