



HONG KONG FERRY (HOLDINGS) CO. LTD.
香港小輪（集團）有限公司
(Stock code 股份代號: 50)

商界展關懷
caringcompany 2002-06
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香港社會服務聯會頒發

Interim Report 06
中期報告 06



INTERIM RESULTS AND DIVIDEND

The unaudited consolidated net profit after taxation of the Group for the six months ended 30 June 2006 amounted to HK\$121.8 million, representing a decrease of 36% as compared with the figure for the first half of 2005. Earnings per share were 34.2 cents as compared with 53.3 cents over the corresponding period of 2005. Reduction in earnings was mainly attributable to the smaller number of residential units sold during the period.

The Board has resolved to pay an interim dividend of 9 cents (2005: 9 cents) per share in respect of the financial year ending 31 December 2006. The interim dividend will be paid on or about Friday, 20 October 2006 to shareholders whose names appear on the register of members at the close of business on Wednesday, 11 October 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Income from the sale of flats of Metro Harbour View (8 Fuk Lee Street, Tai Kok Tsui, Kowloon) constituted the main source of profits for the Group.

Property Development and Investment Operations

8 Fuk Lee Street ("Metro Harbour View")

In line with the market, the sales of Metro Harbour View flats were slow during the first half of 2006. A total of 95 flats were sold, giving rise to a profit of HK\$59.9 million. At the end of June 2006, unsold units totalled about 200. During the period under review, rental income from the shopping mall, Metro Harbour Plaza, increased by 11%. The occupancy rate as at the end of June was 60% which figure should increase to 82% if commitments were taken into account.

222 Tai Kok Tsui Road

Construction works made good progress. Plans call for a residential-cum-commercial project to be completed by late 2008, with total gross floor area of approximately 320,000 sq. ft., comprising approximately 270,000 sq. ft. of residential space and approximately 50,000 sq. ft. of non-residential space.

43-51A Tong Mi Road ("MetroRegalia")

The occupation permit was obtained in May 2006. Interior works have been substantially finished. Flats in the residential-cum-commercial building with a total gross floor area of approximately 53,000 sq. ft. will be sold in late 2006.

6 Cho Yuen Street, Yau Tong

After redevelopment, the site will have a total gross floor area of approximately 165,000 sq. ft., of which approximately 140,000 sq. ft. will be for residential use and approximately 25,000 sq. ft. for non-residential use. Foundation and construction works will commence in late 2006 and the project should be completed by early 2009.

Ferry, Shipyard and Related Operations

Due to intense price competition, the turnover of the harbour cruise operations decreased by about 10%. The turnover of ferry operations recorded an increase of about 5% while that of shipyard operations recorded a decrease of 25%. Before accounting for litigation fee, the Ferry, Shipyard and Related Operations recorded a loss of HK\$0.9 million during the period. The litigation fee arising from the proposed redevelopment of the Central Ferry Piers amounted to HK\$9.8 million.

Travel and Hotel Operations

Compared with the figures for the first half of 2005, the turnover of Travel and Hotel Operations recorded an increase of 3.5%, but a loss of HK\$2.3 million was incurred, which is 23% less than the figure for the same period last year.

PROSPECTS

The underlying demand for residential property and the expected stabilization of US interest rates would be favourable for the local real estate market. The demand for commercial properties remains high and rental income is expected to increase. The sale of flats at MetroRegalia and Metro Harbour View are expected to be successful. Income from property sales and rental will continue to be the primary source of profits for the Group this year.

The opening of Asia World Expo and Ngong Ping 360 Skyrail should benefit the business of the Group's Silvermine Beach Hotel. The Harbour Cruise Division has piloted schemes to expand its market, which have received positive responses. Meanwhile, the Group has adequate capital to take advantage of suitable investment opportunities.

FINANCIAL REVIEW

Review of Results

During the six-month period ended 30 June 2006, the Group's turnover amounted to approximately HK\$298 million, representing a decrease of 40% as compared to that recorded in the same period last year. The decrease in turnover is mainly because of fewer Metro Harbour View flats sold during the period.

The consolidated profit after taxation of the Group for the six-month period ended 30 June 2006 was HK\$121.8 million, representing a decrease of 36% against HK\$189.9 million for the same period last year.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2006, shareholders' funds amounted to HK\$3,405 million, an increase of 1.2% compared to the figure for 31 December 2005. The increase arose from the profits for the period under review net of dividends.

