

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 Institute of Certified Public Accountants (“HKICPA”). The accounts are prepared under the historical cost convention as modified by the revaluation of non-trading securities.

In the current year, the Group adopted the Statement of Standard Accounting Practice (“SSAP”) 12 (revised) “Income Taxes” issued by the HKICPA which became effective during the current accounting period. The change to the Group’s accounting policy on deferred taxation and the effect of adoption of the SSAP 12 are set out in note 1(o) below.

In preparing these accounts, the directors have taken into account the extension of existing unsecured revolving credit facilities of HK\$1.5 billion and additional unsecured revolving credit facilities of HK\$1.2 billion granted by a fellow subsidiary (note 26) and all other information that could reasonably be expected to be available and have ascertained that the Group and the Company have obtained adequate financial resources to support the Group and the Company to continue their operations for the foreseeable future. Under these circumstances, the directors consider that it is proper to prepare the accounts on a going concern basis.

(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, the 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) 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.

(d) 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 less provision for impairment losses. 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.

(e) 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.

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) *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.

(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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) 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).

(g) 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 life 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) Development costs

Development costs incurred for design and testing of new or improved products, where technical feasibility has been demonstrated and there is an ability to sell or use the asset that will generate probable future economic benefits, are recognized as an asset and amortized on a straight-line basis over a period of not more than 5 years.

(iv) 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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(h) Fixed assets and depreciation

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

Depreciation of 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
Machinery and other equipment	5 years
Interactive television network system and equipment	7 to 10 years
Leasehold improvements	2 to 10 years
Furniture and fixtures	5 years
Motor vehicles	3 to 10 years

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.

(i) Other investments

Other investments are securities held by the Group for non-trading purposes. They are stated at their fair values at the balance sheet date. 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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(j) 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.

(k) Programmes

Programmes are stated at cost less accumulated amortization and impairment losses. Cost comprises direct expenditure and appropriate proportion of production overheads. Programmes costs are amortized based on the ratio of the actual gross revenues of the current year to the estimated remaining total gross revenues from all sources on an individual production basis.

(l) 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.

(m) 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.

(n) 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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) **Contingent liabilities and contingent assets** (Continued)

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.

(o) **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

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

In prior year, deferred taxation was accounted for at the current taxation rate 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 was expected to be payable or recoverable in the foreseeable future. The adoption of the SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives represented have been restated to conform to the changed policy.

As detailed in the Consolidated Statement of Changes in Equity, reserves at 1 July 2002 have been reduced by HK\$544,398,000 which represents the unprovided deferred tax liabilities. There was no effect to the reserves at 1 July 2003. The loss for the year ended 30 June 2003 has been reduced by HK\$268,816,000 and release of reserves upon distribution in specie for the year ended 30 June 2003 has been decreased by HK\$275,582,000.

(p) **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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) 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 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.

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.

(r) 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.

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.

1 PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) **Borrowing costs**

All borrowing costs are expensed in the profit and loss account in the year in which they are incurred.

(t) **Revenue recognition**

Advertising income is recognized when the advertisements are telecast or commercials appear before the public.

Income from licensing of programme rights is recognized evenly over the contract period in accordance with the terms of the contracts. Income from software licensing is recognized when the software is delivered to customers.

Other service fee income including contact centre, media or software related services is recognized when services are rendered.

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 right to receive payment is established.

2 TURNOVER AND OTHER REVENUE

The Group is principally engaged in telecommunications, media and technology (“TMT”) businesses. Prior to the Reorganization as further described in note 31, the Group was engaged in operation of toll roads and bridges, cargo handling, logistics and warehousing services and TMT businesses. The Group’s toll roads and bridges and cargo handling, logistics and warehousing services businesses were discontinued upon the completion of the Reorganization. Revenues recognized during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Advertising income	333,622	–
Licensing income	33,750	–
Other service fee income	7,681	–
Toll income	–	322,865
Cargo, container handling and storage income	–	7,643
	375,053	330,508
Business tax	(6,206)	(16,832)
	368,847	313,676
Interest income from		
Joint ventures	–	73,206
Third parties	–	6,581
	–	79,787
Withholding tax	–	(10,002)
	–	69,785
	368,847	383,461
Other revenue		
Bank and other interest income	7,254	34,700
	376,101	418,161

3 SEGMENT INFORMATION

The Group focuses in TMT segment after the completion of the Reorganization. Previously, the Group was organized into five main business segments including energy and water treatment, toll roads, toll bridges (collectively the “Infrastructure Assets”), cargo handling and TMT.

In respect of geographical segment reporting, turnover, total assets and capital expenditure are where the assets are located.

There are no sales or other transactions between the business and geographical segments. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily of fixed assets, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Bank and other borrowings directly attributable to business segments are included in respective business segments. Capital expenditure comprises additions to fixed assets, intangibles assets, including additions resulting from acquisitions through purchases of subsidiaries.

Primary reporting format – business segments

	Year ended 30 June 2004	Year ended 30 June 2003					
	TMT HK\$'000	Energy and water treatment HK\$'000	Toll roads HK\$'000 (Restated)	Toll bridges HK\$'000	Cargo handling HK\$'000	TMT HK\$'000	Group HK\$'000 (Restated)
Segment revenues	368,847	2,350	307,144	62,635	10,687	645	383,461
Segment results	(5,216,148)	(3,805)	229,403	(8,533)	(47,262)	(937,519)	(767,716)
Gain from the Reorganization	–						512,637
Provision for an amount due from a jointly controlled entity engaged in coal operation	–						(158,559)
Net unallocated costs	(90,362)						(66,294)
Operating loss	(5,306,510)						(479,932)
Finance costs	(82,875)						(638,980)
Share of results of							
Associated companies	(123,875)	–	–	–	172,181	(156,647)	15,534
Jointly controlled entities	(13,869)	251,935	161,683	3,034	130,322	(30,864)	516,110
Loss before taxation	(5,527,129)						(587,268)
Taxation	(737)						(64,212)
Loss after taxation	(5,527,866)						(651,480)
Minority interests	20,608						(39,188)
Loss for the year	(5,507,258)						(690,668)

3 SEGMENT INFORMATION (Continued)

Primary reporting format – business segments (Continued)

