



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

Interim Report 2005 | 中期報告書



INTERIM RESULTS AND DIVIDEND

The unaudited consolidated net profit after taxation of the Group for the six months ended 30 June 2005 amounted to HK\$189.9 million, representing an increase of 6.9% over the corresponding period of 2004. Earnings per share were 53.3 cents as compared with 49.9 cents over the corresponding period of 2004.

The Board has resolved to pay an interim dividend of 9 cents (2004: 9 cents) per share in respect of the financial year ending 31 December 2005. The interim dividend will be paid on or about Friday, 21 October 2005 to shareholders whose names appear on the register of members at the close of business on Wednesday, 12 October 2005.

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, about 285 residential units of Metro Harbour View were sold, bringing the number of unsold units down to around 400. The Group recorded a profit of HK\$150.7 million from the units sold. Rental income derived from the commercial arcade, Metro Harbour Plaza, amounted to HK\$9.1 million during the period. The occupancy rate as at the end of June was approximately 65.8% but, taking into account of the committed tenancies, stood at approximately 97.1 % at the end of the period.

222 Tai Kok Tsui Road

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. The piling works are in good progress.

43-51A Tong Mi Road

The construction has been substantially completed and is currently undergoing the interior works. The project is expected to complete in the first half year of 2006.

6 Cho Yuen Street, Yau Tong

The site will be redeveloped into a residential-cum-commercial property with a total gross floor area of approximately 165,000 sq. ft., comprising approximately 140,000 sq. ft. for residential use and 25,000 sq. ft. for non-residential use. The progress of demolition of the existing Kingsford Industrial Centre is satisfactory and demolition is expected to complete by the end of the year. Construction works will commence thereafter.

Ferry, Shipyard and Related Operations

Due to severe price competition from the emerging cruise operators, turnover of the harbour cruise operation decreased by about 16.1% against the same period last year. The turnover of the ferry operation recorded a decrease of 5.7% while that of the shipyard operation recorded a decrease of 15.4% against the same period last year. The Ferry, Shipyard and Related Operations recorded an overall decrease in total turnover of 2.4% in comparison with the same period last year and leading to an operating loss of HK\$1.9 million for the period.

Travel and Hotel Operations

Due to the gradual recovery of the South East Asian market from the tragic effect of tsunami and the introduction of new scenic spots in Guangdong area, turnover of China short haul increased by 47%, leading to the 4% increase in turnover of the Travel and Hotel Operations in comparison with the same period last year. However, severe market competition and adverse weather conditions caused the Travel and Hotel Operations to incur a loss of HK\$2.9 million in the period as compared with HK\$1.3 million in the same period last year.

PROSPECTS

With the introduction of the second phase of the Closer Economic Partnership Agreement (“CEPA”) and the support of the Central Government, the local economy has shown positive sentiments in various commercial sectors. The opening of Hong Kong Disneyland is expected to attract mainland visitors and boost the consumer markets and related travel and hotel industries. The local property market has shown continuous sustained growth and the rental income and occupancy rate of the commercial properties are still on an upward trend. It is expected that the income from the property sales and rental will continue to be the primary source of revenue for the Group in this financial year.

FINANCIAL REVIEW

Review of Results

The consolidated profit after taxation of the Group for the six months ended 30 June 2005 was HK\$189.9 million, representing an increase of 6.9% against HK\$177.7 million in the same period last year.

Liquidity, Financial Resources and Capital Structure

As of 30 June 2005, the shareholders’ fund of the Group showed an increase of 3.2% from that recorded on 31 December 2004 and amounted to HK\$3,310 million. The increase was attributed to the profit for the period and netting off dividend paid during the period.

There was no change as to the capital structure of the Group during the period. As of 30 June 2005, 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. A net repayment of approximately HK\$36.2 million was received from an associate who provides mortgage loans to buyers of residential units of Metro Harbour View.

