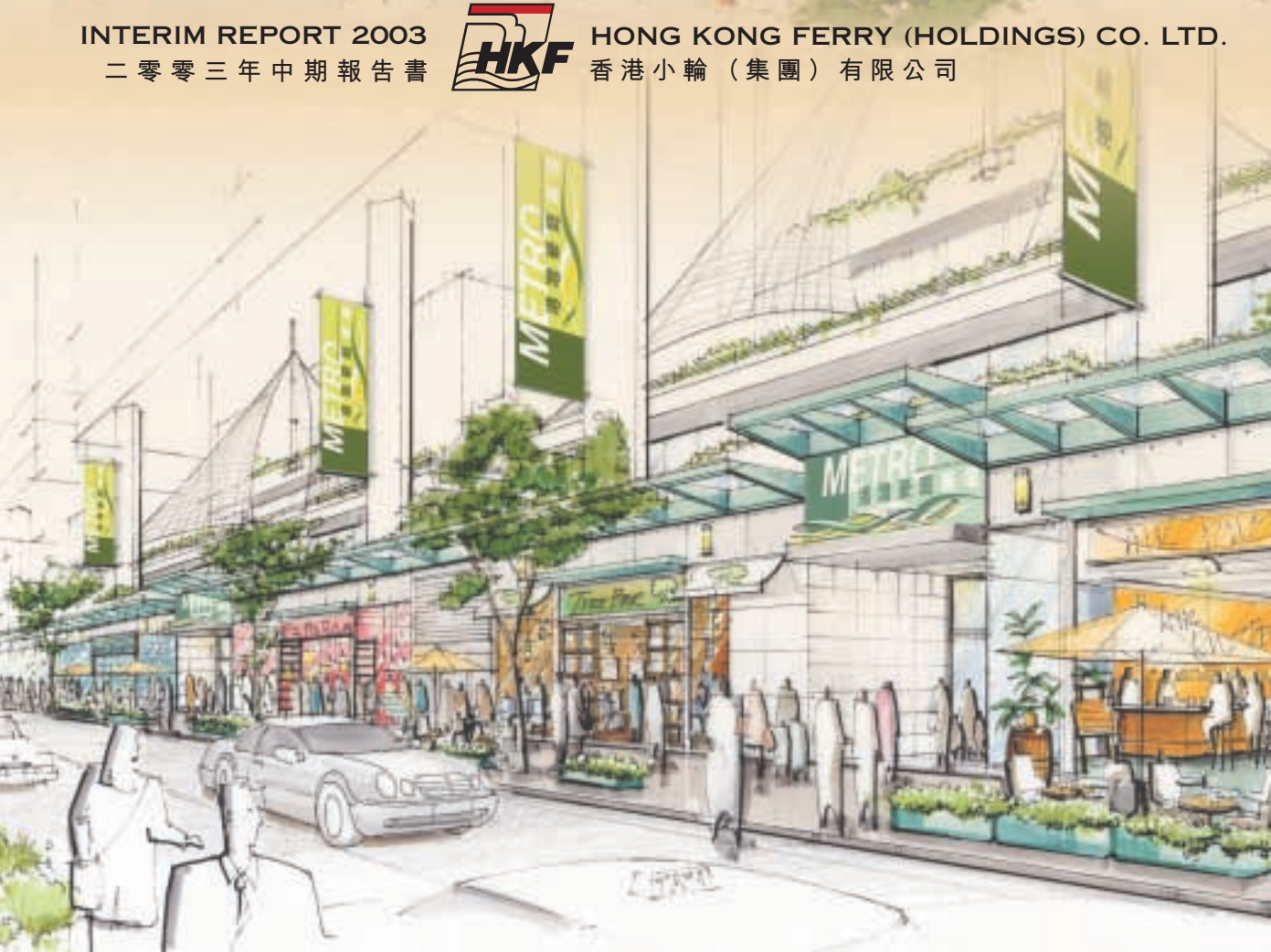


INTERIM REPORT 2003  
二零零三年中期報告書



HONG KONG FERRY (HOLDINGS) CO. LTD.  
香港小輪（集團）有限公司





## INTERIM RESULTS AND DIVIDEND

The unaudited consolidated net profit after taxation of the Group for the six months ended 30 June 2003 amounted to HK\$136.9 million, representing an increase of 0.9% over the same period last year. Earnings per share were 38.4 cents as compared with 38.1 cents over the corresponding period of 2002.

The Board has resolved to pay an interim dividend of 8 cents (2002: 8 cents) per share in respect of the financial year ending 31 December 2003. The interim dividend will be paid on or about Thursday, 16 October 2003 to shareholders on the register of members at the close of business on Wednesday, 8 October 2003.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group's profit for the period was mainly derived from the sale of residential units of Metro Harbour View, the redevelopment at 8 Fuk Lee Street, Tai Kok Tsui, Kowloon.

