

新 世 界 發 展 有 限 公 司 一 九 八 八 年 年 報

New World Development Co., Ltd. Annual Report 1988



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Corporate Information

Board of Directors

- * Dr. Cheng Yu-Tung,
LL.D., D.B.A. Hon.
(Chairman and Managing Director)

Dr. Ho Sin-Hang,
C.B.E., D.S.Sc.

The Hon. Sir Quo-Wei Lee,
C.B.E., F.C.I.B., LL.D., J.P.

Sir Michael Sandberg,
C.B.E.

Dr. Ho Tim,
O.B.E., J.P., D.S.Sc.

Kwok Tak-Seng,
O.B.E.

- * Sin Wai-Kin

- * Dr. Young Bing-Ching, Albert,
B.Sc., LL.D.
(Deputy Managing Director)

Cheng Yue-Pui

- * Cheng Kar-Shun, Henry,
B.A., M.B.A.

- * Liang Chong-Hou, David
Yiu Yan

Yeung Ping-Leung, Howard

- * Members of Executive Committee

Secretary

Leung Chi-Kin

Auditors

Price Waterhouse

H.C. Watt & Company

Principal Bankers

Bank of Tokyo, Ltd.

Banque Nationale de Paris

Chase Manhattan Bank, N.A.

Citibank, N.A.

Hang Seng Bank Limited

Hongkong and Shanghai Banking
Corporation

Morgan Guaranty Trust Company

Standard Chartered Bank

Sumitomo Bank Ltd.

Registered Office

New World Tower, 30th Floor,
18 Queen's Road, Central,
Hong Kong.

Solicitors

Yung, Yu, Yuen & Company

Woo, Kwan, Lee & Lo

Share Registrars and Transfer Office

Central Registration Hong Kong Limited

19th Floor, Hopewell Centre,

183 Queen's Road East,

Wanchai,

Hong Kong.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Members of the Company will be held at The Regent, Salisbury Road, Kowloon on Monday, 19 December 1988 at 12:30 p.m. for the following purposes:

1. To consider and adopt the Report of Directors and Auditors together with the Statement of Accounts for the year ended 30 June 1988 and to approve a final dividend of 32 cents per share.
2. To re-elect the four Directors retiring by rotation.
3. To appoint Joint Auditors.
4. To consider passing the following resolution as an ordinary resolution:
"That the general mandate unconditionally given to the Directors to issue and dispose of additional shares not exceeding 10% of the existing issued share capital of the Company be and is hereby renewed until the next Annual General Meeting."

By Order of the Board of Directors
Leung Chi-Kin
Secretary

Hong Kong, 3 November 1988

Note:

- (1) The Register of Shareholders will be closed from 12 to 19 December 1988, both days inclusive.
- (2) Shareholders are entitled to appoint a proxy to attend and vote on their behalf at the meeting and such proxy need not be a shareholder of the Company. A proxy form, to be valid, must be completed and returned to the Company's registered office not less than 48 hours before the time for the holding of the meeting.

Directors' Report

The Directors have pleasure in presenting their Annual Report and Statement of Accounts for the year ended 30 June 1988.

Group Activities

The principal activities of the Company remain investment holding and property investment. The principal activities of the Principal Subsidiaries and Associated Companies are shown on pages 37 to 39.

Accounts

The profit of the Company and the Group for the year ended 30 June 1988 and the state of the Company's and the Group's affairs at that date are set out in the Accounts on pages 19 to 39.

Dividends

The Directors have resolved to recommend a final dividend of 32 cents per share (1987: 24 cents) comprising minimum cash dividend of 1.0 cent per share, which is being paid in order to ensure that the shares of the Company continue to be Authorised Investments for the purpose of the Trustee Ordinance of Hong Kong, and an issue of additional shares by way of scrip dividend equivalent to 31 cents per share with a cash option to shareholders registered on 19 December 1988. Together with the interim dividend of 18 cents per share paid in May 1988, total distribution for 1988 would thus be 50 cents per share. Subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares, each shareholder will be allotted fully paid shares having an aggregate market value equal to the total amount which such shareholder could elect to receive in cash and that they be given the option to elect to receive payment in cash of 31 cents per share instead of the allotment of shares. Full details of the scrip dividend will be set out in a letter to be sent to shareholders

together with a form of election for cash on or about 20 December 1988.

Share Capital

Details of the increase in the issued share capital during the year are set out in Note 18 to the Accounts.

Donations

The Group's charitable donations paid during the year amounted to HK\$1,669,100.

Fixed Assets

Movements of fixed assets during the year are summarised in Note 10 to the Accounts.

Directors

The present Directors of the Company, whose names appear on page 2 of this report, were Directors of the Company at the date of this report.

In accordance with articles 103 of the Company's Articles of Association, Sir Quo-Wei Lee, Mr. Kwok Tak-Seng, Mr. Cheng Yue-Pui and Mr. Yiu Yan retire by rotation and, being eligible, offer themselves for re-election.

Directors' Interest in Contracts

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Right to Acquire Shares or Debentures

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Director of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Interest in Shares

The directors and their associates are interested in the issued share capital of the Company and its subsidiaries at the balance sheet date as follows:

	No. of Shares	
	Beneficial Interest	Non-Beneficial Interest
New World Development Company Limited		
Dr. Cheng Yu-Tung	—	—
Dr. Ho Sin-Hang	1,264,000	—
The Hon. Sir Quo-Wei Lee	2,167,296	—
Sir Michael Sandberg	—	—
Dr. Ho Tim	2,159,866	—
Mr. Kwok Tak-Seng	—	—
Mr. Sin Wai-Kin	3,501,984	—
Dr. Young Bing-Ching	—	960
Mr. Cheng Yue-Pui	—	—
Mr. Cheng Kar-Shun	—	—
Mr. Liang Chong-Hou	18,465,600	—
Mr. Yiu Yan	177,280	—
Mr. Yeung Ping-Leung	—	—
New World Hotels (Holdings) Limited		
Dr. Ho Sin-Hang	2,300,000	—
Dr. Ho Tim	344,400	—
Mr. Yiu Yan	1,751,040	—
Hip Hing Construction Company Limited		
Mr. Sin Wai-Kin	21,000	—
International Property Management Limited		
Mr Sin Wai-Kin	5,400	—
New World Nominee Limited		
Dr. Cheng Yu-Tung	—	1

Dr. Cheng Yu-Tung is a shareholder of Chow Tai Fook Enterprises Limited which, together with its subsidiaries, has a beneficial interest in 471,853,794 shares in the Company and 177,360,640 shares in New World Hotels (Holdings) Limited.

In addition to the above, Mr. Cheng Yue-Pui holds one share in each of the following subsidiaries in a nominee capacity for the Company:

- Billion Town Company Limited
- Capital System Limited
- Disneyland Housing Limited
- Form Trend Company Limited
- Gold Queen Limited
- Keen City Limited
- Mill Plan Limited
- Peterson Investment Company Limited
- Win Type Limited
- Worldtech Company Limited

Mr. Cheng Kar-Shun holds one share in each of the following subsidiaries in a nominee capacity for the Company:

- Crimson Company Limited
- Mei Foo Investments Limited
- Mighty King Limited
- New World Hotel Company Limited
- Timely Enterprises Corporation Limited

Auditors

The Accounts have been audited by Messrs. Price Waterhouse and H. C. Watt & Company, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Dr. Cheng Yu-Tung

Chairman

Hong Kong, 3 November 1988

Chairman's Report

Consolidated Results

I am pleased to report that the profits of your Group during the financial year ended 30 June 1988 were significantly higher than those of the previous year. The audited group profit, after taxation, minority interests, and share results of associated companies for the year ended 30 June 1988 amounted to HK\$1,115,449,000. This represents an increase of 32 per cent over that of the previous year. The Board of Directors have unanimously viewed this performance as very encouraging.

On 24 March 1988, your Directors declared an Interim Dividend in scrip form equivalent to 18 cents per share with a cash option. Your Directors now recommend payment of a Final Dividend of 32 cents per share. Once again, the recommended Final Dividend will be satisfied by the issue of scrip to shareholders, with the option being given to shareholders to elect to receive cash in lieu of scrip in respect of part or all of such dividend. The Final Dividend of 32 cents per share will thus comprise minimum cash dividend of 1.0 cent per share, which is being paid in order to ensure that the shares of the Company continue to be Authorised Investments for the purpose of the Trustee Ordinance of Hong Kong, and an issue of additional shares by way of scrip dividend equivalent to 31 cents per share with a cash option to shareholders registered on 19 December 1988. Together with the interim dividend of 18 cents per share paid in May 1988, total distribution for 1988 would thus be 50 cents per share, an increase of 31.6% over the previous year.

Subject to the Listing Committee of The Stock Exchange of Hong Kong Limited granting listing of and permission to deal in the new shares, each shareholder will be allotted fully paid shares having an

aggregate market value equal to the total amount which such shareholder could elect to receive in cash and that they be given the option to elect to receive payment in cash of 31 cents per share instead of the allotment of shares. Full details of the scrip dividend will be set out in a letter to be sent to shareholders together with a form of election for cash on or about 20 December 1988.