	Year ended 30 June 2004	Year ended 30 June 2003					
	TMT HK\$'000	Energy and water treatment HK\$'000	Toll roads HK\$'000	Toll bridges HK\$'000	Cargo handling HK\$'000	TMT HK\$'000	Group HK\$'000
Segment assets	2,775,724	–	–	–	–	4,795,162	4,795,162
Associated companies	263,190	–	–	–	–	2,513,856	2,513,856
Jointly controlled entities	64,536	–	–	–	–	18,948	18,948
Unallocated assets	2,064,261						2,245,341
Total assets	5,167,711						9,573,307
Segment liabilities	(145,113)	–	–	–	–	(61,830)	(61,830)
Unallocated liabilities	(3,427,294)						(2,422,920)
Total liabilities	(3,572,407)						(2,484,750)
Minority interests	(14,005)						–
	(3,586,412)						(2,484,750)
Capital expenditure	333,493	–	9,526	1,245	1,802	853,577	
Depreciation	20,171	–	88,663	42,070	4,725	5,790	
Amortization charges	19,436	9,522	895	–	–	–	
Impairment losses	3,336,952	–	–	–	35,000	19,377	
Provisions	1,685,297	–	–	–	–	704,071	

3 SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments

	Year ended 30 June 2004			
	Segment revenues HK\$'000	Segment results HK\$'000	Segment assets HK\$'000	Capital expenditure HK\$'000
China mainland	359,457	(2,077,559)	2,113,699	289,989
Hong Kong	9,390	(436,782)	65,027	43,504
North America	–	(2,701,807)	596,998	–
	<u>368,847</u>	<u>(5,216,148)</u>	<u>2,775,724</u>	<u>333,493</u>
Net unallocated costs		<u>(90,362)</u>		
Operating loss		<u>(5,306,510)</u>		
Associated companies			263,190	
Jointly controlled entities			64,536	
Unallocated assets			<u>2,064,261</u>	
Total assets			<u>5,167,711</u>	

3 SEGMENT INFORMATION (Continued)

Secondary reporting format – geographical segments (Continued)

	Segment revenues HK\$'000	Year ended 30 June 2003		Capital expenditure HK\$'000
		Segment results HK\$'000 (Restated)	Segment assets HK\$'000	
China mainland	377,759	(261,305)	3,799,993	866,007
Hong Kong	5,702	(256,898)	406,504	143
North America	–	(249,513)	588,665	–
	<u>383,461</u>	<u>(767,716)</u>	<u>4,795,162</u>	<u>866,150</u>
Gain from the Reorganization		512,637		
Provision for an amount due from a jointly controlled entity engaged in coal operation		(158,559)		
Net unallocated costs		<u>(66,294)</u>		
Operating loss		<u>(479,932)</u>		
Associated companies			2,513,856	
Jointly controlled entities			18,948	
Unallocated assets			<u>2,245,341</u>	
Total assets			<u>9,573,307</u>	

4 OTHER CHARGES, NET

	2004 HK\$'000	2003 HK\$'000 (Restated)
Impairment losses on:		
Intangible assets (note 13)	(401,232)	–
Fixed assets (note 14)	(663,663)	(45,002)
Other investments (note 28)	(2,272,361)	(21,349)
Provision for:		
Amounts due from jointly controlled entities	(14,469)	(158,559)
Amounts due from associated companies	(113,040)	–
Other receivables	(29,246)	(39,180)
Deposits for proposed investments	(81,281)	(122,445)
Deposits for purchase of fixed assets (note 20)	(843,869)	–
Loans receivable	(99,806)	–
Loans to investee companies (note 19(c))	(304,201)	–
Payments on account of proposed joint ventures	–	(111,635)
Write-down of inventories to net realizable value	(291,406)	(458,362)
Gain from the Reorganization	–	512,637
Gain/(loss) on disposal of:		
Fixed assets	58	(3,551)
Subsidiaries	–	84,127
Other investments	3,876	(201,367)
Unlisted investment	–	118,541
Write-back of impairment loss on other investments (note 28)	4,738	1,972
	(5,105,902)	(444,173)

Note: Included in other charges is an amount of HK\$4,392 million comprising (i) impairment losses on intangible assets and fixed assets and write-down of inventories to net realizable value totaling HK\$1,310 million; and (ii) provisions for deposits for purchase of fixed assets and loans to investee companies and impairment losses on other investments totaling HK\$3,082 million, all of which are the subject of the NWTMT Complaint (note 29(a)).

5 STAFF COSTS

	2004	2003
	HK\$'000	HK\$'000
Salaries, wages and allowances	78,956	102,183
Pension costs – defined contribution plans	3,813	3,284
	82,769	105,467

6 OPERATING LOSS

Operating loss is stated after charging the following:

	2004	2003
	HK\$'000	HK\$'000
Amortization of:		
Intangible assets	903	–
Cost of investments in co-operative joint ventures	–	10,417
Cost of programmes	18,533	–
Auditors' remuneration	3,334	6,536
Depreciation	22,525	144,793
Rental for leased premises	11,897	11,916

7 FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans		
Wholly repayable within five years	103,336	216,635
Not wholly repayable within five years	478	15,443
Interest on other borrowings		
Wholly repayable within five years	22,302	153,450
Not wholly repayable within five years	–	3,215
Interest on convertible bonds	–	8,908
Amortization of deferred expenditure	–	50,997
Provision for premium on redemption of convertible bonds	–	209,296
	126,116	657,944
Less: Reimbursement of interest from NWS Holdings Limited ("NWSH")	(43,241)	(18,964)
	82,875	638,980

8 TAXATION

	2004 HK\$'000	2003 HK\$'000 (Restated)
Company and subsidiaries		
PRC income tax	714	9,632
Deferred tax	23	(7,702)
	737	1,930
Associated companies		
Hong Kong profits tax	–	28,222
PRC income tax	–	35
Deferred tax	–	(956)
	–	27,301
Jointly controlled entities		
Hong Kong profits tax	–	18,105
Macau income tax	–	15,362
PRC income tax	–	14,567
Deferred tax	–	(13,053)
	–	34,981
	737	64,212

No Hong Kong profits tax was provided for the year as the Group had no estimated assessable profit arising in or deriving from Hong Kong. In 2003, Hong Kong profits tax had been provided at the rate of 17.5% on income assessable to Hong Kong profits tax. PRC and Macau income taxes have been provided on the estimated assessable profits for the year at their prevailing rates of taxation.

8 TAXATION (Continued)

The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the applicable income tax rate prevailing in the territory in which the Group's principal operating subsidiaries operate as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	(5,527,129)	(587,268)
Calculated at a taxation rate of 17.5% (2003: 17.5%)	(967,247)	(102,772)
Effect of different taxation rates in other countries	(15,149)	(12,726)
Income not subject to taxation	(4,491)	(190,814)
Expenses not deductible for taxation purposes	983,681	374,210
Utilisation of previously unrecognized tax losses	(354)	–
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	–	(3,479)
Temporary differences not recognized	4,016	(73)
Others	281	(134)
Taxation charge	737	64,212

9 LOSS FOR THE YEAR

Loss for the year includes a loss of HK\$5,537,024,000 (2003: a profit of HK\$2,814,812,000) which is dealt with in the accounts of the Company.