There was no change to the capital structure of the Group during the period. As at 30 June 2006, the Group had no borrowing.

There was no material acquisition nor disposal of any subsidiary or associate during the period. A net repayment of approximately HK\$12.3 million was received from an associate which provided mortgage loans to buyers of Metro Harbour View flats.

As at 30 June 2006, current assets of the Group stood at HK\$2,245 million, compared to current liabilities of HK\$165 million. Current ratio of the Group increased from 11.2 as at 31 December 2005 to 13.6 as at 30 June 2006, due to repayment of debts.

Gearing Ratio and Financial Management

As there was no borrowing, gearing ratio is not shown. Assets of the Group were not charged to any third party during 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, thus exposure to foreign exchange risks is minimised.

Contingent Liabilities

As at 30 June 2006, contingent liabilities of the Group of 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 proposed redevelopment of the Central Ferry Piers.

Employees

As at 30 June 2006, the Group employed about 370 staff, who were remunerated according to current market levels and practices. A discretionary year-end bonus was paid to employees with meritorious performance. Other benefits to employees included medical insurance, retirement scheme, training programmes and education subsidies.

OTHER INFORMATION

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 9 October 2006 to Wednesday, 11 October 2006, 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Friday, 6 October 2006.

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 is endeavouring to maintain high standards of corporate governance. To ensure stricter compliance with the Code of Corporate Governance Practices as set out in Appendix 14 (the "CG Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), relevant amendments to the Articles of Association was proposed and approved by shareholders at the Annual General Meeting held on 4 May 2006 to provide that no director shall hold office for a continuous period in excess of 3 years, or past the third Annual General Meeting, following the Directors' appointment or re-election, whichever is longer, without submitting for re-election at an Annual General Meeting of the shareholders.

During the period under review, the Company considers that it has complied with the CG Code, save the following deviation:

CG Code provision A.1.8

Pursuant to CG Code provision A.1.8, if a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board has determined to be material, the matter should not be dealt with by way of circulation or by a committee (except an appropriate board committee set up for that purpose pursuant to a resolution passed in a board meeting) but a board meeting should be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.

Owing to urgency in meeting the target progress of development plan of the Company at Nos. 220-222 Tai Kok Tsui Road, Kowloon and for business efficacy reason, the Company, instead of holding a board meeting, had by means of Resolutions in writing signed by all directors to approve the continuing connected transactions whereupon a wholly-owned subsidiary of the Company appointed two wholly-owned subsidiaries of Henderson Land Development Co. Ltd. as project manager and main contractor of the development plan. Dr. Lee Chau Kee and Mr. Li Ning, substantial shareholders and directors of the Company were deemed to have interest in the transaction and they had abstained from voting when the board of directors approved the transaction. All the independent non-executive directors had given their approval to the transaction by signing the Resolutions. The continuing connected transactions were publicly disclosed by means of press announcement on 22 May 2006.

CG Code provision E.1.2

Pursuant to CG Code provision E.1.2, the Chairman of the Board shall attend the Company's Annual General Meeting ("AGM"). Due to health reason, Mr. Colin Lam was not able to attend the Company's AGM held on 4 May 2006. Mr. Li Ning, an Executive Director chaired the AGM in accordance with the provisions of the Company's Articles of Association.

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 2006.

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 2006 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 2006 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 2006 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 Remuneration Committee held its meeting in July 2006. 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, 14 September 2006

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS IN SECURITIES

At 30 June 2006, 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. 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 9)</i>	–
Mr. Leung Hay Man	2,250	–	–
Mr. Li Ning	–	–	111,636,090 <i>(Note 6 on page 9)</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 2006.

SUBSTANTIAL SHAREHOLDERS AND OTHERS

At 30 June 2006, 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 Chau 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.

