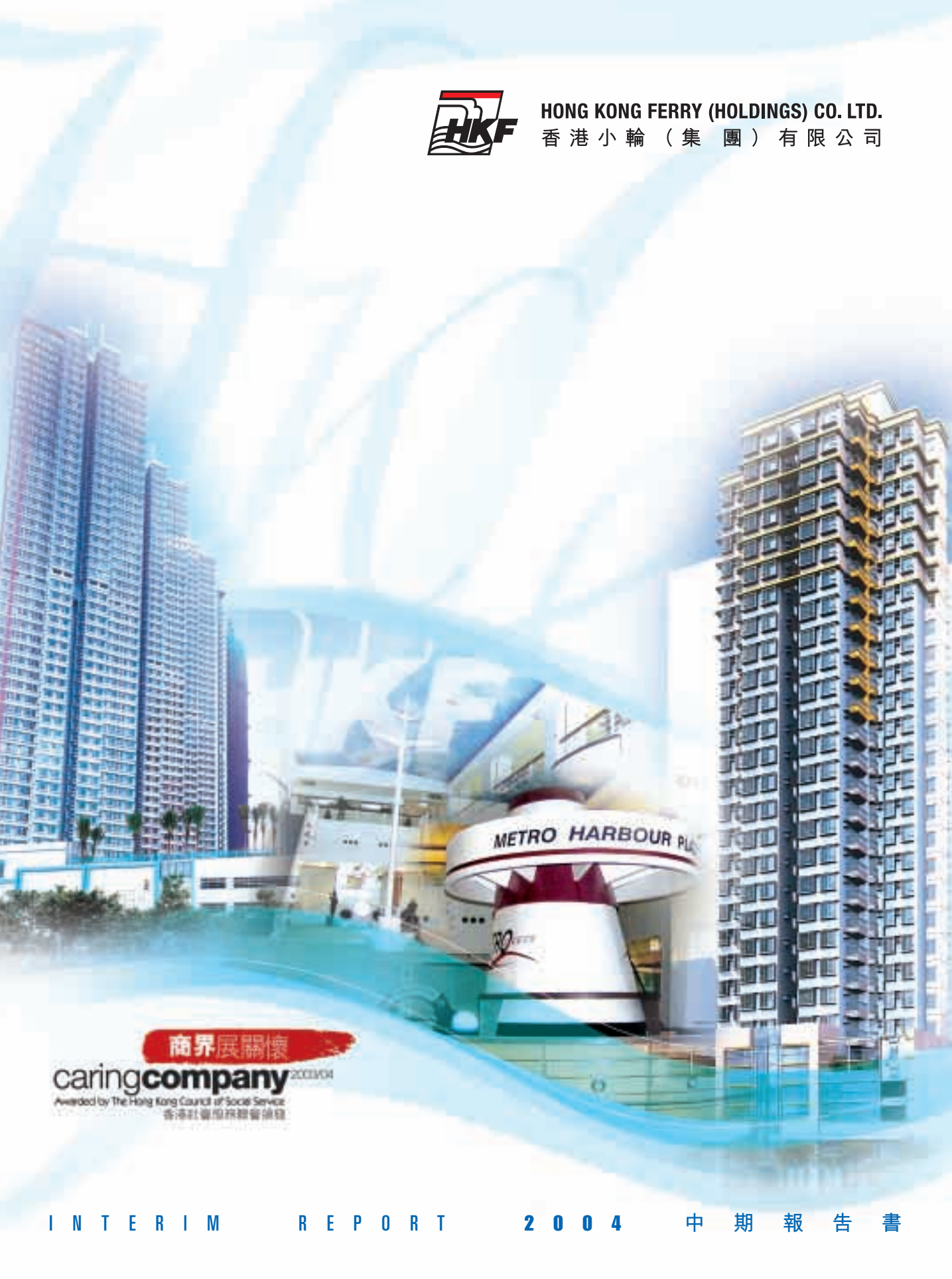




HONG KONG FERRY (HOLDINGS) CO. LTD.  
香港小輪（集團）有限公司



商界展關懷

caringcompany 2003/04

Awarded by The Hong Kong Council of Social Service  
香港社會服務聯會頒發

## INTERIM RESULTS AND DIVIDEND

The unaudited consolidated net profit after taxation of the Group for the six months ended 30 June 2004 amounted to HK\$237.3 million, representing an increase of 73.3% over the same period last year. Earnings per share were 66.6 cents as compared with 38.4 cents over the corresponding period of 2003.

