



Fellow Shareholders,

Review of Results

New World Development made good progress during the year with profit attributable to shareholders amounting to HK\$1,275.4 million. Earnings per share were HK\$0.60.

In August 2001, the Group completed the sale of the Regent Hotel. Together with the launch of six residential projects, total cash generated from property sales in Hong Kong amounted to over HK\$4,300 million. The Group also stepped up its land acquisition programme to strengthen its land reserves, paving the way for growth in the years to come.

The Group's overall rental portfolio was able to maintain high occupancy levels during the year although rental rates for certain investment properties were under pressure.

Stronger cash inflow was generated through increased property sales at New World China Land Limited ("NWCL"). Turnover increased 60% to HK\$939.4 million. More projects were launched in the market than in previous years, with demand for each project remaining encouraging.

New World Infrastructure Limited ("NWI") reported a loss of HK\$148.4 million, which was primarily due to decreased income from its Bridge Segment and its Energy Segment, and the operating loss of its technology projects. During the year, NWI incurred impairment losses and made provisions for diminution in the value of certain investments.

New World Services Limited ("NWS") reported a 3.6% increase in net profit to HK\$848.7 million. The diversity and synergy of NWS's operations have provided a strong cushion against economic downturn, with the net margin increasing to 7.3% compared to 7.0% in the previous year.

There was a marked improvement in the Group's telecommunications businesses. Our two key operating companies – New World Telephone and New World Mobility – have strengthened their market position

significantly with higher quality revenue and the application of more stringent cost controls. These initiatives have helped the businesses achieve a net profit for the first time.

Proposed Group Reorganization

Today, the Board of Directors resolved to implement a Group reorganization. The broad terms of the reorganization are set out below: Pacific Ports Company Limited ("Pacific Ports") will acquire New World Services Limited in a share-for-share exchange. The traditional infrastructure assets of NWI will be acquired by Pacific Ports for a combined cash and shares consideration and Pacific Ports also undertakes to pay certain liabilities of NWI. Immediately following the completion of reorganization, NWI's entire holding of Pacific Ports shares will be distributed to the NWI shareholders, resulting in the NWI shareholders holding direct interest in Pacific Ports instead of indirect interest through NWI. Upon completion of the reorganization and the distribution, New World Development will own 54.25% in NWI and 52.00% in Pacific Ports. Pacific Ports will be renamed as NWS Holdings Limited.

The proposed reorganization creates a more rational and streamlined structure for the Group and unlocks the value of these subsidiaries. The new structure will bring about a more streamlined and efficient corporate and capital structure for the Group, with better alignment and utilisation of assets and liabilities of these principal subsidiaries. NWS Holdings Limited will hold the Group's existing services, infrastructure and port businesses and be the vehicle for future investments in these sectors. NWI will adopt a fresh business focus by concentrating on the TMT sectors in Mainland China.

The Group's financial position will also be strengthened and capital structure optimized. The broad asset base and strong cash flow of the newly formed NWS Holdings Limited will allow it to have a stronger debt servicing capability and lower cost of capital, which will gradually reduce the overall debt level and gearing ratio of the Group.

Outlook

The proposed new corporate structure allows us to further build on the strengths of our solid business platform of property, infrastructure, services and telecommunications. For New World Development, more properties will be launched in the market, generating much greater cash inflow in the near future.

For NWCL, the increase in completion of properties intended for sale and for investment over the next few years should yield strong cash inflow and profits. Strong contributions from the newly formed NWS Holdings Limited, together with the increased positive cash flow contributed from both New World Telephone and New World Mobility, will continue to underpin liquidity and interest coverage. All the above will bring a marked improvement to the Group's financial position and allow the Group to deliver higher returns to our Shareholders.

Acknowledgement

Our dedicated management team and employees of New World Development bring deep experience and knowledge to our businesses. I would like to extend my thanks to our colleagues on the Board and all staff members for their hard work and unswerving loyalty for the period under review.

Dr. Cheng Kar-Shun, Henry

Managing Director

Hong Kong, 18 October 2002