Rental Operations

Rental income from the New World Centre has increased significantly over the last twelve months. The main Shopping Arcade and the Regent Arcade again recorded 100% occupancy. A rationalisation exercise was undertaken to develop a stronger tenant mix to ensure onward rental growth and continuing patronage of the retail centre. Also, a refurbishment programme commenced to upgrade the public areas of the two Shopping Arcades.

The continuing strong demand for prime office accommodation in Tsim Sha Tsui benefited our two Office Buildings with full occupancy throughout the year.

The New World Apartments reported year round occupancy of 97% underlining the increasing demand for furnished service apartments. A general refurbishment programme for all Apartments is in constant progress to meet this discerning market's requirements.

To achieve an optimal balance between development profit and rental income, the Group has also during the period sold the rental properties at Blocks 47 & 48 of Baguio Villa. Other office properties in Central were all maintained at full occupancy status, contributing strong rental income for the Group. Gross rental income for the year ended 30 June 1988 yields a total of HK\$603 million.

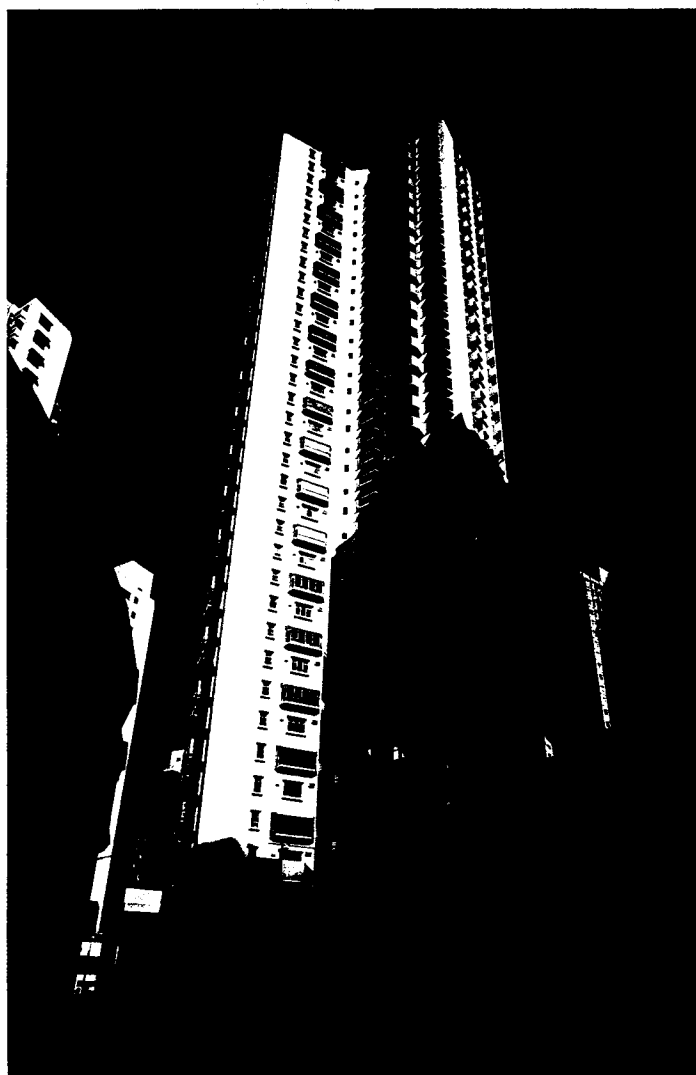
Chairman's Report (continued)

In face of the exceptionally high demand for office space all over Hong Kong and Kowloon, the Group's rental income will see marked increases with renewals of leases in existing office buildings and the completion next year of the integrated New World Tower in Central and the Hong Kong Convention and Exhibition Centre on the waterfront of Wan Chai.

Plans are also underway to develop at the basements of Urban Council's Tsim Sha Tsui Cultural Complex and Garden a shopping arcade proposed to cover an area of about 140,000 square feet and a carpark with 250 spaces.

般含道寧養臺

Ning Yeung Terrace on Bonham Road.



Property Development

To date, the portfolio of development properties held by the Group consists of 27 sites with total attributable development potential of 1,058,888 square metres. All the projects are proceeding on schedules.

During the year under review, the Group has made good progress in terms of physical completion and sale of all its projects.

With the completion of Vicwood Plaza on top of the Sheung Wan Station, Hongway Garden at the site of the former Western Fruit Market and the Southorn Garden above the Wan Chai Station, developments on the Mass Transit Railway Island Line, except that of Park Tower on the Tin Hau Station, were completed in mid-1988.

Other major projects to be reported for the year under review are as below:

1. Riviera Gardens in Tsuen Wan is the Group's joint-venture with Caltex Petroleum Corporation of USA to redevelop Caltex's oil depot in Tsuen Wan into a residential estate. All the 6,200 flats in the project had been sold.
2. The Pierhead Garden, a joint-venture between our Group and Kowloon-Canton Railway Corporation to develop a residential community above the Light Rail Transit System in Tuen Mun, comprises 1,432 flats and a commercial shopping complex. Over 90% of the flats had been sold.
3. Upon the flats in Phase 7 being sold out, the project of City One Shatin has now completed its development.
4. Ning Yeung Terrace on Bonham Road is a luxury residential development at Mid-Levels. When the 81 units at Block B were being offered on the market either for leasing or sale in June this year, they received very good responses.

5. Academic Terrace on Pokfulam Road; pre-sale of one of its three blocks in September this year has resulted in over 90% of the flats sold.
6. All the units in the industrial building completed on Texaco Road, Tsuen Wan had been sold out.

Among other major projects under planning are Phase 4 of the Discovery Bay project, the industrial property at Ka Yip Street in Chai Wan and the Felicity Garden at the Mass Transit Railway's Sai Wan Ho Station. The latter will be a residential-commercial complex complemented by an Urban Council Complex with a market as well as commercial and recreational facilities.

Hong Kong Convention and Exhibition Centre

Construction works at the Hong Kong Convention and Exhibition Centre Complex, with a total area of 409,000 square metres have been progressing at unprecedented speed. The first phase of the Complex, comprising the world-class Convention and Exhibition Centre, was granted its Temporary Occupation Permit in September this year. And in just over two years after the foundation stone was laid by Her Majesty Queen Elizabeth II in October 1986, the Centre will be scheduled to open on 25 November with Hong Kong Showcase '88, a fashion, fashion accessories, fur garments and jewellery exhibition. This launch event, co-hosted

在灣仔海傍興建之「香港會議展覽中心」，工程已接近完成階段。

The impressive new Hong Kong Convention and Exhibition Centre Complex, situated at the Wan Chai waterfront, is now nearing completion.



Chairman's Report (continued)

with the Hong Kong Trade Development Council, is the first ever large-scale trade show for high quality "Made in Hong Kong" products.

The purpose-built, meticulously designed Convention and Exhibition Centre, will offer convention, exhibition and corporate meeting venues of the size and scope that ranks it as Asia's top largest fully-integrated convention/exhibition complex. There will be two flexible Exhibition Halls totalling 18,000 square metres of prime exhibition space, one Convention Hall that could accommodate 2,600 people for meetings and 1,500 for banquets, two fully-equipped theatres and twenty-six Meeting/Function Rooms that cater for group sizes from 40 to 600. Also available there will be the simultaneous interpretation system for up to eight languages.

More than 230 multi-day, regional and international exhibitions and conventions have already been booked in its first four years of operation through 1992. These booked events are of varied nature. For exhibitions, there will be large and prestigious trade shows on food, toys, houseware, leather, furs, and other fashions, jewellery, money and finance, computers and telecommunications, electronics and building materials. As for conventions, medical events top the list, plus others on container and public transport, banking, language education, sales meetings and product launches of international corporations and annual conferences of various professional associations.

In 1989 alone, the exhibition attendance in the new Centre is expected to reach about 250,000, convention attendance at about 20,000 and special local events attendance at 30,000 or more, which add up to an estimated total of over 300,000 attendees in the first year's operation.

The second phase of development for this Complex will be the four towers on top of the Centre. Two of these towers will be hotels — the luxurious Grand Hyatt Hotel and the deluxe New World Harbourview Hotel which offer a total of 1,500 guest rooms. The other two towers will be a 39-storey office block and a 37-storey apartment tower with 630 units. The whole second phase will be completed by mid-1989.

The opening of this new Convention and Exhibition Centre will mark a new milestone in the local trade show and convention industry. Through attracting more and larger international events to here, Hong Kong will not only reap the many economic benefits but also those of non-economic ones such as technology and knowledge transfer between Hong Kong and the international community at large. Indeed Hong Kong is now gearing up to become the Asian capital for conventions and exhibitions, while poised to compete on an international level within this fast growing industry.