The Board has resolved to pay an interim dividend of 9 cents (2003: 8 cents) per share in respect of the financial year ending 31 December 2004. The interim dividend will be paid on or about Thursday, 21 October 2004 to shareholders on the register of members at the close of business on Wednesday, 13 October 2004.

## 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")***

During the period under review, a total of 480 residential units of Metro Harbour View were sold, bringing the number of unsold units to less than 800. The Group recorded a profit of HK\$242.6 million from the units sold, representing an increase of 80.1% when compared with the same period last year. Rental income derived from the commercial arcade, Metro Harbour Plaza, amounted to HK\$2.3 million during the period. The occupancy rate as at the end of June was approximately 24% but, taking into account of the committed tenancies, stood at approximately 79% at end of the period.

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

In March, the Group accepted an offer from the Lands Department of a land exchange of the subject site for a new lot known as Kowloon Inland Lot No. 11159, subject to certain terms and conditions including the payment of a premium of approximately HK\$390 million. The site will be developed into a residential-cum-commercial property with a total gross floor area of approximately 320,000 sq. ft., comprising approximately 270,000 sq. ft. for residential use and approximately 50,000 sq. ft. for non-residential use. Foundation works will commence later this year.

#### ***43-51A Tong Mi Road***

The site, acquired in October 2003, will be developed into a residential-cum-commercial property with a total gross floor area of approximately 53,000 sq. ft. The foundation works will be completed soon and construction of the superstructure will begin thereafter. It is anticipated that the development will be completed by the end of 2005.

**6 Cho Yuen Street, Yau Tong**

In April, the Group accepted an offer from the Lands Department of a proposed modification to the site against the payment of a premium of approximately HK\$146 million. The site will be redeveloped into a residential-cum-commercial property with a total gross floor area of approximately 150,000 sq. ft., comprising approximately 125,000 sq. ft. for residential use and 25,000 sq. ft. for non-residential use. Demolition of the existing Kingsford Industrial Centre is anticipated to commence in early 2005.

The average occupancy rate for the Kingsford Industrial Centre for the period was about 90%. Rental income for the period decreased by 4.6% to HK\$4.1 million when compared with the same period last year.

**Ferry, Shipyard and Related Operations**

Owing to the continued influx of mainland tourists to Hong Kong, turnover of the harbour cruise operation increased by about 190% against the same period last year. The turnover of the ferry operation recorded a minor increase while that of the shipyard operation recorded a decrease of 13.5% against the same period last year. The Ferry, Shipyard and Related Operations recorded an overall increase in total turnover of 15.5% in comparison with the same period last year, and recorded an operating profit of HK\$1.2 million, a significant improvement from the loss of HK\$28.3 million in the same period last year, which took into account an impairment loss of HK\$17.8 million over the shipyard assets.

**Travel and Hotel Operations**

The turnover of the Travel and Hotel Operations increased by 78.3% in comparison with the same period last year, which was hit by the SARS outbreak. The Travel and Hotel Operations recorded a reduction in loss from HK\$2.4 million in the same period last year to HK\$0.5 million for the period.

**Hong Kong Q-Mark Service Standard**

The Group has strengthened the local tour and hotel businesses including the "Victoria Harbour Night Cruise", so as to capitalize on the opportunities brought along by the mainland tourists. In order to enhance customers' confidence and ensure service quality, the "HYFCO Travel" and the "Harbour Cruise – Bauhinia" applied for and obtained the Hong Kong Q-Mark Service Scheme Certificates of the Federation of Hong Kong Industries in April this year. The Group's Travel and Hotel Operations will further contribute to the Tourism and Hotel industry of the territory by continuing to improve our service standard.

**PROSPECTS**

The local economy has benefited from the influx of mainland tourists. The local property market is likewise a prime beneficiary. Residential units of Metro Harbour View have recorded excellent sales performance in the first half year. Recent sale has slowed, but is still expected to register good results in coming months. This project will continue to be the main contributor to the operating results of the Group in this financial year.

