# Managing Director's Report

*To Our Shareholders,*

*New World Group now has totally five listed vehicles, each focusing on its areas of strength. Our core operations have benefited greatly from the revival of Hong Kong economy and prosperity in Mainland China.*

## Strong core operations

For the year under review, the Group recorded a turnover of HK$25.7 billion, up 22% from last year. Contributions from property sales and rental, service and infrastructure, department stores and hotels achieved either turnaround or growth. The Group fulfilled the promise of a significant debt reduction by trimming net debt down by almost HK$10 billion. Gearing was substantially reduced to 39.7% from 68.0%. A final dividend of 4 Hong Kong cents per share was proposed, as the Group is confident in the robustness of cash flow from our operations in future. Together with the interim dividend paid, the full-year dividend is expected to be 6 Hong Kong cents per share.

Hong Kong's property market has undoubtedly turned around since the fourth quarter of 2003. Our sales personnel at every project feel the heat of demand. The recent land auctions are telling indicators of most developers' expectation of more favourable market conditions going forward. CEPA implementation and Hong Kong's economic recovery increased office demand as companies hire more personnel and expand business scale. Tourists are arriving in Hong Kong in great numbers, boosting retail traffic. The Group's hotel operations regained their pre-SARS profitability levels.

New World China Land Limited ("NWCL") reported a profit of HK$127.3 million. The significant improvement in results was attributable to the improvement in its property sales, rental, hotel and property management operations. With abundant land reserve (15 million sq. m. developable GFA), NWCL is in a better position than other developers especially when new land can now only be acquired through public auctions or tenders.

NWS Holdings Limited reported a profit of HK$1,538.2 million, up 29% year-on-year. The robust results reflected the success of the reorganization completed in early 2003 and the achievement of distinct synergies amongst its service, infrastructure and ports divisions.

In May 2004, the Group's subsidiary NWTMT filed complaints and claims against PrediWave Companies as they failed to fulfill their promises in the contract. NWTMT's Board of Directors decided that it is appropriate to make provisions of HK$4,392.0 million against the PrediWave related investments and assets ("PrediWave Provisions"). However, if stripping out the PrediWave provisions made by NWTMT, the Group should have made a profit of approximate HK$1.41 billion. The Group expects no major capital expenditure on TMT projects, and we will consolidate our TMT businesses to generate stable cash flow.

## Confidence in future

We are optimistic about the economy of Mainland China. Mainland China's GDP in 2003 grew by 9.3% to RMB11.7 trillion or over US$1,000 per capita, and the country's GDP growth in 2004 is expected to be at least 7%. We believe the long-term economic growth and stability of Mainland China is achievable. Since Hong Kong's handover in 1997, its economy is more and more correlated to Mainland China. As a result, Hong Kong's prosperity is expected to go hand-in-hand with Mainland China.

Pearl River Delta regional co-operation will further drive the Hong Kong economy forward. The Group will leverage on its exposure in the region to explore new opportunities and fuel the growth of its core businesses. The Group's core businesses, including properties and hotels, service and infrastructure and department stores, will continue to perform well and generate strong cash flow.

**Dr. Cheng Kar-Shun, Henry**
*Managing Director*
Hong Kong, 15 October 2004