Hotel Business

1988 has been another very successful year for Hong Kong's tourism industry, with estimated total of 5.5 million visitor arrivals, almost a million more and an increase of 23% over that in 1987. The hotel industry thus continues to enjoy its boom times. Year round occupancy for the Regent of Hong Kong, the New World Hotel and the Hotel Victoria was all maintained at the high levels of 89%, 94% and 88% respectively.

China's open-door policy, the favourable local exchange rates, the growing affluence and changing lifestyles in South Asian countries and burgeoning economic activities in the Asia-Pacific Rim are all conducive factors to the continuing tourism boom. Topping the continued growth of visitor arrivals from the traditional major source countries of North America, Western Europe, Japan, Australia and other Asian countries is the spectacular surge in visitors from Taiwan. On the back of the ever-improving trade relations on both sides of the Strait and the growing tide of Taiwanese people travelling to China for family re-unions, Hong Kong's significant status as a gateway to China and the Asian region will be further enhanced. And to a lesser extent, the improved trading relations between South Korea and China coupled with the South Korean Government's relaxation of restrictions on its people travelling abroad will also benefit Hong Kong in the long run.

Much effort has been and will continue to be invested by the Group to ensure growth in its portfolio of hotel operations and management. Adding to the Hong Kong portfolio will be the New World Harbourview Hotel at the Hong Kong Convention and Exhibition Centre, scheduled to be completed in mid-1989. By the end of 1990, the Group will have

realized its plan of managing a chain of eight hotels over those major cities and popular tourist destinations in China.

Vancouver's New World Harbourside Hotel, acquired last year, is the Group's first hotel development in North America. Phase 1 of the hotel's refurbishment works started at the end of last December and were completed in May this year. While the works for Phase 2 will start some time in December this year, with its completion expected in mid-1989. The hotel's business so far has been encouraging.

In addition, we are also seeking suitable hotel development opportunities in the United States of America, Canada and the Southeast Asian countries, particularly Singapore, Thailand and the Philippines.

從麗晶酒店露台眺望港灣黃昏景色

Harbour view at sunset from the Regent Patio.



Chairman's Report (continued)

Construction & Engineering

The construction industry in Hong Kong continues with its growth momentum into 1988 on the back of the buoyant property market and Government's commitments to a massive infrastructural development programme. Though enjoying its boom times, profit margins for most construction contracts in the industry signed during 1986 and 1987 have been eroded by the escalating labour and material costs, due to the acute shortage of construction workers and the depreciation of Hong Kong dollar against the currencies of major construction material suppliers.

During the year under review, Hip Hing Construction Company Limited together with its subsidiaries reported a total construction turnover of HK\$1.99 billion, an increase of 70% over that of the previous financial year. The Group has also been able to achieve some improvements in profitability. In the face of difficult conditions prevailing in the construction industry, its performance is encouraging. Total value of job orders on hand now reaches HK\$5.4

billion. Major projects completed during the year included the last phase of the Kornhill development, Phase 2 of Asia Terminals Limited's container freight station in Kwai Chung, the prestigious office building of Bond Centre in Central and the Southorn Centre in Wan Chai. By far, the most significant job in the coming year will be the Hong Kong Convention and Exhibition Centre Complex on the waterfront of Wan Chai.

Performance of Young's Engineering Company Limited continues to be steady. The airconditioning contracting works to the Xian Cultural and Art Centre, Palace Hotel in Beijing, Furama Hotel in Dalian, etc are progressing smoothly. In Hong Kong, its major works now concentrate on Phase 1 of Pacific Place and the Hong Kong Convention and Exhibition Centre. Young's business prospects still look promising despite certain constraints caused to their operations due to the prevailing labour shortage experienced by all sectors of the local economy.

亞洲貨櫃有限公司在葵涌之現代化貨櫃大廈，經已全部被租用。

Asia Terminals Limited's modern container freight station at Kwai Chung is now fully occupied.



Shipping & Transport

Hong Kong Islands Line

The economy of the United States of America, which always has a vital impact on the world's shipping industry, seems to have weathered the market scepticism occasioned by last year's stockmarket crash. Benefiting from the rise in exports from Asia to the United States of America, container shipping on most Trans-Pacific trade routes have been enjoying promising growth in their westbound traffic business. There is however still the concern over the problem of trade imbalances between Asia and the United States of America, which have caused their return trips being made part-empty and thus resulted in some inevitable overtonnage. In addition, the threat of protectionism sentiments continues to grow ever stronger.

As for the container shipping business operated by Hong Kong Islands Line, activities in the Far East/United States West Coast/Far East, Far East/United States West Coast/Australia/Far East, and the Far East/Australia/Far East routes have been fairly steady. They were also able to take advantage of strong performances in some of those trade routes like the Trans-Pacific Westbound trades, and the Southbound trades between Asia and Australia. There has been during the year an overall growth of 12% in terms of cargo volume carried with a healthy 20% increase in revenue. This results in the Line's first profit contribution to the Group.

Asia Terminals Limited

Hong Kong has now edged out Rotterdam to become the world's busiest container port in terms of throughput. The year continues to see increases in Hong Kong's imports and exports, and in particular the rapid expansion of re-exports in and out of China. For the first eight months of 1988, container throughput at Kwai Chung increased by 15% over the same period last year to 2.61 million TEUs (20-foot equivalent units), with a projected growth of 12% for the whole of 1988. Demand for quality warehouse facility has remained keen as ever, with rentals in existing purpose-built developments being pushed to high levels. Asia Terminals Limited's completed facility of a modern container freight station and a cargo distribution centre at Berth 3 of Kwai Chung container terminal provides a total of 150,000 square metres of space for storing, handling and distributing container cargo, all housed under one roof. The whole facility is now fully occupied.

Tate's Cairn Tunnel

The Group had signed an agreement to acquire 24% equity interest for joining the Gammon/Nishimatsu Consortium on a 30-year franchise to operate the Tate's Cairn Tunnel. Planned to connect Siu Lek Yuen in Sha Tin with Diamond Hill in Kowloon, this land tunnel runs a full length of 4 kilometres and will also be the first one operated by the private sector. Because of the rapid development in the north-eastern region of the New Territories, the traffic in Lion Rock Tunnel during peak hours has reached the tunnel capacity, causing increasing delays. The completion of the Tate's Cairn Tunnel in 1992 will indeed go a long way to ease the congested traffic in the Lion Rock Tunnel.

Shun Fung Ironworks

Shun Fung's site in Junk Bay was reverted to the Hong Kong Government in July 1986 for the purpose of public development under the Crown Lands Resumption Ordinance. Upon receipt of notice of land resumption, Shun Fung had immediately sought all efforts to negotiate with the Government for fair compensation related to the relocation of the rolling mill, subsequent losses of business and resumption of land but proved unsuccessful. And the Government also confirmed of the unavailability of an alternative site in Hong Kong to help relocate the factory. Hearing over the Company's compensation claims started on 17 October 1988 in the Lands Tribunal and is expected to last for some time. As regards the plan of relocating its operations elsewhere, Shun Fung had last year signed an agreement with the Chinese authorities after reaching consensus on certain principal terms and conditions in preparation for setting up factory operations in the Shunde County, Guangdong Province. Final decision of factory relocation is however still pending outcome of the hearing.

Television

An agreement was signed on 12 July 1988, enabling the Group to acquire one-third interest in Asia Television Limited. After reorganization of ATV, a new Board of Directors has been set up to map out strategies and formulate long-term policies for the future growth of the television station. Plans are now under considerations to construct new studios, upgrade production equipments and reassess programming policies. With foreseeable prospects of economic and commercial activities further expanding in Hong Kong, the Group is firmly of the opinion that ATV should have very strong inherent potential for continuing future growth in its media advertising on the back of acceptance by a

growing segment of viewers. The investment is thus worthwhile in that it will reap long-term benefits for the Group in the years to come.

Other Activities

It remains to report that your Group's minor activities such as cinemas, estate management, landscaping and restaurants have all respectively returned satisfactory profits for the year under review.

Prospects

The global stockmarket crash in October 1987 had only produced minimal impact on the Hong Kong economy. All major sectors of the economy continued to grow in income, employment and profitability. But the growth momentum has eased somewhat to a forecast Gross Domestic Product rate for 1988 of 6% in real terms. While unspectacular compared with the double-digit rates achieved in 1986 and 1987, it is still high by world standards. As for 1989, it will be a year of consolidation for the Hong Kong economy. This in fact is desirable as it helps to relieve some of the pressures on inflation and the labour market generated by an economy, which is operating close to capacity.