10 DIVIDEND

	Group		Company	
	2004 HK\$'000	2003 HK\$'000 (Restated)	2004 HK\$'000	2003 HK\$'000
Special dividend	–	5,145,088	–	5,817,217

10 DIVIDEND (Continued)

The special dividend by way of distribution in specie at the Company level of approximately HK\$5,817 million represented 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\$5,145 million (as restated) represented the net assets of NWSH and its subsidiaries shared by the Group at the date of distribution of approximately HK\$4,201 million and release of goodwill and capital reserve of approximately HK\$944 million.

The board of directors does not recommend the payment of a dividend for the year ended 30 June 2004.

11 LOSS PER SHARE

The calculation of loss per share is based on the loss for the year of HK\$5,507,258,000 (2003 (Restated): HK\$690,668,000) and 952,180,007 (2003: 952,180,007) shares in issue during the year.

Diluted loss per share for the years ended 30 June 2003 and 2004 is not presented as the Company has no dilutive potential shares at year end.

12 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

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

	2004 HK\$'000	2003 HK\$'000
Fees	650	700
Salaries and other emoluments	6,678	7,113
Contributions to retirement benefit scheme	462	432
	7,790	8,245

The above emoluments have been included as part of the staff costs in note 5 to the accounts.

The emoluments of the directors fell within the following bands:

Emolument band HK\$	Number of individuals	
	2004	2003
Nil – 1,000,000	8	15
3,000,001 – 3,500,000	–	1
3,500,001 – 4,000,000	2	1
	10	17

Directors' fees disclosed above include HK\$200,000 (2003: HK\$200,000) paid to independent non-executive directors during the year.

12 EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT (Continued)

The five individuals whose emoluments were the highest in the Group for the year include 2 (2003: 2) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (2003: 3) individuals during the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other emoluments	5,138	4,981
Contributions to retirement benefit scheme	328	316
	5,466	5,297

The emoluments fell within the following bands:

Emolument band	Number of individuals	
	2004	2003
HK\$		
1,000,000 – 1,500,000	1	1
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	1	1
	3	3

13 INTANGIBLE ASSETS

	Group				
	Goodwill	Development costs	Licenses (note)	Software (note)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 July 2003	–	–	327,600	73,632	401,232
Acquisition of subsidiaries	2,636	5,847	–	–	8,483
At 30 June 2004	2,636	5,847	327,600	73,632	409,715
Accumulated amortization and impairment losses					
At 1 July 2003	–	–	–	–	–
Acquisition of subsidiaries	–	41	–	–	41
Charge for the year	509	394	–	–	903
Impairment losses (note 4)	–	–	327,600	73,632	401,232
At 30 June 2004	509	435	327,600	73,632	402,176
Net book amount					
At 30 June 2004	2,127	5,412	–	–	7,539
At 30 June 2003	–	–	327,600	73,632	401,232

13 INTANGIBLE ASSETS (Continued)

	Licenses (note) HK\$'000	Company Software (note) HK\$'000	Total HK\$'000
Cost			
At 1 July 2003 and 30 June 2004	327,600	73,632	401,232
Accumulated amortization and impairment losses			
At 1 July 2003	–	–	–
Impairment losses	327,600	73,632	401,232
At 30 June 2004	327,600	73,632	401,232
Net book amount			
At 30 June 2004	–	–	–
At 30 June 2003	327,600	73,632	401,232

Note: Balances represent payments made to PrediWave Corporation ("PrediWave"), a former associated company, for purchase of software and licenses relating to billing system for PrediWave's interactive television, video-on-demand and other digital broadcasting and related technology (the "Technology"), which are the subject of the NWTMT Complaint (note 29(a)). As a result of the NWTMT Complaint, the directors decided to discontinue the use of the Technology in launching the interactive television services in the PRC, and accordingly, a full impairment charge of HK\$401,232,000 (note 4) was made against these assets during the year.

14 FIXED ASSETS

	Group							Total HK\$'000
	Land and buildings (note a)	Construction in progress	Machinery and other equipment	Leasehold improvements	Furniture and fixtures	Motor vehicles	Interactive television network system and equipment (note b)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Cost								
At 1 July 2003	70,039	–	77,278	5,174	16,646	6,622	331,479	507,238
Acquisition of subsidiaries	8,426	–	–	636	5,745	1,078	–	15,885
Additions	–	8,575	9,434	3,273	7,038	2,823	287,745	318,888
Disposals	(39,507)	–	(460)	(54)	(448)	(31)	–	(40,500)
At 30 June 2004	38,958	8,575	86,252	9,029	28,981	10,492	619,224	801,511
Accumulated depreciation and impairment losses								
At 1 July 2003	15,546	–	23,727	2,655	6,444	3,712	–	52,084
Acquisition of subsidiaries	73	–	–	134	1,703	358	–	2,268
Charge for the year	1,476	–	13,090	1,550	4,867	1,542	–	22,525
Impairment losses	1,331	7,539	35,569	–	–	–	619,224	663,663
Disposals	(12,892)	–	(388)	(1)	(151)	(7)	–	(13,439)
At 30 June 2004	5,534	7,539	71,998	4,338	12,863	5,605	619,224	727,101
Net book value								
At 30 June 2004	33,424	1,036	14,254	4,691	16,118	4,887	–	74,410
At 30 June 2003	54,493	–	53,551	2,519	10,202	2,910	331,479	455,154

14 FIXED ASSETS (Continued)

	Company				
	Leasehold improvements	Furniture and fixtures	Motor vehicles	Interactive television network system and equipment (note b)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost					
At 1 July 2003	845	4,146	2,751	409,473	417,215
Additions	143	137	–	365,558	365,838
At 30 June 2004	988	4,283	2,751	775,031	783,053
Accumulated depreciation and impairment losses					
At 1 July 2003	317	2,439	1,791	–	4,547
Charge for the year	110	693	275	–	1,078
Impairment losses	–	–	–	775,031	775,031
At 30 June 2004	427	3,132	2,066	775,031	780,656
Net book value					
At 30 June 2004	561	1,151	685	–	2,397
At 30 June 2003	528	1,707	960	409,473	412,668

14 FIXED ASSETS (Continued)

Notes:

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

	2004 HK\$'000	2003 HK\$'000
Hong Kong		
Medium-term lease	–	27,086
PRC		
Short-term lease	4,140	4,614
Medium-term lease	14,206	8,445
Long-term lease	15,078	14,348
	33,424	54,493

- (b) Balances represent interactive television network system and equipment bought from PrediWave, which are the subject of the NWTMT Complaint (note 29(a)). As a result of the NWTMT Complaint, the directors decided to discontinue the use of the Technology in launching the interactive television services in the PRC, and accordingly, a full impairment charge was made against these assets during the year.
- (c) At 30 June 2004, the net book value of fixed assets pledged as security for the Group's long-term bank loans amounted to HK\$21,526,000 (2003: HK\$14,348,000).