## FINANCIAL REVIEW

### Review of Results

During the six-month period ended 30 June 2004, the Group's turnover amounted to approximately HK\$688 million, representing an increase of 40.2% as compared to that recorded in the same period last year. The increase in total turnover was mainly due to the increase in the turnover attributed to the sales of residential units of Metro Harbour View and the turnover of the Travel Operation.

Profit after taxation, which increased by 73.3% to HK\$237.3 million compared to that recorded in the previous year, was mainly attributed to the profit recognized for the period of HK\$238.3 million on the 480 residential units of Metro Harbour View sold during the period. The remaining operations of the Group recorded a net loss of HK\$1.0 million for the period.

### Liquidity, Financial Resources and Capital Structure

As of 30 June 2004, the shareholders' fund of the Group showed an increase of 3.9% from that recorded on 31 December 2003 and amounted to HK\$3,124 million. Such increase was attributed to the profit for the period and netting off the reserves realized on sale of residential units of Metro Harbour View 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 2004, 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. However, an additional amount of HK\$16.3 million was advanced during the period 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\$1,607 million as compared to the current liabilities of HK\$400 million as of 30 June 2004. Current ratio of the Group decreased from 5.0 as of 31 December 2003 to 4.0 as of 30 June 2004, mainly attributed to the payment of total land premium of approximately HK\$536 million for the land exchange and the lease modification during the period.

### Gearing Ratio and Financial Management

As there was no borrowing as at 30 June 2004, 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 2004 amounting to approximately HK\$76 million were 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 2004, the number of employees of the Group was about 370. The remuneration packages to employees were commensurable to the market trend and level of pay in the relevant industries. Discretionary year-end bonus 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, 11 October 2004 to Wednesday, 13 October 2004, 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, 8 October 2004.

### **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 2004, 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 2004 and reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal control and financial reporting matters including the review of the unaudited interim report for the period ended 30 June 2004 with the management.

In addition, the Group's external auditors, KPMG, have also performed an independent review of the interim financial statements for the six months ended 30 June 2004 and confirmed that they are not aware of any material modifications that should be made to the said interim financial statements.

On behalf of the Board

**Colin Lam Ko Yin**

*Chairman*

Hong Kong, 17 September 2004

## DISCLOSURE OF INTERESTS

### DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2004, the interests of the directors in securities of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register of directors' and chief executives' interests and short positions maintained under section 352 of the SFO were as follows:

#### Interests

	THE COMPANY		
	Personal interests <i>Number of Shares</i>	Corporate interests <i>Number of Shares</i>	Family interests <i>Number of Shares</i>
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 8)</i>	–
Mr. Leung Hay Man	2,250	–	–
Mr. Li Ning	–	–	111,636,090 <i>(Note 6 on page 8)</i>
Mr. Wong Man Kong, Peter	1,051,000	–	–
Dr. Wu Shu Chih, Alex	186,030	–	–
		2OK COMPANY LIMITED	
		Corporate interests <i>Number of Shares</i>	Family interests <i>Number of Shares</i>
Dr. Lee Shau Kee <i>(Note 1)</i>		5	–
Mr. Li Ning <i>(Note 2)</i>		–	5

*Notes:*

1. 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.
2. 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 2004.

## SUBSTANTIAL SHAREHOLDERS AND OTHERS

At 30 June 2004, 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:

<b>Substantial Shareholders</b>	<b>No. of shares in which interested</b>
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
 <b>Persons other than Substantial Shareholders</b>	
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.

## CONTINUING OBLIGATIONS UNDER THE LISTING RULES

### FINANCIAL ASSISTANCE TO AFFILIATED COMPANIES

In accordance with rule 13.16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), an announcement was made on 23 July 2004 setting out the details of financial assistance to affiliated companies (within the meaning of the Listing Rules) of the Company as at 19 May 2004 (being the first date on which the disclosure obligation under rule 13.16 arose in respect of the Company), which in aggregate exceeded 8% of the total market capitalisation of the Company as at that date.