Hong Kong's resilient property market had emerged fundamentally unscathed out of last October's stockmarket crash. After a brief marking time with prices showing signs of levelling off, the first half of 1988 continued to see property prices and rentals generally climbing again in a healthy and attractive investment environment. There is now however the common concern that the trend of rising interest rates may have psychologically induced investors and buyers to take a cautious attitude towards the property market. Despite this restraining influence, small and medium-sized flats are still within affordability limits due largely to full employment and rising household incomes. The trend into 1989 is

for the supply of and demand for in this segment of residential housing gradually coming into balance. While the large and luxury end of the residential sector has also seen stabilization of prices and rentals, those flats of good quality in prime locations still sustain high selling prices. Throughout the year, the office sector has been experiencing unprecedented increases in rentals and purchase prices. Demand for prime office space in the three main business districts of Central, Wan Chai and Tsim Sha Tsui remains very strong as ever. In Central, the vacancy rate for office space has fallen below the historic low of 0.3%, with the current supply-demand imbalance subsisting at least for the next twelve months. Moreover there is a new trend emerging in the market for overseas investors and corporations to take whole-floor office leasing or to become owner-occupiers of prime office properties. With Hong Kong's economy continuing to grow and tourism industry thriving, demand is also held firm in the industrial and commercial shopping sectors.

Hong Kong has now matured as a dynamic and vibrant industrial, commercial and financial centre in the Asia-Pacific Rim. And with its strategic geographical position in this region as a link between China and the rest of the world, Hong Kong's future will be abound with plenty of excellent but complex economic opportunities and challenges. The rapidly-shifting political and economic scenarios for the coming years in transition to 1997 will surely open up a wide scope for the energetic, skilled and pragmatic Hong Kong people to plan, cope with and adapt to the vast opportunities and challenges ahead. And it is indeed against this background that our Group will continue as ever to place confidence in and dedicate our total commitments to the future well-being and prosperity of Hong Kong.

Managing Director

As from 1 January 1989, Dr. Cheng Yu-Tung will relinquish his present post of Managing Director while still retaining his position as Chairman of the Board. Following this change, your Board of Directors have approved to appoint Mr. Henry Cheng Kar-Shun to succeed as Managing Director effective on the same day.

On behalf of shareholders and directors, I sincerely thank all members of the Group's management and staff for their loyalty and determined efforts, which attributes have taken the Group to new highs of profitability and growth.

Dr. Cheng Yu-Tung
Chairman

Hong Kong, 3 November 1988

Group's Significant Properties

	<u>Commercial Sq. M.</u>	<u>Residential Sq. M.</u>	<u>Hotel Sq. M.</u>	<u>Group Percentage</u>	<u>Expected Completion</u>
Development Properties					
101 Pokfulam Road					
1-12A Hok Sze Terrace & 1-14 To Li Terrace	—	40,928	—	54.00	1989
J/O Rua Francisco Xavier Pereors & Estrada, Macau	4,905	84,456	—	30.01	1988
MTR Island Line Developments					
Sai Wan Ho Station	—	54,836	—	100.00	1990
Tin Hau Station	2,000	59,000	—	19.94	1989
5-9A Morrison Hill Road	369	3,729	—	100.00	1988
44-46 Bonham Road	660	32,251	—	50.00	1988
2-14 Finnie Street	553	7,315	—	52.00	1989
Discovery Bay, Phase 3	—	34,660	—	52.00	1988
Discovery Bay, Phase 4	—	130,064	—	100.00	1991
Discovery Bay, Phase 5	—	92,903	—	100.00	1992
Tuen Mun Town Lot 291	9,980	91,036	—	100.00	1988
2-4 Conduit Road	—	8,157	—	20.00	1990
3 Link Road	—	6,453	—	100.00	1989
7 Link Road	—	3,320	—	100.00	1990
Riviera Gardens, Tsuen Wan	46,451	346,948	—	10.00	1989
17-29 Lyttelton Road	—	12,760	—	100.00	1991
30-40 Tai Yuen Street	278	3,993	—	100.00	1990
457-475A Queen's Road West	1,929	8,183	—	100.00	1990
1-11 Illumination Terrace	—	42,400	—	100.00	1990
78 Bonham Road —					
Ning Yeung Terrace Blk B	—	15,172	—	100.00	1988
49-55 Fort Street	311	6,910	—	100.00	1990
APIL 118, 119 & 120					
Ap Lei Chau Main Street	525	6,168	—	100.00	1990
4-8 & 12 Smithfield Road	345	7,413	—	100.00	1990
CWIL 139, Ka Yip Street					
Chai Wan	56,244*	—	—	35.00	1990
32-34 Conduit Road /					
53 & 53A Robinson Road	6,562	—	—	33.33	1990

* Industrial

	<u>Commercial Sq. M.</u>	<u>Residential Sq. M.</u>	<u>Hotel Sq. M.</u>	<u>Group Percentage</u>	<u>Expected Completion</u>
Rental Properties					
37-39 Shanghai Street	182	1,119	—	100.00	Completed
Manning House	10,223	—	—	100.00	Completed
New World Tower	48,432	—	—	100.00	Completed
Baguio Villa Tower 12 & Supermarket	1,022	14,870	—	100.00	Completed
Chai Wan Theatre	1,022	—	—	100.00	Completed
Full Moon Theatre	2,026	—	—	100.00	Completed
Manning Theatre	1,709	—	—	100.00	Completed
New Town Theatre	1,367	—	—	100.00	Completed
New World Centre	141,383	36,531	53,961	100.00	Completed
14-14A Queen's Road Central	10,617	—	—	100.00	Completed 1989
Commercial Space and Car Port in Mei Foo Sun Chuen	59,955	—	—	75.00	Completed
Container Freight Station in Berth 3, Kwai Chung	148,645	—	—	39.00	Completed
Shun Tak Centre	73,694	37,720	22,237	45.00	Completed
New World Harbourside Hotel	—	—	30,054	90.00	Completed
H.K. Convention & Exhibition Centre	203,046	66,955	121,118	100.00	1989

Auditors' Report

Auditors' Report to the members of New World Development Company Limited

We have audited the accounts set out on pages 19 to 39 in accordance with approved Auditing Standards.

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and the Group at 30 June 1988 and of the profit and changes in financial position of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Price Waterhouse
Certified Public Accountants

H.C. Watt & Company
Certified Public Accountants

HONG KONG, 3 November 1988

Consolidated Profit and Loss Account

	Note	Year ended 30 June	
		1988 HK\$'000	1987 HK\$'000
Turnover	2	<u>5,296,855</u>	<u>4,271,711</u>
Operating profit	3	<u>1,273,038</u>	1,001,155
Share of profits less losses of associated companies		190,371	67,791
Share of profit of investments in MTR development sites		<u>102,270</u>	149,378
Profit before taxation		<u>1,565,679</u>	1,218,324
Taxation	4	<u>173,174</u>	166,488
Profit after taxation		<u>1,392,505</u>	1,051,836
Minority interests		<u>277,056</u>	206,706
Profit before extraordinary items		<u>1,115,449</u>	845,130
Extraordinary items	5	—	(27,672)
Profit attributable to shareholders	6	<u>1,115,449</u>	817,458
Transfer to capital reserve	20(b)	(507)	(2,198)
Transfer to general reserve		—	(29,500)
Dividends	7	<u>(569,063)</u>	(424,893)
Retained profits for the year		<u>545,879</u>	<u>360,867</u>
Company and subsidiary companies		318,292	405,567
Associated companies and investments in MTR development sites		<u>227,587</u>	(44,700)
		<u>545,879</u>	<u>360,867</u>
Earnings per share	8		
Basic		<u>99 cents</u>	<u>78 cents</u>
Fully diluted		<u>93 cents</u>	<u>75 cents</u>

Consolidated Balance Sheet

	Note	As at 30 June	
		1988 HK\$'000	1987 HK\$'000
Fixed assets	10	4,077,977	2,884,119
Associated companies	12	886,445	688,801
Investments in MTR development sites	13	89,479	143,206
Other investments	14	165,938	60,782
Long term loans receivable	15	208,594	206,278
Net current assets	16	845,329	1,472,617
		6,273,762	5,455,803
Deferred expenditure	17	7,120	9,272
		6,280,882	5,465,075
Financed by:			
Share capital	18	1,141,072	1,102,161
Reserves	20	3,745,849	2,715,299
Shareholders' funds		4,886,921	3,817,460
Minority interests		853,753	721,839
Long term liabilities	21	540,208	925,776
		6,280,882	5,465,075

Sin Wai-Kin
Cheng Yue-Pui
Directors

Balance Sheet

	Note	As at 30 June	
		1988 HK\$'000	1987 HK\$'000
Fixed assets	10	4,008	3,182
Subsidiary companies	11	3,750,788	3,247,076
Associated companies	12	230,045	206,460
Investments in MTR development sites	13	31,385	136,873
Other investments	14	4,548	4,888
Net current assets/(liabilities)	16	127,333	(149,565)
		<u>4,148,107</u>	<u>3,448,914</u>
Financed by:			
Share capital	18	1,141,072	1,102,161
Reserves	20	3,003,172	2,338,009
Shareholders' funds		4,144,244	3,440,170
Long term liabilities	21	3,863	8,744
		<u>4,148,107</u>	<u>3,448,914</u>