15 SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost less provision	1,135,905	2,035,905
Amounts due by subsidiaries, net of provision	760,594	2,577,572
	1,896,499	4,613,477
Amounts due to subsidiaries	(2,243,080)	(2,795,865)
	(346,581)	1,817,612

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 2004, are given in note 37.

16 ASSOCIATED COMPANIES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Group's share of net assets (note a)	232,325	2,095,281	–	–
Amounts due by associated companies, net of provision (notes a and b)	30,865	418,575	84,177	238,579
	263,190	2,513,856	84,177	238,579

Notes:

- (a) During the year, certain associated companies, which are the subject of the NWTMT Complaint (note 29(a)), ceased to be accounted for by the Group as associated companies as the directors are of the opinion that the Group is no longer able to effectively exercise significant influence over the financial and operating decisions of these associated companies. Accordingly, the investments in and amounts due by these associated companies were reclassified as other investments and loans to investee companies (notes 19 and 38).
- (b) Except for amounts of HK\$23,100,000 (2003: HK\$46,800,000) and HK\$60,840,000 (2003: 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.
- (c) 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 2004, are given in note 38.

17 JOINTLY CONTROLLED ENTITIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Companies limited by shares		
Share of net assets	85,168	–
Goodwill on acquisition	63,585	–
Less: Amortization	(4,239)	–
Amount due by a jointly controlled entity (note a)	22	–
Amount due to a jointly controlled entity (note b)	(80,000)	–
	64,536	–

Co-operative joint ventures		
Cost of investments	58,886	58,947
Share of undistributed post-acquisition results	(58,886)	(54,468)
Amounts due by jointly controlled entities, net of provision (note a)	–	14,469
	–	18,948

	64,536	18,948

Notes:

- (a) Amounts due by jointly controlled entities are unsecured, interest free and has no fixed terms of repayment.
- (b) Amount due to a jointly controlled entity is unsecured and interest free. The balance was fully repaid subsequent to 30 June 2004.
- (c) Particulars of jointly controlled entities, 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 2004, are given in note 39.

18 LOANS RECEIVABLE

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Loans receivable	937,823	1,001,114	917,823	981,114
Current portion included in current assets	(620,000)	(70,784)	(600,000)	(70,784)
	317,823	930,330	317,823	910,330

Included in loans receivable is a loan of HK\$600 million granted to a third party which is unsecured and bears interest at 3% per annum. The loan, together with the refund of deposits from the withdrawal of proposed investment in the Network (note 21), is fully repayable by 30 November 2004.

19 OTHER INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Non-trading securities		
Unlisted shares, at fair value (notes a and b)	605,162	596,835
Loans to investee companies (note c)	304,201	–
Provision (note c)	(304,201)	–
	605,162	596,835

Notes:

- (a) Included in unlisted non-trading securities are unlisted equity investments in PrediWave and certain former associated companies of the Group (collectively the "PrediWave Companies") (note 16(a)), which are the subject of the NWTMT Complaint (note 29(a)). A full impairment provision of HK\$1,933,894,000 was made against these assets during the year.

19 OTHER INVESTMENTS (Continued)

- (b) Also included in other investments is an unlisted equity investment of approximately HK\$377 million in Intellambda Systems Inc. ("Intellambda") which was acquired by the Group during the year. Mr Tony Qu is the Chief Executive Officer of Intellambda. Intellambda's business objective is to develop optical transport and switching platform and provide the optical networking solutions for carriers planning on building or upgrading their metro and regional infrastructures. Based on the latest financial information available to the Group, Intellambda was operating at a loss. The director nominated by the Group to Intellambda has requested for further financial information from Intellambda for the purpose of assessing the carrying value of the investment in Intellambda. However, Intellambda imposed certain conditions before it would make available further financial information to the director nominated by the Group to Intellambda. In view of the conditions imposed, no further information was obtained from Intellambda. Despite the litigation against Mr Tony Qu, the directors of the Company remain confident in the technology held by Intellambda and consider that there is no reason to believe why Mr Tony Qu would not pursue, if not harder because of the presence of the Company as a shareholder keeping a close eye on the performance, the business objective of Intellambda and make it a successful operation. As a result, the directors of the Company consider that no provision for impairment in value of the investment in Intellambda is required.
- (c) Balances represent loans to PrediWave Companies which is the subject of the NWTMT Complaint (note 29(a)). A full provision of HK\$304,201,000 (note 4) was made against these assets during the year.

20 DEPOSITS FOR PURCHASE OF FIXED ASSETS

Balance represents trade deposits paid to PrediWave for purchase of interactive television network system and equipment which is the subject of the NWTMT Complaint (note 29(a)). A full provision of HK\$843,869,000 (note 4) was made against these assets during the year.

21 DEPOSITS FOR PROPOSED INVESTMENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Cost less provision				
Deposits for the Network (note)	1,531,196	1,531,196	1,531,196	1,531,196
Others	82,255	168,676	–	–
	1,613,451	1,699,872	1,531,196	1,531,196

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 within 2 years from the date of the Option Agreement at a consideration of approximately HK\$2,563 million.

As at 30 June 2004, approximately HK\$1,531 million (2003: HK\$1,531 million) was paid as a deposit for the Acquisition. On 23 June 2004, the Group requested to withdraw from the Acquisition and the counterparties agreed on 3 September 2004 that deposits paid for proposed investments, loans and other amounts owing to the Group totaling HK\$2,160 million together with interest would be fully repaid to the Group by 30 November 2004.

22 INVENTORIES AND PROGRAMMES

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Raw materials (note)	62,079	404,800	62,079	404,800
Programmes, at cost less amortization	8,722	–	–	–
	70,801	404,800	62,079	404,800

Note: At 30 June 2004, the carrying amount of inventories, representing parts for production of interactive television equipment, that are carried at net realizable value amounted to HK\$62,079,000 (2003: HK\$348,240,000). These inventories are the subject of the NWTMT Complaint (note 29(a)).