As at 30 June 2004, the circumstances giving rise to the disclosure under rule 13.16 continued to exist. In accordance with rule 13.22 of the Listing Rules, a proforma combined balance sheet of the affiliated companies as at 31 July 2004 is set out below:

	<b>As at 31 July 2004</b> <i>HK\$'000</i>
Non-current assets	450,946
Current assets	35,122
Current liabilities	(15,073)
Non-current liabilities	<u>(480,194)</u>
<b>Net liabilities</b>	<b><u><u>(9,199)</u></u></b>
Share capital	20
Accumulated losses	<u>(9,219)</u>
<b>Capital and accumulated losses</b>	<b><u><u>(9,199)</u></u></b>

As at 31 July 2004, the consolidated attributable interest of the Group in the relevant affiliated companies, namely 2OK Company Limited, Authian Estates Limited and Celelight Company Limited, was a net liability of HK\$4,738,000.

### ADVANCE TO AN ENTITY

In accordance with rule 13.13 of the Listing Rules, the announcement made on 23 July 2004 (as referred above under Financial Assistance to Affiliated Companies) also disclosed the details of advances provided by the subsidiaries of the Company to an entity as at 19 May 2004 (being the first date on which the disclosure obligation under rule 13.13 arose in respect of the Company), which exceeded 8% of the total market capitalisation of the Company as at that date.

As at 30 June 2004, the circumstances giving rise to the disclosure under rule 13.13 continued to exist. In accordance with rule 13.20 of the Listing Rules, the details of the relevant advance to the entity as at 30 June 2004 are as follows:

<b>Name of Entity</b>	<i>Note</i>	<b>Advance as at 30 June 2004</b> <i>HK\$'000</i>
Henderson Land Development Company Limited ("Henderson Land")	(b)	–
Subsidiaries of Henderson Land		
– Easewin Development Limited ("Easewin")	(c)	1,697
– Victory Well Development Limited ("Victory Well")	(c)	1,132
– E Man Construction Company Limited ("E Man")	(d)	52
– Metro Harbour View Management Limited ("MHV")	(e)	29
Affiliated companies of Henderson Land		
– Miramar Hotel and Investment (Express) Limited ("Miramar Express")	(f)	66
– 2OK Company Limited ("2OK")	(g)	<u>239,222</u>
Aggregate of advances to Henderson Land and its subsidiaries and affiliated companies		<u><u>242,198</u></u>

*Notes:*

- (a) All these advances were unsecured and without guarantee. The advances to 2OK carried interest at 2.05% per annum for the six months ended 30 June 2004. All the other advances were interest-free.
- (b) As at 30 June 2004, Henderson Land through its subsidiaries beneficially owned approximately 73.48% of the issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Listing Rules) of the Company.
- (c) These advances, representing outstanding construction cost of Metro Harbour View due from Easewin and Victory Well, were payable on demand.
- (d) These advances, representing outstanding contract charges due from E Man, were payable on demand.
- (e) These advances, representing outstanding local tour charges due from MHV, were payable on demand.
- (f) These advances, representing outstanding charges for hotel rooms and ship tickets due from Miramar Express, were payable on demand.
- (g) The advances made to 2OK were to provide working capital for provision of mortgage loan to buyers of residential units at Metro Harbour View owned by the Group. These advances have no fixed term of repayment. A subsidiary of the Company owns 50% of equity interest in 2OK.

## CONDENSED INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2004 – unaudited

	Note	Six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000
Turnover	2(a)	688,083	490,792
Cost of sales		(383,558)	(308,951)
		<b>304,525</b>	181,841
Other revenue	2(a)	8,251	7,239
Other net income		6,057	5,338
Revaluation (deficit)/surplus	2(c)	(1,787)	30,512
Selling and marketing expenses		(35,859)	(27,550)
Administrative expenses		(19,716)	(22,767)
Impairment loss in respect of property, plant and equipment	2(d)	–	(19,032)
Other operating expenses		(18,977)	(17,024)
<b>Profit from operations</b>	2(b)	<b>242,494</b>	138,557
Share of results of associates		379	47
<b>Profit from ordinary activities before taxation</b>	3	<b>242,873</b>	138,604
Taxation	4	(5,576)	(1,679)
<b>Profit attributable to shareholders</b>		<b>237,297</b>	136,925
Dividend attributable to the interim period	5(a)	32,065	28,503
Basic earnings per share (cent)	6	66.6	38.4

The notes on pages 15 to 23 form part of these condensed interim financial statements.