#### Property Development and Investment Operations

##### *8 Fuk Lee Street ("Metro Harbour View")*

Owing to the softened residential property market and the negative sentiment caused by the Severe Acute Respiratory Syndrome ("SARS"), sales of residential units of Metro Harbour View were slow in the period. About 460 residential units were sold during the period, bringing the total number of residential units sold to around 2,000.

During the period, the Group's profit from the sale of residential units of Metro Harbour View, based on the stage of completion of the development, was HK\$134.7 million, representing a decrease of 3.2% when compared with the same period last year. The hand-over process of Phase I residential units to purchasers began in May 2003. Phase I of the commercial arcade of Metro Harbour View, namely Metro Harbour Plaza, was also completed and over 40% thereof has been let. Phase II of the project is now nearing completion.

##### *222 Tai Kok Tsui Road*

The site will be developed as a residential-cum-commercial project of approximately 320,000 sq.ft.. Construction will begin once an agreement on land premium has been reached with the Government.

##### *6 Cho Yuen Street, Yau Tong*

The average occupancy rate for the Kingsford Industrial Centre for the period was over 90%. Since the opening of the MTR Tseung Kwan O Line in August 2002, the occupancy of industrial property in Yau Tong area has recovered. Rental income for the period increased by 2.4% to HK\$4.3 million when compared with the same period last year.

The Group is negotiating with the Government on the land premium for the change in land use to residential/commercial use with a total gross floor area of approximately 150,000 sq.ft..



### **Ferry, Shipyard and Related Operations**

Due to the SARS outbreak, both the number of incoming tourists and local consumer spending dropped. The business of the harbour cruise operation was badly hit and the turnover of the shipyard operation continued to shrink. The Ferry, Shipyard and Related Operations recorded a decrease in total turnover of 17.5% in comparison with same period last year.

The Group has decided to take an additional impairment loss in value of HK\$17.8 million over the shipyard assets, thereby resulting in the operating loss of the Ferry, Shipyard and Related Operations for the period to increase to HK\$28.3 million from HK\$3.2 million in the same period last year. In June, the Group succeeded in renewing a 3-year licence, renewable up to 10 years, to operate the dangerous goods vehicular ferry services with effect from January 2004.

### **Travel and Hotel Operations**

The SARS outbreak posed severe disruptions to the tourism industry. The turnover for the period from China tours dropped by about 60%, resulting in a decrease in turnover of the Travel and Hotel Operations of 27.1% in comparison with the same period last year.

Despite taking corresponding cost saving measures, the Travel and Hotel Operations recorded a loss of HK\$2.4 million against a profit of HK\$1.7 million in the same period last year.

### **PROSPECTS**

Along with the SARS situation coming under control in June and the World Health Organization announcing the removal of Hong Kong from the list of areas with recent local transmission, domestic consumption has steadily recovered. The gradual relaxation of travel policy governing mainland tourists to Hong Kong by individual travel permits has brought new opportunities for the hotel and retail industries. The Group's shopping arcade leasing and hotel operations are also expected to benefit.

The Closer Economic Partnership Arrangement ("CEPA") between Hong Kong and the mainland will have a profound and far-reaching effect on Hong Kong. The proposal to allow the banks in Hong Kong to accept Renminbi deposits will benefit the local financial industry if implemented. Any further expansion into other Renminbi-related business will greatly enhance Hong Kong's position as a financial centre. At the same time, Hong Kong's position as a transportation hub and cargo centre will be further strengthened by the plan to build the bridge linking Hong Kong to the west bank of the Pearl River. With the strong support of the Central Government, Hong Kong should have survived its gravest economical moment in recent years.

The local property market is expected to consolidate and form a trough, assisted by the Government policy to support property prices. The high-end luxurious residential market recently has performed well and is expected to further improve in both turnover and pricing. The unsold residential units of Metro Harbour View will benefit from the upturn of the economy.



## **FINANCIAL REVIEW**

### ***Review of Results***

During the six-month period ended 30 June 2003, the Group's turnover amounted to approximately HK\$491 million, representing a minor decrease of 0.6% as compared to that recorded in the same period last year. The decrease in total turnover was mainly attributed to the decrease in turnover of the Shipyard Operation and the Travel and Hotel Operations.

Profit after taxation, which increased by 0.9% to HK\$136.9 million compared to that recorded in the previous year, was mainly attributed to the profit recognized for the period of HK\$134.7 million on the residential units of Metro Harbour View sold and a revaluation surplus of HK\$30.5 million arising from the transfer of the related revaluation reserve of Phase I of Metro Harbour Plaza to investment properties revaluation reserve. About 460 residential units of Metro Harbour View were sold during the period. The results of all the other operations of the Group for the period recorded a net loss of HK\$28.3 million, which included an impairment loss of HK\$17.8 million on the shipyard assets.

### ***Liquidity, Financial Resources and Capital Structure***

As of 30 June 2003, the shareholders' fund of the Group showed a decrease of 0.7% from that recorded in 2002 and amounted to HK\$3,039 million. Such decrease was attributed to the net effect of the profit for the period, the reserves realized and the dividend paid during the period.