23 DEBTORS, DEPOSITS AND PREPAYMENTS

- (a) Included in debtors, deposits and prepayments are trade balances due by customers. The Group allows its trade customers a credit period normally ranging from 30 days to 180 days. At 30 June 2004, the ageing analysis of the trade receivables was as follows:

	2004 HK\$'000	2003 HK\$'000
Current to 30 days	12,532	570
31 to 90 days	13,415	140
91 to 180 days	11,113	44
Over 180 days	24,735	104
	61,795	858

- (b) At 30 June 2003, the balance included a housing loan of HK\$2,010,000 to the Company Secretary, Mr Chow Oi Wah, Fergus. The loan was secured by a legal mortgage over the subject property, carried interest at 3% (2003: 3%) per annum and was repayable by monthly installments up to March 2008. The housing loan was fully repaid during the year and the maximum of the amount outstanding during the year was HK\$2,010,000 (2003: HK\$2,398,000).

24 PLEDGED DEPOSITS

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

25 CREDITORS AND ACCRUALS

- (a) Included in creditors and accruals are trade payables and the ageing analysis of the trade payables was as follows:

	2004 HK\$'000	2003 HK\$'000
Current to 30 days	8,342	–
31 to 90 days	4,811	–
91 to 180 days	4,486	–
Over 180 days	9,524	299
	27,163	299

- (b) As part of the Reorganization, NWSH has acquired the interest in Wuhan Bridge Construction Co., Ltd. (“WBC”), a then subsidiary, 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 WBC 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, the Company will pay to NWSH an amount equivalent to the amount by which the Book Value exceeds the Compensation Amount. On 12 December 2003, NWSH reached an agreement in principle with Wuhan City Construction Fund Management Office for the disposal of WBC at a consideration of RMB1.18 billion (equivalent to approximately HK\$1.10 billion). Subject to the finalization of the Compensation Amount (which is equal to the actual net proceeds), the Company is expected to receive approximately HK\$150 million from NWSH. As at 30 June 2004, the Company received HK\$30 million (2003: nil) from NWSH and such amount was included in creditors and accruals.

26 BANK AND OTHER BORROWINGS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Loan from a fellow subsidiary (note a)	1,406,825	513,000	1,406,825	513,000
Secured bank loans (note b)	699,336	799,777	–	–
	2,106,161	1,312,777	1,406,825	513,000
Current portion included in current liabilities	(183,124)	(104,687)	–	–
	1,923,037	1,208,090	1,406,825	513,000

Notes:

- (a) Loan from a fellow subsidiary is unsecured and bears interest at prevailing market rate. On 11 October 2004, the fellow subsidiary agreed to extend the revolving credit facility to the Company of HK\$2.7 billion (included the outstanding loan balance and accrued interest payable of approximately HK\$1.43 billion as at 30 June 2004) to 13 April 2006 (note 1(a)). Accordingly, the loan from a fellow subsidiary was classified as a non-current liability.
- (b) Secured bank loans are repayable as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	183,124	104,687
Between one and two years	194,491	182,852
Between two and five years	317,346	509,082
After five years	4,375	3,156
	699,336	799,777

NWSH has undertaken to repay the principal and interest outstanding from the Group under certain bank loan, of approximately HK\$687 million (2003: HK\$790 million) at 30 June 2004, from time to time as they fall due. The loan is secured by NWSH's interests in certain joint ventures in the PRC.

27 SHARE CAPITAL

	Ordinary shares of HK\$1 each	
	Number of shares	HK\$'000
Authorized:		
At 1 July 2003 and 30 June 2004	2,000,000,000	2,000,000
Issued and fully paid:		
At 1 July 2003 and 30 June 2004	952,180,007	952,180

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 2004 are as follows:

Exercise price per share HK\$	At 1 July 2003	Lapsed during the year	At 30 June 2004
10.20 (a)	962,800	(962,800)	–
10.20 (b)	240,000	–	240,000
12.00 (c)	4,190,000	(4,190,000)	–
12.00 (d)	960,000	–	960,000
	6,352,800	(5,152,800)	1,200,000

- (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 2004 was 1,200,000 (2003: 5,928,800).

28 RESERVES

Group

	Contributed surplus HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Retained profit HK\$'000	Investment revaluation reserve HK\$'000	Total HK\$'000
At 1 July 2002, as previously reported	1,377,599	5,660,047	290,049	3,867,209	(184,440)	11,010,464
Effect of adopting the SSAP 12	(286,986)	–	–	(257,412)	–	(544,398)
At 1 July 2002, as restated	1,090,613	5,660,047	290,049	3,609,797	(184,440)	10,466,066
Foreign exchange adjustment	–	–	–	(390)	–	(390)
Loss for the year	–	–	–	(690,668)	–	(690,668)
Transfer to capital reserve account	–	–	4,491	(4,491)	–	–
Distribution in specie (note 10)	1,182,355	(5,000,000)	(238,361)	(145,088)	–	(4,201,094)
Net deficit on revaluation of non-trading investments	–	–	–	–	(36,304)	(36,304)
Impairment losses charged to profit and loss account (note 4)	–	–	–	–	21,349	21,349
Write-back of impairment loss transferred to profit and loss account (note 4)	–	–	–	–	(1,972)	(1,972)
Net realized loss on disposal transferred to profit and loss account (note 4)	–	–	–	–	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

28 RESERVES (Continued)

Group

	Contributed surplus HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Retained profit/(accu- mulated loss) HK\$'000	Investment revaluation reserve HK\$'000	Total HK\$'000
At 1 July 2003	2,650,991	660,047	–	2,825,339	–	6,136,377
Loss for the year	–	–	–	(5,507,258)	–	(5,507,258)
Net deficit on revaluation of non-trading investments	–	–	–	–	(2,267,623)	(2,267,623)
Impairment losses charged to profit and loss account (note 4)	–	–	–	–	2,272,361	2,272,361
Write-back of impairment loss transferred to profit and loss account (note 4)	–	–	–	–	(4,738)	(4,738)
At 30 June 2004	2,650,991	660,047	–	(2,681,919)	–	629,119
Company and subsidiaries	2,650,991	660,047	–	(2,482,628)	–	828,410
Jointly controlled entities	–	–	–	(68,337)	–	(68,337)
Associated companies	–	–	–	(130,954)	–	(130,954)
	2,650,991	660,047	–	(2,681,919)	–	629,119

28 RESERVES (Continued)

Company

	Contributed surplus (note) HK\$'000	Share premium HK\$'000	Retained profit/(accu- mulated loss) HK\$'000	Investment revaluation reserve HK\$'000	Total HK\$'000
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 10)	–	(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
At 1 July 2003	3,269,219	660,047	2,236,500	–	6,165,766
Loss for the year	–	–	(5,537,024)	–	(5,537,024)
Net deficit on revaluation of non-trading investments	–	–	–	(1,922)	(1,922)
Write-back of impairment loss transferred to profit and loss account	–	–	–	1,922	1,922
At 30 June 2004	3,269,219	660,047	(3,300,524)	–	628,742

Note: 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.