**CONSOLIDATED BALANCE SHEET**

As at 30 June 2004

	Note	At 30 June 2004		At 31 December 2003	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(unaudited)		(audited)	
<b>Non-current assets</b>					
Fixed assets	7				
– Investment properties			737,961		740,800
– Properties held for development			546,888		–
– Property, plant and equipment			253,644		254,456
			<b>1,538,493</b>		995,256
Interest in associates	8		243,977		227,503
Properties under development					
– held for investment			15,467		14,872
Other non-current assets			111,914		102,079
Deferred tax assets			7,214		11,533
			<b>1,917,065</b>		1,351,243
<b>Current assets</b>					
Completed properties for sale			495,923		826,523
Properties under development					
– held for sale			64,100		61,636
Inventories	9		5,989		8,081
Debtors and prepayments	10		312,230		275,642
Tax recoverable			1,825		1,891
Cash and cash equivalents	11		726,759		898,465
			<b>1,606,826</b>		2,072,238
<b>Current liabilities</b>					
Bank overdraft	11		195		527
Creditors and accrued charges	12		392,743		410,782
Tax payable			7,400		6,386
			<b>400,338</b>		417,695
<b>Net current assets</b>			<b>1,206,488</b>		1,654,543
<b>NET ASSETS</b>			<b>3,123,553</b>		3,005,786
<b>CAPITAL AND RESERVES</b>					
Share capital	13		356,274		356,274
Reserves	14		2,767,279		2,649,512
			<b>3,123,553</b>		3,005,786

The notes on pages 15 to 23 form part of these condensed interim financial statements.



**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30 June 2004 – unaudited*

	Note	Six months ended 30 June	
		2004 HK\$'000	2003 HK\$'000
Net cash (used in)/from operating activities		<b>(84,439)</b>	192,942
Net cash used in investing activities		<b>(15,681)</b>	(47,302)
Net cash used in financing activities		<b>(71,254)</b>	(71,254)
Net (decrease)/increase in cash and cash equivalents		<b>(171,374)</b>	74,386
Cash and cash equivalents at 1 January		<b>897,938</b>	895,146
Cash and cash equivalents at 30 June	11	<b>726,564</b>	969,532

The notes on pages 15 to 23 form part of these condensed interim financial statements.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the six months ended 30 June 2004 – unaudited*

	<b>Six months ended 30 June</b>	
	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
<b>Shareholders' equity at 1 January</b>	<b>3,005,786</b>	3,060,147
Profit not recognised in the consolidated profit and loss account – surplus on revaluation of equity securities	<b>9,474</b>	1,570
Profit for the period	<b>237,297</b>	136,925
Net transfer to consolidated profit and loss account from reserves	<b>(57,750)</b>	(88,837)
Dividends approved and paid during the period	<b>(71,254)</b>	(71,254)
<b>Shareholders' equity at 30 June</b>	<b>3,123,553</b>	3,038,551

The notes on pages 15 to 23 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 Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the board of directors is included on page 24.

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 25 “Interim financial reporting” issued by the HKICPA.

The financial information relating to the financial year ended 31 December 2003 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 2003 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 12 March 2004.

The same accounting policies adopted in the 2003 annual accounts have been applied to the condensed interim financial statements.

### **2. 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.

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”.

## 2. SEGMENTAL REPORTING (cont'd)

The segmental information for the six months ended 30 June 2004 and 2003 about these business segments is presented below:

(a) Segmental Revenue

	Total revenue		Elimination of inter-segment revenue		Revenue from external customers	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Property development and investment	552,087	388,848	-	-	552,087	388,848
Ferry, shipyard and related operations	73,838	64,210	807	868	73,031	63,342
Travel and hotel operations	70,270	39,411	22	9	70,248	39,402
Others	20,897	27,566	19,929	21,127	968	6,439
	<b>717,092</b>	520,035	<b>20,758</b>	22,004	<b>696,334</b>	498,031
Analysed by:						
Turnover					688,083	490,792
Other revenue					8,251	7,239
					<b>696,334</b>	498,031

(b) Segmental Result

	Profit/(loss) from operations Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Property development and investment (Note c)	242,808	165,405
Ferry, shipyard and related operations (Note d)	1,150	(28,312)
Travel and hotel operations	(526)	(2,420)
Others (Note e)	(938)	3,884
	<b>242,494</b>	138,557

(c) The segmental result of the property development and investment operations included a revaluation deficit on investment properties in the amount of HK\$1,787,000 (2003: revaluation surplus of HK\$30,512,000).