Current assets of the Group were recorded at HK\$2,034 million as compared to the current liabilities of HK\$326 million as of 30 June 2005. Current ratio of the Group increased from 5.1 as of 31 December 2004 to 6.2 as of 30 June 2005, and this was attributed to the reclassification of the Yau Tong project into properties under development.

Gearing Ratio and Financial Management

As there was no borrowing as at 30 June 2005, no gearing ratio of the Group, which was calculated on the basis of bank borrowing as a ratio of the Group's shareholders' fund, 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 2005 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 2005, 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, 10 October 2005 to Wednesday, 12 October 2005, 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, 7 October 2005.

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.

CORPORATE GOVERNANCE

The Company considers that it has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months period ended 30 June 2005.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the directors. Having made specific enquiry, the Company confirmed that all directors had complied with the required standard as set out in the Model Code during the six months ended 30 June 2005.

The Company has adopted the written guidelines on no less exacting terms than the Model Code for relevant employees (as defined under the Code) of their dealings in the securities of the Company in compliance with the Code provision A.5.4.

AUDIT COMMITTEE

The Audit Committee has met in September 2005 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 2005 with the management. The terms of reference of the Audit Committee was modified in 2005 to incorporate certain provisions of the Code.

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 2005 and have confirmed that they are not aware of any material modifications that should be made to the said interim financial statements.

REMUNERATION COMMITTEE

The Company established a Remuneration Committee in 2005 with written terms of reference in line with the Code provisions and held its first meeting in July 2005. The Remuneration Committee currently comprises three Independent Non-executive directors and two Executive directors.

On behalf of the Board

Colin Lam Ko Yin

Chairman

Hong Kong, 23 September 2005

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2005, the interests of the directors in securities of the Company and its associated corporations (within the meaning of the Securities and Future 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. Au Siu Kee, Alexander	–	–	–
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	–	–
Mr. Wu King Cheong	–	–	–

	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:

- 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 2005.

SUBSTANTIAL SHAREHOLDERS AND OTHERS

At 30 June 2005, 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.

- 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.
- 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.
- 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 2005 – unaudited

	Note	Six months ended 30 June	
		2005 HK\$'000	2004 (restated) HK\$'000
Turnover	3(a)	496,641	688,083
Cost of sales		(291,278)	(441,312)
		205,363	246,771
Other revenue	3(a)	13,651	8,251
Other net income		1,631	4,270
Revaluation gains on investment properties	3(c)	14,029	–
Selling and marketing expenses		(20,667)	(35,859)
Administrative expenses		(23,732)	(19,716)
Other operating expenses		(21,349)	(19,774)
Profit from operations	3(b)	168,926	183,943
Share of results of associates		(303)	379
Profit from ordinary activities before taxation	4	168,623	184,322
Taxation	5	21,292	(6,671)
Profit attributable to shareholders		189,915	177,651
Dividend attributable to the interim period	6(a)	32,065	32,065
Basic earnings per share (cent)	7	53.3	49.9

The notes on pages 13 to 27 form part of these condensed interim financial statements.

CONSOLIDATED BALANCE SHEET

As at 30 June 2005

	Note	At 30 June 2005 (unaudited)		At 31 December 2004 (audited and restated)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets	8				
– Investment properties			686,500		830,500
– Properties held for development			406,443		550,518
– Property, plant and equipment			145,141		148,625
			1,238,084		1,529,643
Interest in leasehold land			73,916		74,796
Interest in associates	9		182,273		218,722
Properties under development					
– held for investment			19,324		16,574
Other non-current assets			69,676		71,372
Deferred tax assets			31,868		6,326
			1,615,141		1,917,433
Current assets					
Properties under development					
– held for sale			390,424		68,685
Completed properties for sale			251,148		424,518
Inventories	10		4,937		4,928
Debtors and prepayments	11		350,889		198,657
Tax recoverable			1,712		1,712
Cash and cash equivalents	12		1,035,292		921,717
			2,034,402		1,620,217
Current liabilities					
Bank overdraft	12		259		149
Creditors and accrued charges	13		313,770		308,598
Tax payable			11,890		10,894
			325,919		319,641
Net current assets			1,708,483		1,300,576
Total assets less current liabilities			3,323,624		3,218,009
Non-current liabilities					
Deferred tax liabilities			14,084		10,809
NET ASSETS			3,309,540		3,207,200
CAPITAL AND RESERVES					
Share capital	14		356,274		356,274
Reserves	15		2,953,266		2,850,926
			3,309,540		3,207,200