29 PENDING LITIGATIONS

- (a) In May 2004, the Company filed complaints to the Superior Court of the State of California for the County of Santa Clara in the United States of America (“US”) (“NWTMT Complaint”) against the PrediWave Companies and Mr Tony Qu, the president and founder of the PrediWave Companies. Under the NWTMT Complaint, the Company alleged that, in reliance of the representations given by Mr Tony Qu and PrediWave, the Company entered into various agreements with the PrediWave Companies under which the Group invested in the PrediWave Companies and placed various purchase orders for goods and services relating to the technology (the “Technology”) of video-on-demand and other digital broadcasting and related technology and added value services. The Group had paid approximately HK\$5 billion to the PrediWave Companies for investments in and loans to the PrediWave Companies, and purchases of goods and services from PrediWave. The Company complained of various breaches, in relation to goods and services relating to the Technology, by Mr Tony Qu and the PrediWave Companies relating to the parties’ agreements. Accordingly, the Company claimed damages for an amount to be determined at trial together with interest, rescission of all agreements, restitution of all monies obtained from the Group, punitive and exemplary damages, costs of legal proceedings and other declaratory relief and equitable relief. The total monetary amount sought by the Company in the law suit exceeds US\$700 million (equivalent to approximately HK\$5,460 million).

The directors have been advised by their external legal counsel that the NWTMT Complaint will not be concluded in a short period of time and the outcome of the NWTMT Complaint is uncertain.

Based on the unaudited management accounts of the PrediWave Companies as at 31 December 2003 which were obtained prior to the commencement of the NWTMT Complaint, there was a balance of approximately US\$344 million (equivalent to approximately HK\$2,683 million) in their bank accounts.

In June 2004, with the objective of preventing improper withdrawals of funds, Mr Jimmy Li, the director nominated by the Group to certain PrediWave Companies sought to exercise the co-signing rights in relation to withdrawals of funds in excess of US\$0.5 million from the bank accounts of certain PrediWave Companies by requesting a temporary restraining order from the court. However, such request was denied by the Superior Court of the State of California for the County of Santa Clara in the US.

In August 2004, the Superior Court of the State of California for the County of Santa Clara in the US made an order in favour of Mr Jimmy Li permitting him to inspect all corporate books and records of certain PrediWave Companies. Mr Jimmy Li is assisted by an accounting firm in the US to inspect the books and records but no meaningful financial information has been extracted as of the date of approval of the accounts.

29 PENDING LITIGATIONS (Continued)

As the directors of the Company were unable to freeze the bank accounts or enforce the co-signing rights, the directors of the Company consider that they cannot effectively monitor the utilization of funds by the PrediWave Companies. Notwithstanding that the bank balances of the PrediWave Companies were approximately US\$344 million as at 31 December 2003 based on their unaudited management accounts, the directors expect that the utilization of funds for legal costs and other causes beyond their control will be significant throughout the period up to the date when the NWTMT Complaint is concluded. In addition, in the absence of the availability of meaningful and updated financial information on the PrediWave Companies and given the uncertainty of the timing and the outcome of the litigation which would have a consequential effect on the amount of assets recoverable, the directors have concluded that a full provision of HK\$3,082 million made against the Group's investments in the PrediWave Companies, loans to the PrediWave Companies and deposits paid to PrediWave is most appropriate for the purpose of the accounts for the year ended 30 June 2004.

- (b) In May 2004, PrediWave filed complaints to the Superior Court of the State of California for the County of Los Angeles in the US against the Company (the "PrediWave Complaint"). Under the PrediWave Complaint, PrediWave alleged that the Company had failed to make full payments under three purchase orders and one agreement for goods and services delivered or licenses granted by PrediWave to the Group relating to the Technology with an outstanding amount of approximately US\$59 million (equivalent to approximately HK\$459 million). PrediWave claimed damages against the Company in an amount to be proved at trial, but not less than US\$58 million (equivalent to approximately HK\$452 million) together with interest and costs of legal proceedings, and a declaration that the Company should pay PrediWave the profits PrediWave would have received had the Company performed its obligations under various purchase order and agreements and that PrediWave should be entitled to retain the deposits made by the Company thereunder.

The directors are of the view that the Company has proper and valid defences to the PrediWave Complaint, and accordingly, no provision for commitment/loss has been accounted for in the accounts.

30 COMMITMENTS

- (a) At 30 June 2004, the capital commitments, principally for purchases of fixed assets and other investments were as follows:

	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for	118,118	347,662

On 5 July 2004, a subsidiary of the Company entered into various agreements whereby the subsidiary would acquire further 20.1% interest in the registered capital of 北京信通傳之媒文化發展有限公司 at a consideration of HK\$19.7 million and inject HK\$49.1 million upon its capital increase. After the completion of the above transactions, the Group's interest in the registered capital of 北京信通傳之媒文化發展有限公司 would be increased from 51% to 70.1%.

The above capital commitments did not include commitments for purchase of fixed assets and intangible assets which are the subject of the PrediWave Complaint (note 29(b)).

- (b) At 30 June 2004, the Group had future aggregate minimum lease payments under operating leases in respect of land and buildings as follows:

	2004 HK\$'000	2003 HK\$'000
Not later than one year	4,689	1,911
Later than one year but not later than five years	1,828	142
Later than five years	33	—
	6,550	2,053

31 REORGANIZATION AND DISCONTINUING OPERATIONS

As part of the New World Group reorganization (the “Reorganization”), which was completed on 29 January 2003, the Group disposed of its investments in the Infrastructure Assets to NWSH, a then subsidiary of the Company. In addition, the Company distributed all the ordinary shares of NWSH then held by the Group to the shareholders of the Company. After the completion of the Reorganization, NWSH has become a fellow subsidiary of the Group.