There was no change as to the capital structure of the Group during the period. As of 30 June 2003, the Group had no borrowing. Funding for the Group's activities in the period under review was mainly generated from the sale of the residential units of Metro Harbour View.

There was no material acquisition and disposal of any subsidiary and associate during the period. But a total amount of HK\$28.5 million was advanced to an associate which provides mortgage loans to buyers of residential units of Metro Harbour View.

Current assets of the Group were recorded at HK\$2,326 million as compared to the current liabilities of HK\$660 million as of 30 June 2003. Current ratio of the Group increased from 3.3 as of 31 December 2002 to 3.5 as of 30 June 2003, mainly attributed to the sale of residential units of Metro Harbour View.

### ***Gearing Ratio and Financial Management***

As there was no borrowing as at 30 June 2003, no gearing ratio of the Group, which was calculated on the basis of bank borrowing as a ratio of the Group's shareholders' funds, was shown. Assets of the Group had not been charged to any third party in the period under review.

The Group's financing and treasury activities were managed centrally at the corporate level. Financing facilities extended to the Group were denominated in Hong Kong Dollars. As a whole, the core operations of the Group can be considered as not exposed to foreign exchange rate risk to any significant extent.



### ***Contingent Liabilities***

Contingent liabilities of the Group as at 30 June 2003 amounting to approximately HK\$76 million was in respect of a claim by the Hong Kong Government against the Company and a subsidiary in respect of the dispute over the reimbursement of certain costs for the proposed redevelopment of the ferry piers in Central District.

### ***Employees***

As at 30 June 2003, the number of employees of the Group was about 380. The remuneration packages to employees were commensurate to the market trend and level of pay in the industry. A year-end bonus, where applicable, was paid to employees based on individual performance. Other benefits to employees included medical insurance, retirement scheme, training programmes and educational subsidies.

## **OTHER INFORMATION**

### ***Closure of Register of Members***

The register of members will be closed from Monday, 6 October 2003 to Wednesday, 8 October 2003, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Registrars, Standard Registrars Limited at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 3 October 2003.

### ***Purchase, Sale or Redemption of Securities***

There has been no purchase, sale or redemption of the Company's securities by the Company or any of its subsidiaries during the period under review.

### ***Arrangement to Purchase Shares, Warrants, Options or Debentures***

At no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, options, debentures or warrants of the Company or any other body corporate.

### ***Code of Best Practice***

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months period ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, save that the independent non-executive directors were not appointed for specific terms and are subject to retirement by rotation and re-election pursuant to the Articles of Association of the Company.

### ***Audit Committee***

The Audit Committee has met in September 2003 to review the systems of internal control and its compliance and the interim report for the period ended 30 June 2003.

On behalf of the Board  
**Colin Lam Ko Yin**  
Chairman

Hong Kong, 5 September 2003



## DISCLOSURE OF INTERESTS

### Directors' Interests in Securities

At 30 June 2003, the interests of the directors in securities of the Company and its associated corporations as recorded in the register maintained under section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

	THE COMPANY		
	Personal Interests Number of Shares	Corporate Interests Number of Shares	Family Interests Number of Shares
Mr. Lam Ko Yin, Colin	150,000	–	–
Mr. Ho Hau Chong, Norman	3,313,950	–	–
Mr. Kan Yuet Loong, Michael	22,965	–	–
Mr. Lau Yum Chuen, Eddie	–	–	–
Dr. Lee Shau Kee	7,799,220	111,636,090 <i>(Note 5 on page 7)</i>	–
Mr. Leung Hay Man	2,250	–	–
Mr. Li Ning	–	–	111,636,090 <i>(Note 6 on page 7)</i>
Mr. Wong Man Kong, Peter	1,151,000	–	–
Dr. Wu Shu Chih, Alex	186,030	–	–

	2OK COMPANY LIMITED	
	Corporate Interests Number of Shares	Family Interests Number of Shares
Dr. Lee Shau Kee <i>(Note 1)</i>	5	–
Mr. Li Ning <i>(Note 2)</i>	–	5

#### Notes:

- These 5 shares representing 50% equity interest in 2OK Company Limited (an associated company in which the Company through a subsidiary owns the remaining 50% interest) are beneficially owned by wholly-owned subsidiaries of Henderson Land Development Company Limited ("HLD"). Henderson Development Limited ("HD") beneficially owns more than one-third of the issued share capital in HLD. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of respective discretionary trusts hold units in a unit trust (the "Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owns all the issued ordinary shares which carry the voting rights in the share capital of HD. Dr. Lee Shau Kee beneficially owns all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee is taken to be interested in these 5 shares in 2OK Company Limited.
- By virtue of the SFO, Mr. Li Ning is taken to be interested in these 5 shares in 2OK Company Limited as Mr. Li's spouse is one of the discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust.