The notes on pages 13 to 27 form part of these condensed interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005 – unaudited

	Note	Six months ended 30 June	
		2005 HK\$'000	2004 HK\$'000
Net cash generated from/(used in) operating activities		155,122	(84,439)
Net cash generated from/(used in) investing activities		43,849	(15,681)
Net cash used in financing activities		(85,506)	(71,254)
Net increase/(decrease) in cash and cash equivalents		113,465	(171,374)
Cash and cash equivalents at 1 January		921,568	897,938
Cash and cash equivalents at 30 June	12	1,035,033	726,564

The notes on pages 13 to 27 form part of these condensed interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2005 – unaudited*

	Note	Six months ended 30 June			
		2005		2004 (restated)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Shareholders' equity at 1 January					
– as previously reported		3,244,180		3,005,786	
– prior period adjustments arising from changes in accounting policies	2(a)(i)	(36,980)		<u>(31,622)</u>	
– as restated			3,207,200		2,974,164
Net income for the period recognised directly in equity					
(Deficit)/surplus on revaluation of equity securities			(2,057)		9,474
Net profit for the period					
– as previously reported				237,297	
– prior period adjustments arising from changes in accounting policies	2(a)(ii)			<u>(59,646)</u>	
Net profit for the period (2004: as restated)			189,915		177,651
Net transfer to consolidated profit and loss account from reserves					
– as previously reported				(57,750)	
– prior period adjustments arising from changes in accounting policies	2(d)(ii)			<u>57,754</u>	
Net transfer to consolidated profit and loss account from reserves (2004: as restated)			(12)		4
Dividends approved and paid during the period			(85,506)		<u>(71,254)</u>
Shareholders' equity at 30 June			<u>3,309,540</u>		<u>3,090,039</u>

The notes on pages 13 to 27 form part of these condensed interim financial statements.

NOTES ON THE CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

1. BASIS OF PREPARATION

The condensed interim financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

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 HKICPA. KPMG's independent review report to the board of directors is included on page 28.

The financial information relating to the financial year ended 31 December 2004 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 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 11 March 2005.

The same accounting policies adopted in the 2004 annual accounts have been applied to the condensed interim financial statements except for the changes in accounting policies following the adoption of certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes HKASs and Interpretations) issued by the HKICPA with effect from 1 January 2005. Details of these changes in accounting policies are set out in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

(a) Summary of the effect of changes in the accounting policies

The Group has retrospectively restated the opening balances of the retained profits as at 1 January 2005 and 2004 to take into account the effects of changes in the accounting policies, except for HKFRS 3 "Business Combination" which is applied prospectively from 1 January 2005 as explained in note 2(e).

(i) Effect on opening balances of total equity at 1 January 2005 and 2004

The following table sets out the adjustments that have been made to the opening balances at 1 January 2005 and 2004. These are the aggregate effect of retrospective adjustments to the net assets as at 31 December 2004 and 2003 and the opening balance adjustments made as at 1 January 2005.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Summary of the effect of changes in the accounting policies *(Continued)*

(i) Effect on opening balances of total equity at 1 January 2005 and 2004 *(Continued)*