The financial information of the Infrastructure Assets and cargo handling segment was as follows:

	From 1.7.2002 to 29.1.2003		
	Infrastructure assets	Cargo handling	Total
	HK\$'000	HK\$'000	HK\$'000
	(Restated)	(Restated)	(Restated)
Turnover	372,129	10,687	382,816
Operating expenses	(238,805)	(57,949)	(296,754)
Operating profit/(loss) before financing	133,324	(47,262)	86,062
Finance costs	(65,953)	–	(65,953)
Share of results of associated companies	–	172,181	172,181
Share of results of jointly controlled entities	416,652	130,322	546,974
Profit before taxation	484,023	255,241	739,264
Taxation	(28,297)	(34,838)	(63,135)
Profit after taxation	455,726	220,403	676,129
Minority interests	5,595	(49,294)	(43,699)
Profit for the period	461,321	171,109	632,430
Cash inflow/(outflow) in respect of:			
Operating activities	187,834	(70,371)	117,463
Investing activities	228,674	207,101	435,775
Financing activities	(220,511)	–	(220,511)
Net cash inflow	195,997	136,730	332,727

31 REORGANIZATION AND DISCONTINUING OPERATIONS (Continued)

	As at 29.1.2003		
	Infrastructure assets	Cargo handling	Total
	HK\$'000	HK\$'000	HK\$'000
	(Restated)	(Restated)	(Restated)
Total assets	13,219,721	4,387,959	17,607,680
Total liabilities	(9,211,243)	(39,313)	(9,250,556)
Minority interests	(1,613,550)	(147,552)	(1,761,102)
	2,394,928	4,201,094	6,596,022
Net amount due to holding company	6,563,702	–	6,563,702
	8,958,630	4,201,094	13,159,724
Net assets sold	8,958,630		
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	512,637		

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2004 HK\$'000	2003 HK\$'000 (Restated)
Operating loss	(5,306,510)	(479,932)
Depreciation	22,525	144,793
Gain on disposal of unlisted investment	–	(118,541)
Gain from the Reorganization	–	(512,637)
(Gain)/loss on disposal of other investments	(3,876)	201,367
Impairment losses on other investments	2,272,361	21,349
Impairment losses on fixed assets	663,663	45,002
Impairment losses on intangible assets	401,232	–
Provision for loans to investee companies	304,201	–
Provision for payments on account of proposed joint ventures	–	111,635
Provision for deposits for proposed investments	81,281	122,445
Provision for amount due from a jointly controlled entity	14,469	158,559
Provision for amount due from associated companies	113,040	–
Write-down of inventories to net realizable value	291,406	458,362
(Gain)/loss on disposal of fixed assets	(58)	3,551
Gain on disposal of subsidiaries	–	(84,127)
Write-back of impairment loss on other investments	(4,738)	(1,972)
Amortization of deferred interest income	–	(209)
Amortization of cost of investment in co-operative joint ventures	–	10,417
Amortization of intangible assets	903	–
Amortization of cost of programmes	18,533	–
Provision for deposits for purchase of fixed assets	843,869	–
Provision for loans receivables	99,806	–
Provision for other receivables	29,246	39,180
Interest income	(7,254)	(114,278)
Operating (loss)/profit before working capital changes	(165,901)	4,964
Decrease/(increase) in debtors, deposits and prepayments	11,774	(9,861)
Increase/(decrease) in creditors and accruals	67,623	(31,065)
Net change in amounts with minority shareholders	12,884	5,243
Decrease in inventories	24,143	–
Net cash used in operations	(49,477)	(30,719)

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Analysis of changes in financing during the year

	Share capital including share premium	Contributed surplus	Pledged deposits	Short-term bank loans and other borrowings	Minority interests	Deferred expenditure	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2002	6,612,227	1,377,599	(838,666)	11,725,474	1,928,045	(50,997)	20,753,682
Effect of adopting the SSAP 12	–	(286,986)	–	–	(65,160)	–	(352,146)
At 1 July 2002, as restated	6,612,227	1,090,613	(838,666)	11,725,474	1,862,885	(50,997)	20,401,536
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	–	–	–	–	39,188	–	39,188
Distribution in specie	(5,000,000)	1,182,355	–	(12,489)	(147,552)	–	(3,977,686)
Acquisition of subsidiaries	–	–	(113,100)	902,804	–	–	789,704
Disposal of subsidiaries	–	–	–	(1,530,767)	(1,754,521)	–	(3,285,288)
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
As 1 July 2003	1,612,227	2,650,991	(362,483)	2,411,842	–	–	6,312,577
Net cash inflow from financing	–	–	7,583	1,039,962	7,011	–	1,054,556
Reclassified from unsecured deposit	–	–	(92,040)	–	–	–	(92,040)
Loan repayment in respect of the loan undertaken by NWSH	–	–	–	(103,546)	–	–	(103,546)
Minority interests' share of loss	–	–	–	–	(20,608)	–	(20,608)
Acquisition of subsidiaries	–	–	–	4,258	27,602	–	31,860
At 30 June 2004	1,612,227	2,650,991	(446,940)	3,352,516	14,005	–	7,182,799

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Acquisition of subsidiaries

	2004 HK\$'000	2003 HK\$'000
Net assets acquired		
Fixed assets	13,617	75,391
Pledged deposits and short-term deposits	–	204,984
Bank balances and cash	13,402	33,370
Other investments	–	4,346
Debtors, deposits and prepayments	74,370	70,376
Amount due from holding company	–	760,010
Intangible assets	5,806	–
Creditors and accruals	(49,153)	(23,165)
Taxation	(169)	–
Bank and other borrowings	(4,258)	(902,804)
Minority interests	(27,602)	–
	26,013	222,508
Goodwill on acquisition	2,636	–
	28,649	222,508
Satisfied by:		
Payments on account of proposed joint ventures and investments in jointly controlled entities originally held by the Group	–	222,508
Deposits for proposed investments	27,103	–
Cash	1,546	–
	28,649	222,508

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

	2004	2003
	HK\$'000	HK\$'000
Cash consideration	(1,546)	–
Bank balances and cash acquired	13,402	33,370
	11,856	33,370

(e) Disposal of subsidiaries

	2003
	HK\$'000
	(Restated)
Net assets disposed of	
Fixed assets	7,048,987
Debtors, deposits and prepayments	35,428
Short-term deposits	138,785
Bank balances and cash	366,214
Investment in jointly controlled entities	6,574,093
Creditors and accruals	(1,147,481)
Net amount due from a minority shareholder of a subsidiary	117,913
Taxation	(943)
Bank and other borrowings	(1,530,767)
Minority interests	(1,754,521)
Deferred interest income	(101,032)
Deferred taxation	(218,346)
	9,528,330
Contributed surplus	378,023
Gain on disposal	596,764
	10,503,117
Satisfied by:	
Cash received	8,821,113
Consideration shares issued by NWSH	795,593
Undertaking of loans by NWSH	886,411
	10,503,117