Other than as stated above, no directors or chief executive of the Company had any interest or short position, whether beneficial or non-beneficial, in the shares, (in respect of positions held pursuant to equity derivatives) underlying shares and debentures of the Company or any of its associated corporations as at 30 June 2003.

### Substantial Shareholders and others

At 30 June 2003, the interests in ordinary shares of the Company of every person as recorded in the register required to be kept under section 336 of the SFO were as follows:

Substantial Shareholders	No. of shares in which interested
Henderson Investment Limited ( <i>Note 1</i> )	111,636,090
Pataca Enterprises Limited ( <i>Note 1</i> )	70,200,000
Wiselin Investment Limited ( <i>Note 2</i> )	41,436,090
Max-mercan Investment Limited ( <i>Note 2</i> )	41,436,090
Henderson Development Limited ( <i>Note 3</i> )	111,636,090
Henderson Land Development Company Limited ( <i>Note 3</i> )	111,636,090
Kingslee S.A. ( <i>Note 3</i> )	111,636,090
Hopkins (Cayman) Limited ( <i>Note 4</i> )	111,636,090
Rimmer (Cayman) Limited ( <i>Note 4</i> )	111,636,090
Riddick (Cayman) Limited ( <i>Note 4</i> )	111,636,090
Dr. Lee Shau Kee ( <i>Note 5</i> )	119,435,310
Mr. Li Ning ( <i>Note 6</i> )	111,636,090

### Persons other than Substantial Shareholders

Graf Investment Limited ( <i>Note 1</i> )	23,400,000
Mount Sherpa Limited ( <i>Note 1</i> )	23,400,000
Paillard Investment Limited ( <i>Note 1</i> )	23,400,000

#### Notes:

All shares referred to below, unless otherwise stated, form part of the same parcel of 111,636,090 shares.

1. These 111,636,090 shares are beneficially owned by some of the subsidiaries of Henderson Investment Limited ("HI"). Of these 111,636,090 shares, 70,200,000 shares are owned by some of the subsidiaries (viz, Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, each of which owns 23,400,000 shares) of Pataca Enterprises Limited, which is itself a subsidiary of HI.
2. These 41,436,090 shares held by Wiselin Investment Limited and in which Max-mercan Investment Limited is taken to be interested refer to the same lot of shares. Wiselin Investment Limited, a subsidiary of Max-mercan Investment Limited which is a subsidiary of HI, beneficially owns 41,436,090 shares all of which constitute part of the said 111,636,090 shares.



3. These 111,636,090 shares are duplicated in the interests described in Notes 1 and 2. Henderson Development Limited ("HD") beneficially owns more than one-third of the issued share capital in Henderson Land Development Company Limited which is, in turn, the holding company of Kingslee S.A.. Kingslee S.A. has a controlling interest in HI.
4. These 111,636,090 shares are duplicated in the interests described in Notes 1, 2 and 3. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of respective discretionary trusts hold units in a unit trust (the "Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owns all the issued ordinary shares, which carry the voting rights in the share capital of HD.
5. Dr. Lee Shau Kee beneficially owns all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee is taken to be interested in 111,636,090 shares, which are duplicated in the interests described in Notes 1, 2, 3 and 4.
6. By virtue of the SFO, Mr. Li Ning is taken to be interested in these 111,636,090 shares as Mr. Li's spouse is one of the discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust. These 111,636,090 shares are duplicated in the interests described in Notes 1, 2, 3 and 4.

Save as disclosed above, each of the aforesaid shareholders does not have any interest or short position in shares and (in respect of positions held pursuant to equity derivatives) underlying shares of the Company that are discloseable under the requirement of the SFO.





## CONDENSED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2003 – unaudited

		Six months ended 30 June	
		2003	2002
		HK\$'000	(Restated) HK\$'000
	Note		
Turnover	3(a)	490,792	493,958
Cost of sales		(308,951)	(312,573)
		<b>181,841</b>	181,385
Other revenue	3(a)	7,239	5,117
Other net income		5,338	6,256
Revaluation surplus	3(c)	30,512	–
Selling and marketing expenses		(27,550)	(15,930)
Administrative expenses		(22,767)	(24,098)
Impairment loss in respect of assets	3(d)	(19,032)	–
Other operating expenses		(17,024)	(12,157)
<b>Profit from operations</b>	3(b)	<b>138,557</b>	140,573
Share of results of associates		47	(97)
<b>Profit from ordinary activities before taxation</b>	4	<b>138,604</b>	140,476
Taxation	5	(1,679)	(4,772)
<b>Profit attributable to shareholders</b>		<b>136,925</b>	135,704
Dividend attributable to the interim period	6(a)	28,503	28,503
Basic earnings per share (cent)	7	38.4	38.1

The notes on pages 13 to 25 form part of these condensed interim financial statements.