	Note	Other property revaluation reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other capital reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
Effect of new policies (increase/(decrease))						
Prior period adjustments at 1 January 2005:						
HKAS 16 & 17						
Depreciation for hotel properties	2(c)	-	-	(551)	(25,620)	(26,171)
HKAS 40						
Changes in fair values of investment properties	2(d)(i)	-	(10,728)	-	10,728	-
Effect on other property revaluation reserve	2(d)(ii)	(75,609)	-	-	75,609	-
Deferred tax on changes in the fair values of investment properties	2(d)(iii)	-	-	-	(10,809)	(10,809)
		(75,609)	(10,728)	(551)	49,908	(36,980)
Opening balance adjustment:						
HKFRS 3						
Derecognition of negative goodwill	2(e)	-	-	(4,020)	4,020	-
Total effect as at 1 January 2005		(75,609)	(10,728)	(4,571)	53,928	(36,980)
Prior period adjustments at 1 January 2004:						
HKAS 16 & 17						
Depreciation for hotel properties	2(c)	-	-	(527)	(24,026)	(24,553)
HKAS 40						
Effect on other property revaluation reserve	2(d)(ii)	(146,264)	-	-	146,264	-
Deferred tax on changes in the fair values of investment properties	2(d)(iii)	-	-	-	(7,069)	(7,069)
Total effect as at 1 January 2004		(146,264)	-	(527)	115,169	(31,622)

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Summary of the effect of changes in the accounting policies *(Continued)*

(ii) Effect on profit after taxation for the six months ended 30 June 2005 and 2004

The following table sets out the aggregate effect on the Group's profit in respect of the six months ended 30 June 2005 and 2004 as a result of adopting the new accounting policies.

	Note	Profit after taxation Six months ended 30 June	
		2005 HK\$'000	2004 HK\$'000
Effect of new policies (increase/(decrease))			
HKAS 16 & 17 Depreciation for hotel properties	2(c)	(797)	(797)
HKAS 40 Changes in fair values of investment properties	2(d)(i)	14,029	–
Effect on other property revaluation reserve	2(d)(ii)	(31,302)	(57,754)
Deferred tax on changes in the fair values of investment properties	2(d)(iii)	(3,275)	(1,095)
Total decrease in profit after taxation for the period		(21,345)	(59,646)
Decrease in basic earnings per share (cent)		(6.0)	(16.7)

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) HKAS 17 "Leases"

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. In prior years, leasehold land and buildings were stated at cost less accumulated depreciation and impairment. In accordance with HKAS 17, the leasehold land and building should be split according to the relative values at the inception of the lease.

With the adoption of HKAS 17, the distinguishable leasehold interest in the land is accounted for as being held under an operating lease and is amortised on a straight line basis over the lease term. If the property is in the course of development or redevelopment, the amortisation charge is included as part of the costs of the property held for and under development. In all other cases the amortisation charge for the period is recognised in the profit and loss account immediately. Any building held for own use which is situated on such leasehold land continues to be presented as part of the property, plant and equipment and stated at cost less accumulated depreciation and impairment, if any.

The new accounting policy has been adopted retrospectively with the balance of leasehold land reclassified from "property, plant and equipment" to "interest in leasehold land". The application of HKAS 17 has resulted in an amortisation charge of HK\$7,939,000 for the period (2004: HK\$440,000) on the land portion of the properties held for and under development, which had been included as part of the costs of the properties held for and under development.

Apart from certain presentational changes with comparatives restated, there is no material impact on the Group's net assets at 30 June 2005 and 31 December 2004 nor the Group's profit for the six months ended 30 June 2005 and 2004.

(c) HKAS 16 "Property, Plant and Equipment" and HK Interpretation 2 ("HK-Int 2") "The Appropriate Accounting Policies for Hotel Properties"

The adoption of HKAS 16 and HK-Int 2 has resulted in a change in accounting policy on depreciation of the Group's hotel properties. In prior years, no depreciation was provided on hotel properties as they were maintained in such condition that their value was not diminished by the passage of time so that any element of depreciation was immaterial. Following the adoption of HKAS 16, the hotel building is depreciated over its estimated useful life and where the hotel properties are located on land held under operating lease, the underlying leasehold land is amortised on a straight line basis over the lease term in accordance with HKAS 17.