(d) In 2003, 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.

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

### 3. PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION

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

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Cost of inventories	286,983	242,183
Depreciation	4,861	5,155
Dividend income from listed investments	(719)	(779)

### 4. TAXATION

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Provision for Hong Kong profits tax for the period	1,080	9
Deferred taxation	4,319	1,665
Share of taxation of associates	177	5

The provision for Hong Kong profits tax is based on an estimate of the assessable profits for the six months ended 30 June 2004 less relief for available tax loss where applicable at 17.5% (2003: 17.5%).

### 5. DIVIDENDS

(a) Dividend attributable to the interim period

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Interim dividend declared after the interim period end of 9 cents per share (2003: 8 cents per share)	32,065	28,503

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



## 5. DIVIDENDS (cont'd)

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

	Six months ended 30 June	
	2004 HK\$'000	2003 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 20 cents per share (2003: 20 cents per share)	<b>71,254</b>	71,254

## 6. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on a profit of HK\$237,297,000 (2003: HK\$136,925,000) and 356,273,883 (2003: 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.

## 7. FIXED ASSETS

	Properties HK\$'000	Plant and equipment HK\$'000	Sub-total HK\$'000	Investment properties HK\$'000	Properties held for development HK\$'000	Total HK\$'000
<b>Cost or valuation:</b>						
At 1 January 2004	292,624	384,972	677,596	740,800	–	1,418,396
Additions	624	3,656	4,280	149	546,674	551,103
Transfer	(362)	–	(362)	–	214	(148)
Disposals	(96)	(3,206)	(3,302)	(2,988)	–	(6,290)
At 30 June 2004	292,790	385,422	678,212	737,961	546,888	1,963,061
<b>Aggregate depreciation:</b>						
At 1 January 2004	132,021	291,119	423,140	–	–	423,140
Charge for the period	1,424	3,437	4,861	–	–	4,861
Transfer	(148)	–	(148)	–	–	(148)
Written back on disposal	(96)	(3,189)	(3,285)	–	–	(3,285)
At 30 June 2004	133,201	291,367	424,568	–	–	424,568
<b>Net book value:</b>						
At 30 June 2004	159,589	94,055	253,644	737,961	546,888	1,538,493
At 31 December 2003	160,603	93,853	254,456	740,800	–	995,256

The properties held for development included a land premium paid for the proposed redevelopment of a site currently occupied as investment property.

## 8. INTEREST IN ASSOCIATES

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Share of net assets	<b>1,281</b>	1,079
Amounts due from associates	<b>249,166</b>	232,894
	<b>250,447</b>	233,973
Less: Provision	<b>(6,470)</b>	(6,470)
	<b>243,977</b>	227,503

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

Other particulars of associates are as follows:

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

## 9. INVENTORIES

The amount of spare parts and consumables carried at net realisable value is HK\$2,902,000 (at 31 December 2003: HK\$2,667,000).

## 10. DEBTORS AND PREPAYMENTS

Included in debtors and prepayments are trade debtors (excluding retention money recoverable of HK\$44,722,000 (at 31 December 2003: HK\$44,722,000) and net of specific provisions for bad and doubtful debts) with the following aging analysis:

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Current	<b>241,236</b>	198,032
1 to 3 months overdue	<b>5,297</b>	5,262
More than 3 months overdue but less than 12 months overdue	<b>1,180</b>	170
More than 12 months overdue	<b>139</b>	132
	<b>247,852</b>	203,596

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.