**CONSOLIDATED BALANCE SHEET**

As at 30 June 2003

	Note	At 30 June 2003		At 31 December 2002 (Restated)	
		HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (audited)	HK\$'000 (audited)
<b>Non-current assets</b>					
Fixed assets	8				
– Investment properties			302,734		132,500
– Property, plant and equipment			257,526		281,312
			560,260		413,812
Interest in associates	9		213,190		184,681
Properties under development					
– held for investment			531,874		676,089
Other non-current assets			50,644		49,173
Deferred tax assets			15,594		18,094
			1,371,562		1,341,849
<b>Current assets</b>					
Completed properties for sale		258,990		313,703	
Properties under development					
– held for sale			724,819		861,931
Inventories	10	11,952		13,693	
Debtors and prepayments	11	358,925		383,260	
Tax recoverable		2,052		2,100	
Cash and cash equivalents	12	969,758		896,097	
		2,326,496		2,470,784	
<b>Current liabilities</b>					
Bank overdraft	12	226		951	
Creditors and accrued charges	13	483,187		560,577	
Deposits received		175,859		189,888	
Tax payable		235		235	
		659,507		751,651	
<b>Net current assets</b>			1,666,989		1,719,133
<b>Total assets less current liabilities</b>			3,038,551		3,060,982
<b>Non-current liability</b>					
Deferred taxation			–		(835)
<b>NET ASSETS</b>			3,038,551		3,060,147

**CONSOLIDATED BALANCE SHEET (CONT'D)***As at 30 June 2003*

		At 30 June 2003		At 31 December 2002 (Restated)	
	Note	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (audited)	HK\$'000 (audited)
<b>CAPITAL AND RESERVES</b>					
Share capital	14		356,274		356,274
Reserves	15		2,682,277		2,703,873
			<b>3,038,551</b>		<b>3,060,147</b>

The notes on pages 13 to 25 form part of these condensed interim financial statements.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 June 2003 – unaudited*

	Note	Six months ended 30 June	
		2003 HK\$'000	2002 HK\$'000
Net cash from operating activities		192,942	886,271
Net cash used in investing activities		(47,302)	(210,825)
Net cash used in financing activities		(71,254)	(69,431)
Net increase in cash and cash equivalents		74,386	606,015
Cash and cash equivalents at 1 January		895,146	172,607
Cash and cash equivalents at 30 June	12	969,532	778,622

The notes on pages 13 to 25 form part of these condensed interim financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 June 2003 – unaudited*

	Six months ended 30 June	
	2003 HK\$'000	2002 (Restated) HK\$'000
<b>Shareholders' equity at 1 January</b>		
– as previously stated	3,042,053	2,917,244
– prior period adjustment ( <i>note 2</i> )	18,094	35,236
– as restated	3,060,147	2,952,480
Profit not recognised in the consolidated profit and loss account		
– surplus on revaluation of equity securities	1,570	1,086
Profit for the period	136,925	135,704
Net transfer to consolidated profit and loss account from reserves	(88,837)	(42,582)
Dividends approved and paid during the period	(71,254)	(71,254)
<b>Shareholders' equity at 30 June</b>	<b>3,038,551</b>	<b>2,975,434</b>

The notes on pages 13 to 25 form part of these condensed interim financial statements.



## NOTES ON THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

### 1. BASIS OF PREPARATION

These condensed interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants (“HKSA”). KPMG’s independent review report to the board of directors is included on page 26.

The condensed interim financial statements have been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the HKSA.

The financial information relating to the financial year ended 31 December 2002 included in the condensed interim financial statements does not constitute the Company’s statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2002 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 14 March 2003.

The same accounting policies adopted in the 2002 annual accounts have been applied to the condensed interim financial statements except for the changes in accounting policy as explained in note 2 below.

### 2. CHANGES IN ACCOUNTING POLICY

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallise in the foreseeable future. Future deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. With effect from 1 January 2003, in order to comply with SSAP 12 (revised) “Income Taxes” issued by the HKSA, the Group adopted a new policy for deferred tax as set out below.

Under SSAP 12 (revised), deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.



## 2. CHANGES IN ACCOUNTING POLICY (CONT'D)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

As a result of the adoption of this accounting policy, the Group's profit for the period has been decreased by HK\$2,500,000 (2002: HK\$4,246,000) and the Group's net assets as at 30 June 2003 have been increased by HK\$15,594,000 (at 31 December 2002: HK\$18,094,000).

The new accounting policy has been adopted retrospectively, with the opening balance of retained profits and the comparative information adjusted for the amounts relating to prior periods as disclosed in the consolidated statement of changes in equity.

## 3. SEGMENTAL REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segmental revenue and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment, and are determined before intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group transactions are between group enterprises within a single segment.

Segmental information is presented only in respect of the Group's business segments. No geographical analysis is shown as less than 10% of the Group's revenue and profit from operations were derived from activities outside Hong Kong.