Sin Wai-Kin
Cheng Yue-Pui
Directors

Consolidated Statement of Changes in Financial Position

	Year ended 30 June			
	1988		1987	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Source of funds				
Profit before taxation		1,565,679		1,218,324
Extraordinary items		—		(27,672)
		<u>1,565,679</u>		<u>1,190,652</u>
Adjustments for items not involving the movement of funds:				
Profits less losses retained in associated companies	(218,651)		(29,303)	
(Profit)/loss retained in associated company investing in MTR development sites	(69,014)		36,664	
Depreciation	141,842		134,395	
Gain on disposal of:				
Fixed assets	(273,897)		(9,549)	
Associated companies	(7,558)		(13,176)	
Other investments	(1,303)		—	
Increase/(decrease) in provision for:				
Fixed assets	—		(56,057)	
Investment in and advances to associated companies	15,750		(549)	
Other investments	188		(305)	
Staff retirement benefits	3,770		(1,222)	
Hotel pre-operating expenses amortised	372		154	
Quarry mill pre-operating expenses amortised	1,780		1,780	
Loss resulting from dilution of shareholding in a subsidiary company	—		40,848	
Exchange (loss)/gain arising from translation of accounts of overseas subsidiary companies	(17,413)		2,447	
		<u>(424,134)</u>		<u>106,127</u>
Total generated from operations		1,141,545		1,296,779
Funds from other sources				
Shares issued	38,911		22,175	
Increase in minority interests	—		157,979	
Increase in share premium	490,978		209,194	
Increase in long term liabilities	—		673,656	
Proceeds from disposal of:				
Fixed assets	331,670		270,613	
Associated companies	8,737		24,156	
Others investments	13,538		—	
Compensation received for land resumed from Government	—		20,930	
Decrease in investment in associated companies	553		—	
Decrease in investments in MTR development sites	105,489		9,596	
Increase in reserve on consolidation	—		160,253	
		<u>989,876</u>		<u>1,548,552</u>
		2,131,421		2,845,331

	Year ended 30 June			
	1988		1987	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Application of funds				
Increase in other investments	117,579		11,669	
Increase in investment in associated companies	—		61,529	
Increase in long term loans receivable	2,316		112,051	
Decrease in long term liabilities	389,338		—	
Decrease in minority interests	145,142		—	
Purchase of fixed assets	1,374,390		550,103	
Dividends paid	475,639		358,371	
Tax paid	164,147		138,263	
Expenses on issue of shares	8,484		1,255	
		2,677,035		1,233,241
		(545,614)		1,612,090
Movement in working capital				
Stocks and construction in progress	6,486		(13,021)	
Properties held for sale	(260,146)		1,536,511	
Overseas treasury bills	63,202		—	
Debtors and prepayments	319,050		(141,181)	
Creditors, bills payable and deposits received	(262,711)		(82,268)	
Long term loans receivable-current portion	(346)		(610)	
Other loans receivable	396		19,457	
		(134,069)		1,318,888
Movement in net liquid funds				
Cash and bank balances	83,590		129,271	
Loans and bank overdrafts	(339,244)		6,290	
Other loans	(155,891)		157,641	
		(411,545)		293,202
		(545,614)		1,612,090

Notes to the Accounts

(1) Principal Accounting Policies

(a) Basis of consolidation

The group accounts incorporate the accounts of the Company and all its subsidiary companies made up to 30 June and include the Group's share of the results for the year and undistributed post-acquisition reserves of associated companies. The results of subsidiary companies acquired or disposed of during the years are dealt with in the consolidated profit and loss account from the effective dates of acquisition and to the effective dates of disposal respectively. Goodwill arising on consolidation, which represents the excess of the consideration paid over the attributable fair value of the net assets of the subsidiary companies acquired at the dates of acquisition, is written off to the consolidated profit and loss account in the year of acquisition.

All material intra-group transactions, including unrealised profits arising from intra-group construction contracts and sales of properties, have been eliminated on consolidation.

(b) Subsidiary companies

A company is a subsidiary company if more than 50% of the issued capital is held long term. Investments in subsidiary companies are carried at cost or at directors' valuation less provision for any permanent diminution in value.

(c) Associated companies

An associated company is a company other than a subsidiary company in which the Group's interest is held long term and is substantial or is effectively that of a partner in a consortium and, in both situations, significant influence is exercised through representation on the board of directors.

(d) Investment in MTR development sites

Investment in MTR development sites is carried at cost less provision for any permanent diminution in value plus the Group's share of undistributed post-acquisition reserves.

(e) Turnover

Group turnover represents all revenues from rental, sales of properties, construction, piling, air-condition engineering, hotel operation, tourism, letting agency, theatre operation and container liner and related services.

(f) Profit recognition

For properties developed for resale, profit is recognised either when the sale agreement is completed or when the occupation permit is issued, whichever is the later. Deposits and instalments received on properties sold prior to their completion are included in current liabilities.

Surplus on sales of land and buildings held as fixed assets are included in the operating profit.

Profits on joint venture projects and property construction and services contracts are recognised only when the projects or contracts have been completed. The directors consider that in view of the fluctuation of cost elements during the life of a project or contract, it is prudent for the Group to recognise profit on completion.

(g) Finance leases

Leases that substantially transfer all the benefits and risks of ownership of assets to the Group are accounted for as finance leases. At the inception of a finance lease, the asset and the related long term obligation, excluding interest are recorded to reflect the purchase and its financing.

Assets under finance leases are depreciated on the same basis as other assets as described in note (h) below.

(h) Depreciation

Cost or valuation of land and buildings is amortised in equal annual instalments on the following bases:

Land held on long leases	Nil
Buildings on land held on long leases	2.5%
Land and buildings held on medium term and short leases	Over the unexpired period of the lease
Cost of plant, machinery, equipment, furniture, fixtures and motor vehicles is depreciated on the straight line basis at rates ranging from 10% to 30% per annum. Cost of floating dock, vessels, containers and chassis including those acquired under finance leases, less their estimated residual values, is depreciated on the straight line basis over the following estimated useful lives:	
Vessels and floating dock	25 years from date of completion
Containers and chassis	15 years

(i) Vessel docking expenses

Cost of vessel repairs is written off as operating expenses. Special survey costs are amortised over the period applicable to the class of individual vessel, ranging from 2 to 2.5 years.

(j) Other investments

Other investments are long term investments other than subsidiary companies and associated companies. Other investments are carried at cost less provision for any permanent diminution in value.

(k) Properties held for sale, stocks and construction in progress

Properties held for sale and stocks are valued at the lower of cost and net realisable value. Construction in progress is stated at cost less provision for anticipated losses and progress payments received and receivable.

(l) Deferred expenditure

i Hotel pre-operating expenses

Hotel pre-operating expenses are amortised over five years by equal annual instalments commencing from the year of operation.

ii Quarry mill pre-operating expenses

Quarry mill pre-operating expenses are amortised over the lease period from the date of commencement of quarry production.

(m) Capitalisation of interest and finance charges

Interest and finance charges on borrowings relating to construction in progress and properties under development, after elimination of intra-group interest charges, are included in the project cost and cost of development respectively.

(n) Foreign currencies

Foreign currency transactions during the year are converted at exchange rates ruling at the transaction dates. At the balance sheet date, foreign currency balances including the accounts of overseas subsidiary companies are translated into Hong Kong dollars at exchange rates ruling at that date. Exchange differences arising from the translation of the accounts of overseas subsidiary companies are dealt with through the currency translation reserve account. All other exchange differences are included in the determination of operating profit.

Notes to the Accounts

(2) Turnover and contribution to operating profit

	1988 <u>HK\$'000</u>	1987 <u>HK\$'000</u>
An analysis of the Group's turnover and contribution to operating profit from the principal activities is as follows:		
(a) Turnover		
Hong Kong		
Rental income	603,578	546,863
Property sales	755,962	1,748,354
Construction and piling	2,637,201	1,271,909
Hotel and restaurant operations	708,187	637,865
Others	318,338	317,972
Outside Hong Kong		
Container liner and related services	1,076,764	896,811
Hotel and restaurant operations	93,179	19,766
	<u>6,193,209</u>	<u>5,439,540</u>
Less: Intra-group transactions		
Rental	34,944	33,233
Property sales	—	965,388
Construction and piling	763,084	123,065
Others	98,326	46,143
	<u>5,296,855</u>	<u>4,271,711</u>
(b) Contribution to operating profit		
Hong Kong		
Rental income	433,146	385,665
Property sales	431,146	297,352
Construction and piling	77,047	75,588
Hotel and restaurant operations	258,421	166,167
Others	53,131	54,066
Outside Hong Kong		
Container liner and related services	27,872	17,362
Hotel and restaurant operations	(7,725)	4,955
	<u>1,273,038</u>	<u>1,001,155</u>

(3) Operating profit

	<u>1988</u>	<u>1987</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Operating profit of the Group is arrived at after crediting and charging the following:		
Crediting		
Net rental income	475,736	428,402
Dividend income		
Listed investments	5,473	1,500
Unlisted investments	34,950	36,781
Surplus on sales of land and buildings	273,056	183,767
Provision for diminution in value of vessels written back	—	56,057
	<u> </u>	<u> </u>
Charging		
Interest on bank loans, overdrafts and other loans wholly repayable within five years	162,072	122,251
Interest on other loans not wholly repayable within five years	3,815	2,166
Less: Interest capitalised as cost of property development and construction in progress	(16,426)	(6,526)
	<u>149,461</u>	<u>117,891</u>
Auditors' remuneration	3,868	3,815
Depreciation	141,842	134,395
	<u> </u>	<u> </u>

(4) Taxation

	<u>1988</u>	<u>1987</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Hong Kong profits tax:		
Company and its subsidiary companies	148,728	126,740
Share of associated companies	3,525	10,154
Share of investments in MTR development sites	17,252	26,876
	<u>169,505</u>	<u>163,770</u>
Overseas taxation of subsidiary companies	3,669	2,718
	<u>173,174</u>	<u>166,488</u>

Hong Kong profits tax has been provided at the rate of 17% (1987: 18%) on the estimated assessable profits for the year.