The change has been adopted retrospectively by decreasing the opening balances of retained profits and "property, plant and equipment" as at 1 January 2005 by HK\$25,620,000 and HK\$26,171,000 (1 January 2004: HK\$24,026,000 and HK\$24,553,000) respectively. The Group's profit before taxation for the six months ended 30 June 2005 has been decreased by HK\$797,000 (2004: HK\$797,000).

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

- (d) HKAS 40 "Investment Property" and HK(SIC) Interpretation 21 ("HK(SIC)-Int 21")
"Income Taxes – Recovery of Revalued Non-Depreciable Assets"

Changes in accounting policies relating to investment properties are as follows:

- (i) Timing of recognition of changes in fair value in the profit and loss account

In prior years, increases in the fair values of investment properties were credited to the investment property revaluation reserve while decreases in the fair values of investment properties were firstly set off against the surplus of the investment property revaluation reserve and thereafter charged to the profit and loss account. Following the adoption of HKAS 40, all changes in fair values of the investment properties are recognised directly in the profit and loss account.

The change in accounting policy has been adopted retrospectively by increasing the opening balance of retained profits at 1 January 2005 by HK\$10,728,000 (1 January 2004: HK\$Nil). As a result of the adoption of the new policy, the Group's profit before taxation for the six months ended 30 June 2005 has increased by HK\$14,029,000 (2004: HK\$Nil).

- (ii) Effect on other property revaluation reserve

The other property revaluation reserve originally arose from the revaluation of investment properties in prior years, before the related investment properties were redeveloped into residential properties for sale. Following the adoption of HKAS 40, such revaluation reserve should have been recognised directly to the profit and loss account as they arose. Accordingly, the other property revaluation reserve at 1 January 2005 and 2004 is adjusted to retained profits.

The change in accounting policy has been adopted retrospectively by increasing the opening balance of retained profits by HK\$75,609,000 (1 January 2004: HK\$146,264,000). As a result of the adoption of the new policy, the Group's profit before taxation for the six months ended 30 June 2005 has decreased by HK\$31,302,000 (2004: HK\$57,754,000).

- (iii) Measurement of deferred tax on changes in fair value

In prior years, deferred tax arising from the revaluation of investment properties was calculated on the basis that the properties were held for sale. As there would have no tax payable on the disposal of investment properties, no deferred tax was provided in prior years. Following the adoption of HK(SIC)-Int 21, the deferred tax arising from revaluation of the investment properties which the Group has no intention to sell is provided using profits tax rate on the basis that the recovery of the carrying amount of the properties would be through use.

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

- (d) HKAS 40 "Investment Property" and HK(SIC) Interpretation 21 ("HK(SIC)-Int 21")
"Income Taxes – Recovery of Revalued Non-Depreciable Assets" *(Continued)*

- (iii) Measurement of deferred tax on changes in fair value *(Continued)*

The change in accounting policy has been adopted retrospectively by reducing the opening balance of retained profits at 1 January 2005 by HK\$10,809,000 (1 January 2004: HK\$7,069,000) and increasing the deferred tax liabilities by the same amount. As a result of the adoption of the new policy, the Group's taxation expense for the six months ended 30 June 2005 has increased by HK\$3,275,000 (2004: HK\$1,095,000).

- (e) HKFRS 3 "Business Combination"

The adoption of HKFRS 3 has resulted in a change in accounting policy for negative goodwill. In prior years, the negative goodwill which arose on acquisition of subsidiaries was included in the other capital reserves. Following the adoption of HKFRS 3, the negative goodwill arising from business combination is recognised immediately in the profit and loss account. Under the transitional provision, the negative goodwill existing at 1 January 2005, which amounted to HK\$4,020,000, is derecognised by way of an adjustment to the opening balance of retained profits. No restatement of comparative information has been made.