### 3. SEGMENTAL REPORTING (CONT'D)

The Group is currently organized into three main operating segments, namely “Property development and investment”, “Ferry, shipyard and related operations” and “Travel and hotel operations”.

The segmental information for the six months ended 30 June 2003 and 2002 about these business segments is presented below:

(a) Segmental Revenue

	Total revenue Six months ended 30 June		Elimination of inter- segment revenue Six months ended 30 June		Revenue from external customers Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Property development and investment	388,848	362,875	–	–	388,848	362,875
Ferry, shipyard and related operations	64,210	77,681	868	898	63,342	76,783
Travel and hotel operations	39,411	54,084	9	3	39,402	54,081
Others	27,566	24,252	21,127	18,916	6,439	5,336
	<b>520,035</b>	<b>518,892</b>	<b>22,004</b>	<b>19,817</b>	<b>498,031</b>	<b>499,075</b>
Analysed by :						
Turnover					490,792	493,958
Other revenue					7,239	5,117
					<b>498,031</b>	<b>499,075</b>





### 3. SEGMENTAL REPORTING (CONT'D)

(b) Segmental Result

	Profit/(loss) from operations Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Property development and investment (note c)	165,405	141,681
Ferry, shipyard and related operations (note d)	(28,312)	(3,183)
Travel and hotel operations	(2,420)	1,700
Others (note e)	3,884	375
	<b>138,557</b>	<b>140,573</b>

(c) The segmental result of the property development and investment operations included a revaluation surplus on investment properties completed during the period in the amount of HK\$30,512,000 (2002: HK\$ Nil).

(d) The segmental result of the ferry, shipyard and related operations included a total impairment losses in respect of shipyard assets and an oil barge of HK\$19,032,000 (2002: HK\$ Nil).

(e) The segmental result of "Others" mainly comprises financial income, investment income and corporate expenses.

### 4. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Cost of inventories	242,183	223,446
Depreciation	5,155	7,261
Dividend income from listed investments	(779)	(698)



## 5. TAXATION

	Six months ended 30 June	
	2003 HK\$'000	2002 (Restated) HK\$'000
Provision for Hong Kong profits tax for the period	9	744
Over provision in respect of prior period	-	(232)
	9	512
Deferred taxation	1,665	4,246
	1,674	4,758
Share of taxation of associates	5	14
	1,679	4,772

The provision for Hong Kong profits tax is based on an estimate of the assessable profits for the six months ended 30 June 2003 less relief for available tax loss where applicable at 17.5% (2002: 16%).

## 6. DIVIDENDS

- (a) Dividend attributable to the interim period

	Six months ended 30 June	
	2003 HK\$'000	2002 HK\$'000
Interim dividend declared after the interim period end of 8 cents per share (2002: 8 cents per share)	28,503	28,503

The interim dividend declared after the interim period end has not been recognised as a liability at the interim period end date.

**6. DIVIDENDS (CONT'D)**

- (b) Dividend attributable to the previous financial year, approved and paid during the interim period

Final dividend in respect of the previous financial year, approved and paid during the interim period, of 20 cents per share (2002: 20 cents per share)

**Six months ended 30 June**

<b>2003</b> <b>HK\$'000</b>	<b>2002</b> <b>HK\$'000</b>
<b>71,254</b>	<b>71,254</b>

**7. BASIC EARNINGS PER SHARE**

The calculation of basic earnings per share is based on a profit of HK\$136,925,000 (2002 (restated): HK\$135,704,000) and 356,273,883 (2002: 356,273,883) ordinary shares in issue during the period.

There was no dilutive potential ordinary shares in existence during the period or the corresponding period last year.



## 8. FIXED ASSETS

	Properties <i>HK\$'000</i>	Plant and equipment <i>HK\$'000</i>	Sub-total <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost or valuation:</b>					
At 1 January 2003	292,791	409,575	702,366	132,500	834,866
Additions	–	406	406	–	406
Transfer from properties under development	–	–	–	172,897	172,897
Disposals	(87)	(486)	(573)	(2,663)	(3,236)
At 30 June 2003	292,704	409,495	702,199	302,734	1,004,933
<b>Aggregate depreciation:</b>					
At 1 January 2003	120,711	300,343	421,054	–	421,054
Charge for the period	1,443	3,712	5,155	–	5,155
Impairment loss	9,367	9,665	19,032	–	19,032
Written back on disposal	(87)	(481)	(568)	–	(568)
At 30 June 2003	131,434	313,239	444,673	–	444,673
<b>Net book value:</b>					
At 30 June 2003	161,270	96,256	257,526	302,734	560,260
At 31 December 2002	172,080	109,232	281,312	132,500	413,812

## 9. INTEREST IN ASSOCIATES

	At 30 June 2003 <i>HK\$'000</i>	At 31 December 2002 <i>HK\$'000</i>
Share of net assets	233	190
Amounts due from associates	219,427	190,961
Less: Provision	(6,470)	(6,470)
	213,190	184,681

All of the associates are incorporated and operate in Hong Kong.