Notes to the Accounts

(5) Extraordinary items

	1988 HK\$'000	1987 HK\$'000
Extraordinary items are stated after deducting taxation and minority interests:		
Loss resulting from dilution of shareholding in a subsidiary company	—	(40,848)
Profit on disposal of investment in associated companies	—	13,176
	<u>—</u>	<u>(27,672)</u>

(6) Profit attributable to shareholders

Profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$751,732,000 (1987: HK\$1,089,961,000).

(7) Dividends

	1988 HK\$'000	1987 HK\$'000
Interim dividend paid of 18 cents per share (1987: 14 cents)	203,920	153,174
Proposed final dividend of 32 cents per share (1987: 24 cents)	365,143	271,719
	<u>569,063</u>	<u>424,893</u>

Of which the following were settled by the issue of scrip:

Interim dividend	89,038	—
Final dividend	*	—

* Full provision has been made for the 1988 final dividend on the basis that all shareholders will elect to receive cash, being the alternative to their entitlement to the scrip dividend.

(8) Earnings per share

The calculation of basic earnings per share is based on earnings of HK\$1,115,449,000 (1987: HK\$845,130,000) and the weighted average of 1,126,944,000 shares in issue (1987: 1,083,078,000 shares) during the year.

The fully diluted earnings per share is based on adjusted earnings of HK\$1,246,258,000 (1987: HK\$894,985,000) on the assumption that all outstanding warrants had been exercised at the beginning of the year and that the proceeds of subscription had been placed on fixed deposits with a leading bank earning interest for the year and on 1,342,588,000 shares (1987: 1,191,058,000 shares) issued and issuable.

(9) Directors' emoluments

	1988 HK\$'000	1987 HK\$'000
Fees	219	219
Other emoluments	—	—
	<u>219</u>	<u>219</u>

(10) Fixed assets

	Group					Company
	Land and buildings	Vessels and floating dock	Containers and chassis	Other assets	Total	Land and buildings
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation						
At 1 July 1987	2,383,002	384,229	287,922	597,371	3,652,524	3,692
Translation difference	17,230	—	—	2,396	19,626	—
Additions	1,252,894	689	44,171	76,636	1,374,390	909
Disposals	(58,708)	—	(1,295)	(18,207)	(78,210)	(19)
At 30 June 1988	3,594,418	384,918	330,798	658,196	4,968,330	4,582
Accumulated depreciation						
At 1 July 1987	328,396	40,064	32,864	367,081	768,405	510
Translation difference	202	—	—	341	543	—
Charge for the year	49,181	12,466	13,431	66,764	141,842	66
Written back on disposals	(6,239)	—	(188)	(14,010)	(20,437)	(2)
At 30 June 1988	371,540	52,530	46,107	420,176	890,353	574
Net book value						
At 30 June 1988	3,222,878	332,388	284,691	238,020	4,077,977	4,008
At 30 June 1987	2,054,606	344,165	255,058	230,290	2,884,119	3,182

Cost or valuation of land and buildings at 30 June 1988 was made up as follows:

	Hong Kong		Overseas		Total
	Long lease	Medium term lease	Freehold	Long lease	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group					
At cost	2,890,774	291,573	187,387	2,980	3,372,714
At Directors' valuation — 1972	58,000	—	—	—	58,000
At Directors' valuation — 1976	2,539	—	—	—	2,539
At professional valuation — 1976	161,165	—	—	—	161,165
	3,112,478	291,573	187,387	2,980	3,594,418
Company					
At cost	4,582	—	—	—	4,582

Vessels and floating dock are stated at professional valuation at 30 June 1987.

Other assets comprise plant, machinery, equipment, furniture, fixtures and motor vehicles.

The net book value of fixed assets includes containers and chassis held under finance leases amounting to HK\$84,521,000 (1987: HK\$170,636,000).

Notes to the Accounts

(11) Subsidiary companies

	Company	
	1988 HK\$'000	1987 HK\$'000
Unlisted shares		
At cost	1,738,573	1,738,163
Less: Provision for permanent diminution in value	395,071	395,071
	1,343,502	1,343,092
At directors' valuation in 1972	72,000	72,000
	1,415,502	1,415,092
Listed shares — Hong Kong		
At cost	93,456	93,456
	1,508,958	1,508,548
Amounts due by subsidiary companies less provisions	3,150,653	2,700,593
	4,659,611	4,209,141
Less: Amounts due to subsidiary companies	908,823	962,065
	3,750,788	3,247,076
Market value of listed shares	1,920,025	1,645,736

Details of principal subsidiary companies are given in note 26.

(12) Associated companies

	Group		Company	
	1988 HK\$'000	1987 HK\$'000	1988 HK\$'000	1987 HK\$'000
Unlisted shares, at cost less amount written off	89,706	86,344	62,594	62,641
Amounts due by associated companies				
Current account	486,027	429,244	127,691	115,685
Subordinated loans	488,125	488,125	196,898	196,898
	1,063,858	1,003,713	387,183	375,224
Less: Provisions	111,219	95,469	9,620	22,420
	952,639	908,244	377,563	352,804
Share of undistributed post-acquisition reserves less losses	171,352	(42,770)	—	—
	1,123,991	865,474	377,563	352,804
Less: Amounts due to associated companies	237,546	176,673	147,518	146,344
	886,445	688,801	230,045	206,460

Shares and advances in the form of subordinated loans, totalling HK\$530,738,000 (1987: HK\$530,738,000), have been pledged as part of the securities for credit facilities of HK\$997,000,000 (1987: HK\$1,250,000,000) granted to associated companies of which an aggregate amount of HK\$997,000,000 (1987: HK\$892,200,000) had been utilised as at the balance sheet date.

Details of principal associated companies are given in note 27.

(13) Investments in MTR development sites

	Group		Company	
	1988 HK\$'000	1987 HK\$'000	1988 HK\$'000	1987 HK\$'000
Unlisted shares, at cost	5	5	5	5
Advances	31,379	136,868	31,380	136,868
Share of undistributed post-acquisition reserves	58,095	6,333	—	—
	<u>89,479</u>	<u>143,206</u>	<u>31,385</u>	<u>136,873</u>

In connection with the MTR development sites, the Company has interests in the following associated companies, all incorporated in Hong Kong:

Name of Company	Principal activities	Percentage of equity shares held
Headstar Limited	Developer of Kornhill site	27.27
Granmap Company Limited	Developer of 5 MTR sites	19.94

(14) Other investments

	Group		Company	
	1988 HK\$'000	1987 HK\$'000	1988 HK\$'000	1987 HK\$'000
Unlisted shares, at cost	11,492	20,036	5,048	5,388
Less: Provision for permanent diminution in value	725	725	500	500
	<u>10,767</u>	<u>19,311</u>	<u>4,548</u>	<u>4,888</u>
Hong Kong listed shares, at cost	36,257	1,510	—	—
Investment in joint ventures				
At cost	2,791	2,624	—	—
Less: Provisions	530	342	—	—
	<u>2,261</u>	<u>2,282</u>	<u>—</u>	<u>—</u>
Current accounts	116,653	37,679	—	—
	<u>118,914</u>	<u>39,961</u>	<u>—</u>	<u>—</u>
	<u>165,938</u>	<u>60,782</u>	<u>4,548</u>	<u>4,888</u>
Market value of listed shares	<u>183,080</u>	<u>79,732</u>	<u>—</u>	<u>—</u>

(15) Long term loans receivable

Mortgage loans	72,902	90,987	—	—
Subordinated loans	43,417	23,362	—	—
Loan to a minority shareholder	100,731	100,731	—	—
	<u>217,050</u>	<u>215,080</u>	<u>—</u>	<u>—</u>
Less: Amounts receivable within one year included in current assets (note 16)	8,456	8,802	—	—
	<u>208,594</u>	<u>206,278</u>	<u>—</u>	<u>—</u>

Notes to the Accounts

(16) Net current assets/(liabilities)