## 11. CASH AND CASH EQUIVALENTS

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Deposits with banks and other financial institutions	<b>708,643</b>	886,053
Cash at bank and in hand	<b>18,116</b>	12,412
	<b>726,759</b>	898,465
Cash and cash equivalents in the balance sheet	<b>(195)</b>	(527)
Bank overdraft		
	<b>726,564</b>	897,938
Cash and cash equivalents in the cash flow statement		

## 12. CREDITORS AND ACCRUED CHARGES

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

	<b>At 30 June 2004 HK\$'000</b>	At 31 December 2003 HK\$'000
Due within 1 month or on demand	<b>204,364</b>	238,733
Due after 3 months but within 6 months	<b>105,210</b>	–
Due after 6 months but within 12 months	–	105,210
	<b>309,574</b>	343,943

## 13. SHARE CAPITAL

	<b>No. of Shares '000</b>	<b>Amount HK\$'000</b>
<i>Authorised:</i>		
Ordinary shares of HK\$1 each at 1 January 2004 and 30 June 2004	550,000	550,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$1 each at 1 January 2004 and 30 June 2004	356,274	356,274

## 14. RESERVES

	Share premium <i>HK\$'000</i>	Other property revaluation reserve <i>HK\$'000</i>	Securities revaluation reserve <i>HK\$'000</i>	Other capital reserves <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2004	1,398,527	146,264	8,667	5,576	1,090,478	2,649,512
Dividend approved in respect of the previous financial year	-	-	-	-	(71,254)	(71,254)
Revaluation surplus	-	-	9,474	-	-	9,474
Realisation of revaluation reserves on disposal	-	(57,754)	-	-	-	(57,754)
Realisation of inter- company profits	-	-	-	4	-	4
Profit for the period	-	-	-	-	237,297	237,297
At 30 June 2004	1,398,527	88,510	18,141	5,580	1,256,521	2,767,279

## 15. CAPITAL AND OTHER COMMITMENTS

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

	At 30 June 2004 <i>HK\$'000</i>	At 31 December 2003 <i>HK\$'000</i>
Contracted for	4,414	5,186
Authorised but not contracted for	537,273	-

- (b) At 30 June 2004, the Group had commitments for future development expenditure relating to properties under development for sale amounting to HK\$2,857,000 (at 31 December 2003: HK\$ Nil).

## 16. CONTINGENT LIABILITIES

At 30 June 2004, 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.

## 16. CONTINGENT LIABILITIES *(cont'd)*

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.

## 17. 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\$1,948,000 (2003: HK\$7,003,000) had been charged to the Group for the period ended 30 June 2004. As at 30 June 2004, an amount of HK\$18,000,000 (at 31 December 2003: HK\$18,000,000) 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. No amount is recoverable from HL Sub in this regard for the period ended 30 June 2004 (2003: HK\$78,489,000). As at 30 June 2004, an amount of HK\$117,481,000 (at 31 December 2003: HK\$129,702,000) 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. No amount (2003: HK\$22,322,000) had been charged to the Group for the period ended 30 June 2004. In accordance with the prime cost contract entered with the Group, no amount (2003: HK\$169,270,000) was charged by the main contractor during the period for the superstructure work of the development. As at 30 June 2004, an amount of HK\$249,260,000 (at 31 December 2003: HK\$271,132,000) 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\$189,000 (2003: HK\$318,000) had been charged to the Group for the six months ended 30 June 2004. As at 30 June 2004, an amount of HK\$84,000 (at 31 December 2003: HK\$70,000) remained unpaid and was included in creditors and accrued charges.



## 17. 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 2004. During the six months ended 30 June 2004, the Group received management and administrative fees in the total of HK\$495,000 (2003: HK\$330,000) from 2OK. The Group and HL Sub have made advances to 2OK to finance the latter's mortgage operation and interest was charged on amount advanced with effect from 1 January 2004. During the six months period ended 30 June 2004, the Group received interest amounted to HK\$2,222,000 (2003: HK\$ Nil) from 2OK. As at 30 June 2004, the amount advanced by the Group totalling HK\$239,222,000 (at 31 December 2003: HK\$222,950,000) is in proportion to the Group's equity interest in 2OK and is unsecured 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 such agreement 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. An amount of HK\$76,000 (2003: HK\$ Nil) was charged to the Group for the six months ended 30 June 2004. As at 30 June 2004, an amount of HK\$98,000 (at 31 December 2003: HK\$21,000) remained unpaid and was included in creditors and accrued charges.

As at 30 June 2004, 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 11 to 23.

### **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 Institute of Certified Public 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 Institute of Certified Public 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 2004.

#### **KPMG**

*Certified Public Accountants*

Hong Kong, 17 September 2004

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