## 9. INTEREST IN ASSOCIATES (CONT'D)

Other particulars of associates are as follows:

	% of equity interest held by		Principal activities
	The Company	Subsidiaries	
2OK Company Limited	–	50	Financing
Celelight Company Limited	33.34	–	Trading of fuel oil
Authian Estates Limited	–	50	Property investment

## 10. INVENTORIES

The amount of spare parts and consumables carried at net realisable value is HK\$4,796,000 (at 31 December 2002: HK\$4,966,000).

## 11. DEBTORS AND PREPAYMENTS

All of the debtors and prepayments except for HK\$52,597,000 (at 31 December 2002: HK\$57,727,000) of which HK\$41,607,000 (at 31 December 2002: HK\$48,419,000) are relating to retention money recoverable are expected to be recovered within one year.

Included in debtors and prepayments are trade debtors (excluding retention money recoverable and net of specific provisions for bad and doubtful debts) with the following aging analysis:

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Current	283,134	300,355
1 to 3 months overdue	5,918	6,460
More than 3 months overdue but less than 12 months overdue	1,163	894
More than 12 months overdue	46	–
	<b>290,261</b>	<b>307,709</b>

Debts are due ranging from 7 to 45 days from the date of billing. Debtors with balances that are more than 60 days overdue are generally required to settle all outstanding balances before any further credit is granted.



## 12. CASH AND CASH EQUIVALENTS

	At 30 June 2003 <i>HK\$'000</i>	At 31 December 2002 <i>HK\$'000</i>
Deposits with banks and other financial institutions	953,467	881,391
Cash at bank and in hand	16,291	14,706
Cash and cash equivalents in the balance sheet	969,758	896,097
Bank overdraft	(226)	(951)
Cash and cash equivalents in the cash flow statement	969,532	895,146

## 13. CREDITORS AND ACCRUED CHARGES

All of the creditors and accrued charges except for HK\$98,016,000 (at 31 December 2002: HK\$114,060,000), mainly represented by retention money payable, are expected to be settled within one year.

Included in creditors and accrued charges are trade creditors with the following aging analysis:

	At 30 June 2003 <i>HK\$'000</i>	At 31 December 2002 <i>HK\$'000</i>
Due within 1 month or on demand	310,163	353,591
Due after 12 months	98,016	114,060
	408,179	467,651



#### 14. SHARE CAPITAL

	No. of share '000	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$1 each at 1 January 2003 and 30 June 2003	550,000	550,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$1 each at 1 January 2003 and 30 June 2003	356,274	356,274

#### 15. RESERVES

	Share premium HK\$'000	Other property revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Securities revaluation reserve HK\$'000	Other capital reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2003							
- as previously reported	1,398,527	385,159	-	(10,987)	5,594	907,486	2,685,779
- prior period adjustment: deferred tax (note 2)	-	-	-	-	-	18,094	18,094
- as restated	1,398,527	385,159	-	(10,987)	5,594	925,580	2,703,873
Dividend approved in respect of the previous financial year	-	-	-	-	-	(71,254)	(71,254)
Revaluation surplus	-	-	-	1,570	-	-	1,570
Realisation of revaluation reserves on disposal	-	(58,323)	-	-	-	-	(58,323)
Reclassification	-	(30,512)	30,512	-	-	-	-
Transfer to the profit and loss account	-	-	(30,512)	-	-	-	(30,512)
Realisation of inter-company profits	-	-	-	-	(2)	-	(2)
Profit for the period	-	-	-	-	-	136,925	136,925
At 30 June 2003	1,398,527	296,324	-	(9,417)	5,592	991,251	2,682,277



## 16. CAPITAL AND OTHER COMMITMENTS

- (a) Capital commitments outstanding not provided for in the Group's accounts were as follows:

	At 30 June 2003 HK\$'000	At 31 December 2002 HK\$'000
Contracted for	52,933	92,749

- (b) At 30 June 2003, the Group had commitments for future development expenditure relating to properties under development for sale amounting to HK\$276,621,000 (at 31 December 2002: HK\$500,321,000), 50% of which was recoverable under the arrangement referred to in note 18.

## 17. CONTINGENT LIABILITIES

At 30 June 2003, there were contingent liabilities in respect of the following:

A statement of claim was filed at the High Court of Hong Kong by the Secretary for Justice, representing the Hong Kong Government, against The Hongkong and Yaumati Ferry Company Limited ("HYF"), a wholly-owned subsidiary of the Company, and the Company in November 1999. The claim was for the sum of approximately HK\$76 million and other extra expenses in respect of a dispute over the reimbursement of certain costs incurred by the Hong Kong Government on the implementation of certain piling design to cater for the proposed redevelopment of the re-provided ferry piers in Central into new commercial and residential premises, which proposed redevelopment was not pursued due to high premium requested by the Government Lands Department. Based on legal advice, the Group is contesting this claim. The directors are of the opinion that there are grounds for HYF and the Company to resist the claim.