32 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

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

	2003
	HK\$'000
	<hr/>
Cash received	8,821,113
Bank balances and cash disposed of	(366,214)
	<hr/>
	8,454,899
	<hr/>

(g) Distribution in specie

	2003
	HK\$'000
	(Restated)
	<hr/>
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	1,256,497
Investment in jointly controlled entities	1,602,717
Deferred tax assets	5,387
Creditors and accruals	(16,260)
Taxation	(71)
Loan from minority shareholder	(12,489)
Minority interests	(147,552)
Deferred taxation	(10,493)
	<hr/>
	3,405,501
Consideration shares received on the Reorganization	795,593
	<hr/>
	4,201,094
	<hr/>

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

	2003
	HK\$'000
	<hr/>
Bank balances and cash distributed	419,673
	<hr/>

33 RELATED PARTY TRANSACTIONS

In addition to those transactions with related parties disclosed in note 26(b), the following significant related party transactions have been entered into by the Group during the year:

	2004 HK\$'000	2003 HK\$'000
Interest income from jointly controlled entities (gross of withholding tax) (note a)	–	(73,206)
Staff costs reimbursed from a fellow subsidiary (note b)	–	(9,883)
Management fee received from a jointly controlled entity (note c)	–	(2,229)
Purchases from an associated company (note d)	365,558	810,705
Rental expense for leased premises to a fellow subsidiary (note e)	–	5,018
Rental expense for leased premises reimbursed to an associated company (note f)	–	701
Rental expense for leased premises reimbursed from an associated company (note g)	(1,200)	–
Interest paid to:		
A fellow subsidiary (note h)	20,955	32,836
A related company (note i)	1,139	–
Consultancy fee paid to a fellow subsidiary (note j)	1,414	–

Notes:

- (a) This represented interest income in respect of loan financing provided to jointly controlled entities. These loans were unsecured, bore interest at Hong Kong prime rate or at fixed rates ranging from 2% to 15% per annum and had repayment terms as specified in the respective joint venture agreements.
- (b) This represented the reimbursement on an actual basis from NWSH in respect of employees seconded to NWSH.
- (c) This represented management fee income in respect of management and administrative services rendered by the Company to a jointly controlled entity. The management fee was charged at a fixed annual amount as specified in the management and administrative services agreement.
- (d) This represented purchases of interactive television network system and equipment which are developed by PrediWave at prices mutually agreed by both parties. As at 30 June 2004, the Group also paid approximately HK\$843,869,000 (2003: HK\$936,546,000) as trade deposit to PrediWave (note 20).
- (e) The rental was charged at fixed monthly amounts as specified in the tenancy agreements.

33 RELATED PARTY TRANSACTIONS (Continued)

- (f) This represented the reimbursement of rental for office premises to an associated company which was the lessee of the premises. The reimbursement was based on the actual office space occupied by the Group.
- (g) This represented the reimbursement of rental from an associated company. The reimbursement was based on the actual office space occupied by the associated company.
- (h) Interest was charged at prevailing market rate.
- (i) This represented interest on temporary advances from a related company which was charged at a rate as mutually agreed between both parties.
- (j) This represented consultancy fee paid in respect of consultancy services provided by New World Telecommunications Limited ("NWT"). The consultancy fee was charged based on the number and level of expertise of the NWT personnel deployed to provide the consultancy services and not exceeding HK\$800,000 per month.

34 COMPARATIVE FIGURES

Comparative figures for gain from the Reorganization, other operating income and operating costs have been reclassified or extended to conform with the current year's presentation.

Comparative figures for the taxation charge, gain from the Reorganization, gain on disposal of subsidiaries, share of results of associated companies and jointly controlled entities and dividend have been restated as a result of the adoption of the SSAP 12 (note 1(o)).

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 15 October 2004.

37 PRINCIPAL SUBSIDIARIES

As at 30 June 2004

	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>					
New World Allmedia Services Limited	2 Ordinary	HK\$1	–	100	Development of multimedia business

37 PRINCIPAL SUBSIDIARIES (Continued)

As at 30 June 2004

	Registered capital amount	Attributable interest		Principal activities
		To the Company	To the Group	
<i>Incorporated and operating in the PRC</i>				
New World Infrastructure (China) Investment Limited	US\$130,000,000	100	–	Investment holding
深圳新世界翔龍網絡技術 有限公司	RMB200,000,000	–	100	Exploration of wireless telecommunication network
深圳新世界翔龍科技發展 有限公司	RMB100,000,000	–	100	Exploration of wireless telecommunication network
深圳市翔龍通訊有限公司	RMB100,000,000	–	100	Provision of telecommunication related services
北京信通傳之媒文化發展 有限公司	RMB30,000,000	–	51	Provision of billboard advertising, advertising agency services and business consultancy services
上海奧梅地亞文化傳播有限公司	RMB5,000,000	–	60	Provision of advertising agency services
北京新世界威邁特高新技術 有限公司	US\$1,800,000	–	55	Provision of ATM multi- media advertising system

38 PRINCIPAL ASSOCIATED COMPANIES

As at 30 June 2004

	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				100 (note)	

Note: The percentage of equity interest was increased from 64.29% to 100% during the year.

During the year, certain companies were reclassified from associated companies to other investments (note 16(a)). Details of these companies were set out as follows:

	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	

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	
CyberNova Corporation	31,000,000	–	–	–	Development of cable modem
Common	20,000,000	–	–	100	
	Series A Preferred				
Pine Global Marketing Limited	31,000,000	–	–	–	Provision of marketing services on all commercialized products developed by PrediWave Companies
Common	17,500,000	–	100	–	
Series A Preferred					
PrediWave Corporation	35,000,000	–	–	–	Development of interactive television network system technology
Common	15,000,000	–	–	100	
Series A Preferred					
S.T.U.B. SATertainment Inc.	60,000,000	–	–	–	Distribution of satellite products
Common	40,000,000	–	–	100	
Series A Preferred					
TechStock, Inc.	30,000,000	–	–	–	Investment holding
Common	20,000,000	–	–	100	
Series A Preferred					
Visionaire Technology Corporation	34,000,000	–	–	–	Development of copyright protection technology
Common	15,000,000	–	–	100	
Series A Preferred					

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	
WarpEra Corporation	42,000,000	–	–	–	Development of computer hardware and software
Common	18,000,000	–	–	100	
Series A Preferred					

39 PRINCIPAL JOINTLY CONTROLLED ENTITY

As at 30 June 2004

	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 PRC</i>					
China Aerospace New World Technology Limited	30,000,000	HK\$1	–	50	Investment holding (note)
	Ordinary				

Note: Newly acquired by the Group during the year.