	Group		Company	
	1988 HK\$'000	1987 HK\$'000	1988 HK\$'000	1987 HK\$'000
Current assets				
Construction in progress (note a)	36,166	29,410	—	—
Properties held for sale (note b)	2,304,527	2,564,673	561,889	522,703
Stocks	46,809	47,079	—	—
Overseas treasury bills	63,202	—	—	—
Long term loans receivable — current portion (note 15)	8,456	8,802	—	—
Other loans receivable	39,533	39,137	—	21,597
Debtors and prepayments	1,162,226	843,176	152,762	27,562
Cash and bank balances				
— restricted	706	58,600	—	—
— unrestricted	277,601	136,117	81,232	22,752
	<u>3,939,226</u>	<u>3,726,994</u>	<u>795,883</u>	<u>594,614</u>
Current liabilities				
Creditors and accrued charges	1,385,794	1,261,526	269,601	329,688
Deposits received on sale of properties	204,073	94,051	11,862	41,122
Bills payable	42,908	14,487	—	—
Bank loans and overdrafts				
Secured	338,447	21,704	—	—
Unsecured	235,771	218,558	—	100,000
Other loans	158,086	2,195	1,323	1,650
Long term liabilities — current portion (note 21)	169,734	164,446	—	—
Taxation	193,941	205,691	20,621	—
Proposed final dividend	365,143	271,719	365,143	271,719
	<u>3,093,897</u>	<u>2,254,377</u>	<u>668,550</u>	<u>744,179</u>
	<u>845,329</u>	<u>1,472,617</u>	<u>127,333</u>	<u>(149,565)</u>
(a) Construction in progress				
At cost	1,616,900	1,778,290	—	—
Less: Provision for anticipated losses	4,065	2,181	—	—
Progress payments received and receivable	1,576,669	1,746,699	—	—
	<u>36,166</u>	<u>29,410</u>	<u>—</u>	<u>—</u>
(b) Properties held for sale				
Properties under development at cost	2,162,965	2,515,266	558,312	517,410
Completed properties at cost	183,562	91,407	3,577	5,293
	<u>2,346,527</u>	<u>2,606,673</u>	<u>561,889</u>	<u>522,703</u>
Less: Provision for permanent diminution in value	42,000	42,000	—	—
	<u>2,304,527</u>	<u>2,564,673</u>	<u>561,889</u>	<u>522,703</u>

(17) Deferred expenditure

	Group	
	1988 HK\$'000	1987 HK\$'000
Pre-operating expenses at cost less amount amortised:		
Hotels	—	372
Quarry mill	7,120	8,900
	<u>7,120</u>	<u>9,272</u>

(18) Share capital

	1988 HK\$'000	1987 HK\$'000
Authorised:		
1,500,000,000 shares of HK\$1 each	<u>1,500,000</u>	<u>1,500,000</u>
Issued and fully paid:		
Shares of HK\$1 each		
Balance at 1 July	1,102,161	1,079,986
Placement of shares	30,000	—
Exercise of warrant rights	317	36
Issued as scrip dividends	8,594	—
Issue of shares for acquisition of a property under development	—	22,139
Balance at 30 June	<u>1,141,072</u>	<u>1,102,161</u>

(19) Warrants

The Company has warrants outstanding entitling the holders to subscribe at the current subscription price of HK\$9.00 per share for shares of HK\$1.00 each of the Company. The 1989 warrants will be exercisable at any time until 31 December 1989. The 1991 warrants will be exercisable at any time until 31 December 1991. If fully exercised, the outstanding subscription rights at 30 June 1988 would require the issue of 215,644,000 shares.

Notes to the Accounts

(20) Reserves

	Group		Company	
	1988	1987	1988	1987
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Share premium (note a)	783,762	301,268	783,762	301,268
Capital reserve (note b)	279,865	279,358	—	—
General reserve	70,800	70,800	—	—
Retained profits (note c)	2,606,325	2,060,446	2,219,410	2,036,741
Currency translation reserve (note 1n)	5,097	3,427	—	—
	<u>3,745,849</u>	<u>2,715,299</u>	<u>3,003,172</u>	<u>2,338,009</u>

(a) Share premium

Balance at 1 July	301,268	93,329	301,268	93,329
Premium on placement of shares	408,000	—	408,000	—
Premium on issue of shares for acquisition of a property under development	—	208,903	—	208,903
Premium on exercise of warrant subscription rights	2,534	291	2,534	291
Premium on scrip dividends	80,444	—	80,444	—
Share issue expenses	(8,484)	(1,255)	(8,484)	(1,255)
Balance at 30 June	<u>783,762</u>	<u>301,268</u>	<u>783,762</u>	<u>301,268</u>

(b) Capital reserve

Balance at 1 July	279,358	35,649	—	—
Reserve on consolidation	—	160,253	—	—
Vessels revaluation reserve	—	81,258	—	—
Transfer from profit and loss account	507	2,198	—	—
Balance at 30 June	<u>279,865</u>	<u>279,358</u>	<u>—</u>	<u>—</u>

The amount transferred from the profit and loss account represents the Group's reserves which have been capitalised for the issue of bonus shares by subsidiary companies.

(c) Retained profits

Balance at 1 July	2,060,446	1,699,579	2,036,741	1,371,673
Retained profits for the year	545,879	360,867	182,669	665,068
Balance at 30 June	<u>2,606,325</u>	<u>2,060,446</u>	<u>2,219,410</u>	<u>2,036,741</u>

(21) Long term liabilities

	Group		Company	
	1988 HK\$'000	1987 HK\$'000	1988 HK\$'000	1987 HK\$'000
Long term loans				
Bank loans				
secured	282,989	524,193	—	—
unsecured	—	1,482	—	—
Other loans				
secured	326,961	454,843	—	—
unsecured	9,836	7,086	—	—
Obligations under finance leases				
— wholly repayable within five years	42,392	68,555	—	—
— not wholly repayable within five years	23,105	—	—	—
	<u>685,283</u>	<u>1,056,159</u>	<u>—</u>	<u>—</u>
Accounts payable	16,889	22,547	—	4,744
Provision for staff retirement benefits	7,770	4,000	3,863	4,000
Land resumption account	—	7,516	—	—
	<u>709,942</u>	<u>1,090,222</u>	<u>3,863</u>	<u>8,744</u>
Less: Amounts repayable within one year included in current liabilities (note 16)	<u>169,734</u>	<u>164,446</u>	<u>—</u>	<u>—</u>
	<u><u>540,208</u></u>	<u><u>925,776</u></u>	<u><u>3,863</u></u>	<u><u>8,744</u></u>

(a) The long term loans are repayable within periods as follows:

	Group		
	Bank HK\$'000	Others HK\$'000	Total HK\$'000
Of less than 1 year	16,295	153,439	169,734
Of more than 1 year, but not exceeding 2 years	11,722	211,706	223,428
Of more than 2 years, but not exceeding 5 years	204,101	25,482	229,583
Of more than 5 years	50,871	11,667	62,538
	<u>282,989</u>	<u>402,294</u>	<u>685,283</u>

(b) Obligations under finance leases not wholly repayable within 5 years are repayable in various monthly instalments up to September 1995, and carry interest at rates ranging from 8% to 18% per annum.

(22) Pledge of assets

Certain fixed assets and treasury bills of the Group have been pledged as security for banking and loan facilities extended to the Group amounting to HK\$870,082,000 (1987: HK\$1,289,790,000) of which an aggregate amount of HK\$589,040,000 (1987: HK\$1,034,540,000) had been utilised as at the balance sheet date.

Notes to the Accounts

(23) Commitments

	Group		Company	
	1988	1987	1988	1987
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(a) Contracted but not provided for				
(i) Fixed assets	18,647	22,649	—	—
(ii) Properties under development	160,329	387,737	—	—
(iii) Investment in associated companies	317,683	—	317,683	—
	<u>496,659</u>	<u>410,386</u>	<u>317,683</u>	<u>—</u>
(b) Authorised but not contracted for	<u>504,000</u>	<u>537,000</u>	<u>504,000</u>	<u>537,000</u>

(c) The Company and/or the Group have the following commitments in respect of the Hong Kong Convention and Exhibition Centre:

The Company has entered into an agreement with The Hong Kong Trade Development Council for the development of an exhibition/conference centre complex on a site granted by the Government. The Group's outstanding commitments on this project excluding finance charges, if any, are estimated to be HK\$521 million at 30 June 1988.

On 23 July 1985, the Company and New World Hotels (Holdings) Limited ("NWHH") have entered into an agreement ("the agreement") with Hyatt of Hong Kong Limited ("Hyatt") and Kengowan Limited ("Kengowan") which provides for NWHH and Kengowan to subscribe for capital stock in a joint venture company for the purpose of acquiring the beneficial ownerships of two hotels to be constructed as part of the complex. The acquisition price has been agreed at HK\$1,560 million and is to be paid on completion of the hotels. The obligations of Kengowan under the agreement are guaranteed by Hyatt. The Company and NWHH have guaranteed jointly and severally the completion of the hotels by 22 July 1990. In the event of delay, Kengowan would have the option to terminate the agreement and upon which NWHH would repay Kengowan its loans to the joint venture company which amounted to HK\$39 million plus interest at the balance sheet date.