In addition, HYF and the Company made a counterclaim against the Government for the sum of approximately HK\$284 million, being costs relating to the redevelopment of the Central piers. Therefore, except for legal costs which were incurred and charged to the profit and loss account, no provision for the claim or related legal cost to be incurred has been made in the accounts.





## 18. MATERIAL RELATED PARTY TRANSACTIONS

In 1998, the Group appointed a wholly-owned subsidiary of Henderson Land Development Company Limited (“HL”) as the development and sales manager (the “Project Manager”) for the redevelopment of the Kowloon Inland Lot No. 11127 (the “Property”) in consideration for a fee equivalent to the aggregate of 1% of the construction cost and 0.5% of the gross proceeds of sale of the residential portion of the redevelopment. An amount of HK\$7,003,000 (2002: HK\$9,017,000) had been charged to the Group for the period ended 30 June 2003. As at 30 June 2003, an amount of HK\$18,000,000 (at 31 December 2002: HK\$12,565,000) payable to the Project Manager was included in creditors and accrued charges.

In 1999, the Group entered into a development agreement (the “Agreement”) with HL and two wholly-owned subsidiaries of HL (“HL Sub”), whereby HL Sub acquired the right to 50% of any proceeds from the future sale of the residential portion of the redevelopment. During the years from 1999 to 2001, the Group had received all the instalments under the Agreement totalling HK\$1,500,000,000.

As part of the Agreement, HL Sub agreed to reimburse the Group 50% of its development expenditures relating to the residential portion of the Property. The amount recoverable from HL Sub in this regard amounted to HK\$78,489,000 for the period ended 30 June 2003 (2002: HK\$132,731,000). As at 30 June 2003, an amount of HK\$160,589,000 (at 31 December 2002: HK\$196,439,000) remained unpaid and was included in debtors and prepayments.

The Group also engaged another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the redevelopment of the Property. An amount of HK\$22,322,000 (2002: HK\$13,412,000) had been charged to the Group for the period ended 30 June 2003. In accordance with the prime cost contract entered with the Group, an amount of HK\$169,270,000 (2002: HK\$280,534,000) was charged by the main contractor during the period for the superstructure work of the development. As at 30 June 2003, an amount of HK\$344,751,000 (at 31 December 2002: HK\$437,363,000) remained unpaid and was included in creditors and accrued charges.

In November 2001, the Group appointed another wholly-owned subsidiary of HL as the estate manager of the Property (except for the commercial arcade) for a term of two years from the issuance of the first occupation permit at a remuneration of 10% of the total annual expenditures (excluding the remuneration itself and expenditure of a kind not incurred annually) reasonably and necessarily incurred in the good and efficient management of the Property and the buildings thereon (except for the commercial arcade). An amount of HK\$318,000 (2002: HK\$ Nil) had been charged to the Group and was included in creditors and accrued charges.



## 18. MATERIAL RELATED PARTY TRANSACTIONS (CONT'D)

In December 2001, a wholly-owned subsidiary of the Company, acquired 50% equity interest in 2OK Company Limited ("2OK") which was set up to provide mortgage loans to the residential unit buyers of Metro Harbour View. HL through its subsidiaries beneficially owned the remaining 50% equity interest in 2OK as at 30 June 2003. During the six months ended 30 June 2003, the Group received management and administrative fees in the total of HK\$330,000 (2002: HK\$1,100,000) from 2OK. The Group and HL Sub have made advances to 2OK to finance the latter's mortgage operation. As at 30 June 2003, the amount advanced by the Group totalling HK\$209,462,000 (at 31 December 2002: HK\$180,996,000) is in proportion to the Group's equity interest in 2OK and is unsecured, interest-free and has no fixed repayment terms.

In December 2002, the Group appointed a wholly-owned subsidiary of HL, who was also the Project Manager responsible for the redevelopment of the Property, as the leasing and promotion agent of the commercial arcade of the Property for a term of two years at the remuneration of 5% of the monthly rental income from the commercial arcade of the Property and shall thereafter be renewable on the same terms from year to year until terminated by either party by giving three months' prior notice in writing.

As at 30 June 2003, HL through its subsidiaries beneficially owned 73.48% of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the Company.

Dr. Lee Shau Kee, a director of the Company, is interested in the above transactions as a substantial shareholder of HL.

To the extent the above transactions constituted connected transactions as defined in the Listing Rules, the Group had complied with relevant requirements under Chapter 14 of the Listing Rules.



## **INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF HONG KONG FERRY (HOLDINGS) COMPANY LIMITED**

### **INTRODUCTION**

We have been instructed by the Company to review the interim financial report set out on pages 8 to 25.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### **REVIEW WORK PERFORMED**

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" ("SAS 700") issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

### **REVIEW CONCLUSION**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

### **KPMG**

*Certified Public Accountants*

Hong Kong, 5 September 2003

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