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.

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

3. SEGMENTAL REPORTING *(Continued)*

The segmental information for the six months ended 30 June 2005 and 2004 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	2004	Six months ended 30 June	2004	Six months ended 30 June	2004
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property development and investment	357,240	552,087	62	–	357,178	552,087
Ferry, shipyard and related operations	72,254	73,838	1,023	807	71,231	73,031
Travel and hotel operations	73,094	70,270	26	22	73,068	70,248
Others	29,759	20,897	20,944	19,929	8,815	968
	532,347	717,092	22,055	20,758	510,292	696,334
Analysed by:						
Turnover					496,641	688,083
Other revenue					13,651	8,251
					510,292	696,334

(b) Segmental Result

	Profit/(loss) from operations	
	Six months ended 30 June	2004
	2005	(restated)
	HK\$'000	HK\$'000
Property development and investment <i>(Note c)</i>	166,603	185,054
Ferry, shipyard and related operations	(1,896)	1,150
Travel and hotel operations	(2,947)	(1,323)
Others <i>(Note d)</i>	7,166	(938)
	168,926	183,943

(c) The segmental result of the property development and investment operations included a revaluation surplus on investment properties in the amount of HK\$14,029,000 (2004: HK\$Nil).

(d) 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	
	2005	2004 (restated)
	HK\$'000	<i>HK\$'000</i>
Amortisation of leasehold land premium	8,819	1,320
Less: Amortisation capitalised into properties held for and under development	(7,939)	(440)
	880	880
Cost of inventories	202,517	344,737
Depreciation	4,004	4,785
Dividend income	(1,201)	(719)
Interest income	(16,378)	(5,550)

5. TAXATION

	Six months ended 30 June	
	2005	2004 (restated)
	HK\$'000	<i>HK\$'000</i>
Provision for Hong Kong profits tax for the period	996	1,080
Deferred taxation	(22,267)	5,414
	(21,271)	6,494
Share of taxation of associates	(21)	177
	(21,292)	6,671

The provision for Hong Kong profits tax is based on an estimate of the assessable profits for the six months ended 30 June 2005 less relief for available tax loss where applicable at 17.5% (2004: 17.5%).

6. DIVIDENDS

- (a) Dividend attributable to the interim period

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Interim dividend declared after the interim period end of 9 cents per share (2004: 9 cents per share)	32,065	32,065

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

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

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of 24 cents per share (2004: 20 cents per share)	85,506	71,254

7. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on a profit of HK\$189,915,000 (2004 (restated): HK\$177,651,000) and 356,273,883 (2004: 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>	Properties held for development <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:						
At 1 January 2005						
– as previously reported	292,686	384,264	676,950	830,500	550,518	2,057,968
– prior period adjustments:						
– interest in leasehold land (<i>note 2(b)</i>)	(160,084)	–	(160,084)	–	–	(160,084)
– as restated	132,602	384,264	516,866	830,500	550,518	1,897,884
Additions	178	503	681	1,842	4,782	7,305
Transfer in	–	–	–	9,129	–	9,129
Transfer out	–	–	–	(169,000)	(148,857)	(317,857)
Disposals	(208)	(161)	(369)	–	–	(369)
Revaluation surplus	–	–	–	14,029	–	14,029
At 30 June 2005	132,572	384,606	517,178	686,500	406,443	1,610,121
Aggregate depreciation:						
At 1 January 2005						
– as previously reported	134,493	292,865	427,358	–	–	427,358
– prior period adjustments:						
– interest in leasehold land (<i>note 2(b)</i>)	(85,288)	–	(85,288)	–	–	(85,288)
– depreciation for hotel properties (<i>note 2(c)</i>)	26,171	–	26,171	–	–	26,171
– as restated	75,376	292,865	368,241	–	–	368,241
Charge for the period	1,496	2,508	4,004	–	–	4,004
Written back on disposal	(52)	(156)	(208)	–	–	(208)
At 30 June 2005	76,820	295,217	372,037	–	–	372,037
Net book value:						
At 30 June 2005	55,752	89,389	145,141	686,500	406,443	1,238,084
At 31 December 2004						
– as restated	57,226	91,399	148,625	830,500	550,518	1,529,643