(24) Contingent liabilities

	Group		Company	
	1988	1987	1988	1987
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees for the performance and completion of construction contracts	149,111	383,417	19,300	196,000
Guarantees for credit facilities granted to:				
Subsidiary companies	—	—	1,823,566	915,178
Associated companies	1,478,438	377,438	1,153,538	52,538
An associated company investing in MTR development sites	—	312,800	—	312,800
Investee companies included under other investments	60,269	88,464	58,910	85,579
	<u>1,687,818</u>	<u>1,162,119</u>	<u>3,055,314</u>	<u>1,562,095</u>

In addition the Company has guaranteed certain banks in respect of mortgage loans granted to the purchasers of the Discovery Bay Phase III development up to completion.

(25) Approval of accounts

The accounts set out on pages 19 to 39 were approved by the Board of Directors on 3 November 1988.

(26) Principal subsidiary companies

As at 30 June 1988

	Ordinary share capital issued		Percentage of equity share held		Principal activities
	Number	Par value per share	By the Company	By the Group	
		HK\$			
Incorporated and operated in Hong Kong					
Billion Town Company Limited	200	10	100	100	Property Trading
Birkenshaw Limited	10,000	1	100	100	Property Investment
Bright Moon Company Limited	200	10	75	75	Property Trading
Capital System Limited	5,000	1	100	100	Property Trading
Cheong Yin Company Limited	30,000	100	51	51	Property Trading
Ching Wah Enterprises Limited	3,000	100	—	54	Property Trading
Crimson Company Limited	200,000	10	54	54	Property Trading
Eurasia Hotel Limited	80,000,000	1	—	38	Hotel Operation
Fook Hong Enterprises Company Limited	10,000	100	100	100	Property Investment
Fook Ying Enterprises Company Limited	10,000	100	100	100	Property Trading
Fuji (China) Decoration and Engineering Company Limited	3,000,000	1	—	33	Interior Design
Gold Queen Limited	5,000	1	100	100	Property Trading
Golden Ball Company Limited	1,000	10	—	60	Property Trading
Hang Bong Company Limited	225,000	1	100	100	Property Trading
Happy Champion Limited	2	1	100	100	Investment Holding
Head Step Limited	2	1	100	100	Property Investment
Hip Hing Construction Company Limited	300,000	100	59	59	Construction & Civil Engineering
Hong Kong Island Development Limited	2,000,000	5	100	100	Property Investment
Hong Kong Islands Line (Australia) Limited	1,000	10	—	60	Shipping Operating
International Property Management Limited	100,000	10	55	55	Property Management
Joy Sky Limited	2	1	100	100	Property Investment
Kam Ying Investment Company Limited	1,000	100	100	100	Property Trading
Keepwin Investment Limited	10,000	1	—	100	Property Investment
Kin Kiu Enterprises Limited	10,000	1,000	100	100	Property Investment
King Lee Investment Company Limited	300	1,000	100	100	Investment Holding
Luen Wai Investment Company Limited	40,000	100	—	100	Property Investment
Lung Kee Investment Company Limited	1,000	1,000	100	100	Property Investment
Manning Entertainment & Investment Company Limited	20,000	100	—	100	Cinemas
Mei Foo Investments Limited	3,000	10,000	75	75	Property Investment
Mill Plan Limited	2	1	—	100	Property Investment
New World Finance Company Limited	200,000	100	100	100	Finance
New World Hotel Company Limited	40,000,000	1	—	50	Hotel Operation
New World Hotels (Holdings) Limited	576,000,000	0.25	50	50	Investment Holding

Notes to the Accounts

(26) Principal subsidiary companies

As at 30 June 1988

	Ordinary share capital issued		Percentage of equity share held		Principal activities
	Number	Par value per share HK\$	By the Company	By the Group	
New World Hotels					
International Limited	1,000,000	10	—	26	Hotel Management
New World Nominee Limited	2	100	100	100	Nominees
Nice Kingdom Limited	10,000	1	100	100	Property Investment
Polytown Company Limited	100,000	10	100	100	Property Trading
Progreso Investment Limited	625,000	1	—	32	Property Investment
Quality Imports Limited	500	1,000	100	100	Property Investment
Shun Fung Ironworks Limited	1,500,000	10	100	100	Rolling Mills
Sorany Company Limited	200	1	100	100	Property Trading
Thyme Company Limited	500	10	70	86	Property Trading
Tiara Properties Limited	1,000	100	—	60	Property Investment
Timely Enterprises Corporation Limited	450,000	100	100	100	Property Investment
Tung Sang Tai					
Investment Company Limited	2	100	—	100	Property Trading
Urban Property Management Limited	15,000	1	—	52	Property Management
Vibro (HK) Limited	799,479	3	—	59	Piling and Caisson
Yargoan Company Limited	150,000	100	62	79	Stone Quarry
Young's Engineering Company Limited	1,000,000	10	55	55	Air-Condition Engineering
Yue Wah Enterprises Company Limited	390,500	100	100	100	Investment Holding
Incorporated in Panama					
Hong Kong Amercia Shipping Co SA	100	US\$100	—	60	Ship Owning
Hong Kong Australia Shipping Co SA	100	US\$100	—	60	Ship Owning
Hong Kong Champion Shipping Co SA	100	US\$100	—	60	Ship Owning
Hong Kong Excellent Shipping Co SA	100	US\$100	—	60	Ship Owning
Hong Kong Horizon Shipping Co SA	100	US\$100	—	60	Ship Owning
Hong Kong Islands Line America SA	100	US\$100	—	60	Shipping Operation
Hong Kong Islands Line Asia SA	100	US\$100	—	60	Ship Owning
* Hong Kong Islands Line SA	100,000	US\$100	60	60	Investment Holding
Hong Kong Princess Shipping Co SA	100	US\$100	—	60	Ship Owning
Hong Kong Treasure Shipping Co SA	100	US\$100	—	60	Ship Owning
New Pioneer Shipping Co SA	100	US\$100	—	60	Ship Owning
Parramatta Shipping Company SA	100	US\$100	—	60	Ship Owning
Precious Shipping Co SA	100	US\$100	—	60	Ship Owning
Victoria Island Shipping Company SA	100	US\$100	—	60	Ship Owning
Incorporated and operated in Jersey					
Bianchi Holdings Limited	1,000	US\$1	100	100	Investment Holding
Incorporated and operated in Taiwan					
Fair Wind Shipbuilding and Docking Company Limited	118,359	NT\$1,000	—	50	Ship Repairs
Incorporated and operated in Canada					
New World Hotels (B.C.) Limited	1	—	—	43	Hotel Operation

* In addition to the equity shareholdings, the Company also holds 140,000 10% cumulative preference shares of US\$100 each issued by the subsidiary company.

(27) Principal associated companies

As at 30 June 1988

	Ordinary share capital issued		Percentage of equity share held		Principal activities
	Number	Par value per share HK\$	By the Company	By the Group	
Incorporated and operated in Hong Kong					
Asia Terminals Limited	100,000	1	39	39	Operation of Container Terminal
Aureate Land Company Limited	2	100	50	50	Property Trading
Fook Hang Trading Company Limited	100	100	50	50	Property Trading
General Security (HK) Limited	20,000	100	22	37	Security Services
Gloryland Limited	900	1	—	33	Property Trading
Hong Bridge Trading Company Limited	50,000	10	—	23	Electrical Equipment Sales
Hong Kong Island Landscape Company Limited	60,000	10	—	33	Landscape Services
Littlejohn Company Limited	100,000	1	35	35	Property Trading
May Queen Limited	900	1	—	33	Property Trading
Mega Fortune Company Limited	2	10	—	26	Inactive
Pizza World Limited	200,000	10	—	24	Restaurant
Shun Tak Centre Limited	1,000	100	—	23	Property Trading
Siu Ming Development Company Limited	600	100	20	20	Property Trading
Tai Yieh Construction & Engineering Company Limited	7,000	1,000	49	49	Construction & Civil Engineering
Tate's Cairn Tunnel Company Limited	100	1	24	24	Construction & Operation
The Village Enterprises Limited	400	1,000	—	39	Tate's Cairn Tunnel
Tridant Engineering Company Limited	5,000,000	1	—	23	Restaurant
Utah Investment Limited	10	100	20	20	Electrical Engineering
Waking Builders Limited	5,000	1,000	—	49	Property Trading
Yee Kin Company Limited	100	100	40	40	Construction
Incorporated and operated in Macau					
Sun Yick Development Company Limited	PTC1,000,000	—	—	30	Property Trading
Incorporated and operated in People's Republic of China					
Shanghai Hong Kong Construction & Engineering Company Limited	RMB1,000,000	—	—	19	Construction & Civil Engineering
Incorporated in the Republic of Liberia and operated in Macau					
Carvin Investment Limited	500	US\$100	—	15	Hotel Operation