Investment properties held by the Group were revalued by a firm of registered professional surveyors, DTZ Debenham Tie Leung Limited, at HK\$686,500,000 as at 30 June 2005 (at 31 December 2004: HK\$830,500,000) on an open market value basis. The revaluation surplus of HK\$14,029,000 (2004: HK\$Nil) has been credited to the consolidated profit and loss account.

9. INTEREST IN ASSOCIATES

	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Share of net assets	2,692	2,974
Amounts due from associates	186,051	222,218
	188,743	225,192
Less: Provision	(6,470)	(6,470)
	182,273	218,722

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

Other particulars of associates are as follows:

	% of equity interest held by The Company Subsidiaries		Principal activities
2OK Company Limited	–	50	Property 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\$1,817,000 (at 31 December 2004: HK\$1,580,000).

11. DEBTORS AND PREPAYMENTS

Included in debtors and prepayments are trade debtors (excluding retention money recoverable of HK\$11,165,000 (at 31 December 2004: HK\$11,167,000) and net of specific provisions for bad and doubtful debts) with the following aging analysis:

	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Current	307,688	161,667
1 to 3 months overdue	6,717	3,467
More than 3 months overdue but less than 12 months overdue	1,496	1,089
More than 12 months overdue	–	100
	315,901	166,323

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 2005 HK\$'000	At 31 December 2004 HK\$'000
Deposits with banks and other financial institutions	1,024,130	910,241
Cash at bank and in hand	11,162	11,476
	1,035,292	921,717
Cash and cash equivalents in the balance sheet	(259)	(149)
Bank overdraft		
	1,035,033	921,568
Cash and cash equivalents in the cash flow statement		

13. CREDITORS AND ACCRUED CHARGES

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

	At 30 June 2005 HK\$'000	At 31 December 2004 HK\$'000
Due within 1 month or on demand	233,175	226,016
Due after 3 months but within 6 months	612	297
Due after 6 months but within 12 months	–	–
Due after 12 months	1,444	170
	235,231	226,483

14. SHARE CAPITAL

	No. of shares '000	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$1 each at 1 January 2005 and 30 June 2005	550,000	550,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$1 each at 1 January 2005 and 30 June 2005	356,274	356,274

15. RESERVES

	Share premium <i>HK\$'000</i>	Other property revaluation reserve <i>HK\$'000</i>	Investment 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 2005							
– as previously reported	1,398,527	75,609	10,728	17,233	5,584	1,380,225	2,887,906
– prior period adjustments on opening balance (note 2(a)(i))	–	(75,609)	(10,728)	–	(4,571)	53,928	(36,980)
– as restated	1,398,527	–	–	17,233	1,013	1,434,153	2,850,926
Dividend approved in respect of the previous financial year	–	–	–	–	–	(85,506)	(85,506)
Revaluation deficit	–	–	–	(2,057)	–	–	(2,057)
Realisation of inter-company profits	–	–	–	–	(12)	–	(12)
Profit for the period	–	–	–	–	–	189,915	189,915
At 30 June 2005	1,398,527	–	–	15,176	1,001	1,538,562	2,953,266

16. CAPITAL COMMITMENTS

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

	At 30 June 2005 <i>HK\$'000</i>	At 31 December 2004 <i>HK\$'000</i>
Contracted for	66,148	69,721
Authorised but not contracted for	445,498	453,742

17. CONTINGENT LIABILITIES

At 30 June 2005, 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.

17. CONTINGENT LIABILITIES *(Continued)*

In addition, HYF and the Company made a counterclaim against the Government for the sum of approximately HK\$284 million, being costs incurred relating to the redevelopment of the Central piers. As such, 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\$1,047,000 (2004: HK\$1,984,000) had been charged to the Group for the period ended 30 June 2005. As at 30 June 2005, an amount of HK\$18,000,000 (at 31 December 2004: 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 for a consideration of 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. An amount of HK\$2,926,000 is recoverable from HL Sub in this regard for the period ended 30 June 2005 (2004: HK\$Nil). As at 30 June 2005, an amount of HK\$87,518,000 (at 31 December 2004: HK\$85,190,000) 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\$310,000 (2004: HK\$Nil) had been charged to the Group for the period ended 30 June 2005. In accordance with the prime cost contract entered into with the Group, an amount of HK\$6,508,000 (2004: HK\$Nil) was charged by the main contractor during the period for the superstructure work of the development. As at 30 June 2005, an amount of HK\$181,790,000 (at 31 December 2004: HK\$175,282,000) remained unpaid and was included in creditors and accrued charges.

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 2005. During the six months ended 30 June 2005, the Group received management and administrative fees in the total of HK\$495,000 (2004: HK\$495,000) 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. During the six months period ended 30 June 2005, the Group received interest amounting to HK\$5,355,000 (2004: HK\$2,222,000) from 2OK. As at 30 June 2005, the amount advanced by the Group totalling HK\$176,078,000 (at 31 December 2004: HK\$212,275,000) is in proportion to the Group's equity interest in 2OK and is unsecured and has no fixed repayment terms.

18. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

In December 2002, the Group appointed the Project Manager as the leasing and promotion agent of the commercial arcade of the Property for an initial 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\$310,000 (2004: HK\$76,000) was charged to the Group for the six months ended 30 June 2005. As at 30 June 2005, an amount of HK\$50,000 (at 31 December 2004: HK\$238,000) remained unpaid and was included in creditors and accrued charges.

In September 2004, the Group appointed the Project Manager as the project and sales manager for the development of Nos. 43, 45, 47, 49, 51 and 51A Tong Mi Road, Kowloon, Hong Kong (the "TMR Property") in consideration for a fee equivalent to the aggregate of 1% of the construction cost, 0.5% of the gross proceeds of sale of the residential portion of the TMR Property (but excluding those sales effected by a third party sales agent) and other lump sum fees for supplementary services, subject to a total ceiling of HK\$2,752,000. A total fee of HK\$265,000 (2004: HK\$Nil) was charged to the Group for the period ended 30 June 2005. As at 30 June 2005, an amount of HK\$349,000 (at 31 December 2004: HK\$782,000) remained unpaid and was included in creditors and accrued charges.

In September 2004, the Group also appointed another wholly-owned subsidiary of HL as the main contractor for a fee of 5% on all works relating to the development of the TMR Property. The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee shall be subject to a total ceiling of HK\$14,100,000. In accordance with the contract entered into with the Group, an amount of HK\$12,740,000 (2004: HK\$Nil), of which HK\$3,027,000 (2004: HK\$Nil) being cost of work carried out by the main contractor or the connected persons (as defined in the Listing Rules) of the Company and HK\$607,000 (2004: HK\$Nil) being the 5% fee, was charged by the main contractor for the period ended 30 June 2005 for the superstructure work of the development of the TMR Property. As at 30 June 2005, an amount of HK\$6,041,000 (at 31 December 2004: HK\$1,706,250) remained unpaid and was included in creditors and accrued charges.

As at 30 June 2005, 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 Listing Rules) 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 14A 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 9 to 27.

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 Hong Kong Accounting Standard 34 "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 2005.

KPMG

Certified Public Accountants

Hong Kong, 23 September 2005