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

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

CONDENSED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2006 – unaudited

	Note	Six months ended 30 June	
		2006 HK\$'000	2005 (restated) HK\$'000
Turnover	2(a)	298,326	496,641
Cost of sales		(183,366)	(291,278)
		114,960	205,363
Other revenue	2(a)	13,794	13,651
Other net income		1,417	1,631
Revaluation gains on investment properties	2(c)	33,920	14,029
Selling and marketing expenses		(11,845)	(20,667)
Administrative expenses		(26,974)	(23,732)
Other operating expenses		(21,447)	(21,349)
Profit from operations	2(b)	103,825	168,926
Share of results of associates		153	(282)
Profit before taxation	3	103,978	168,644
Taxation	4	17,777	21,271
Profit attributable to shareholders		121,755	189,915
Dividend attributable to the interim period	5(a)	32,065	32,065
Basic earnings per share (cents)	6	34.2	53.3

The notes on pages 14 to 27 form part of these condensed interim financial statements.

CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Note	At 30 June 2006 (unaudited)		At 31 December 2005 (audited)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets	7				
– Investment properties			750,400		692,300
– Other property, plant and equipment			146,478		149,010
– Interest in leasehold land			72,156		73,036
			<u>969,034</u>		<u>914,346</u>
Interest in associates	8		146,593		158,722
Properties under development – held for investment			32,832		52,974
Other non-current assets			147,090		142,902
Deferred tax assets			53,322		27,515
			<u>1,348,871</u>		<u>1,296,459</u>
Current assets					
Inventories	9		1,011,636		1,020,388
Trade and other receivables	10		160,854		225,872
Tax recoverable			2,055		2,111
Cash and cash equivalents	11		1,070,160		1,041,232
			<u>2,244,705</u>		<u>2,289,603</u>
Current liabilities					
Bank overdraft	11		222		309
Trade and other payables	12		152,252		192,401
Tax payable			12,553		11,581
			<u>165,027</u>		<u>204,291</u>
Net current assets			<u>2,079,678</u>		<u>2,085,312</u>
Total assets less current liabilities			<u>3,428,549</u>		<u>3,381,771</u>
Non-current liabilities					
Deferred tax liabilities			(23,671)		(16,783)
NET ASSETS			<u><u>3,404,878</u></u>		<u><u>3,364,988</u></u>
CAPITAL AND RESERVES					
Share capital	13		356,274		356,274
Reserves	14		3,048,604		3,008,714
TOTAL EQUITY			<u><u>3,404,878</u></u>		<u><u>3,364,988</u></u>

The notes on pages 14 to 27 form part of these condensed interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2006 – unaudited*

	<i>Note</i>	Six months ended 30 June	
		2006	2005
		HK\$'000	HK\$'000
Net cash generated from operating activities		63,347	155,122
Net cash generated from investing activities		51,174	43,849
Net cash used in financing activities		(85,506)	(85,506)
Net increase in cash and cash equivalents		29,015	113,465
Cash and cash equivalents at 1 January		1,040,923	921,568
Cash and cash equivalents at 30 June	11	1,069,938	1,035,033

The notes on pages 14 to 27 form part of these condensed interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June 2006 – unaudited*

	Six months ended 30 June	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Shareholders' equity at 1 January	3,364,988	3,207,200
Net income for the period recognised directly in equity:		
Changes in fair value of available-for-sale securities	3,653	(2,057)
Net profit for the period	121,755	189,915
Net transfer to consolidated profit and loss account from reserves	(12)	(12)
Dividends approved and paid during the period	(85,506)	(85,506)
Shareholders' equity at 30 June	3,404,878	3,309,540

The notes on pages 14 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("SEHK"), 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 preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual accounts. The condensed interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2005 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 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 15 March 2006.

The same accounting policies adopted in the 2005 annual accounts have been applied to the condensed interim financial statements except for the adoption of certain new standards, amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new standards, amendments and interpretations had no material effect on how the results for the current and/or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

1. BASIS OF PREPARATION *(Continued)*

The new and revised HKFRSs that will be effective or are available for voluntary early adoption in the annual accounts for the year ending 31 December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of the interim financial report. Therefore the policies that will be applied in the Group's accounts for that period cannot be determined with certainty at the date of issuance of the interim financial report. The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period (see Note 18).

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

2. SEGMENTAL REPORTING *(Continued)*

The segmental information for the six months ended 30 June 2006 and 2005 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	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Property development and investment	136,072	357,240	–	62	136,072	357,178
Ferry, shipyard and related operations	79,726	72,254	1,103	1,023	78,623	71,231
Travel and hotel operations	75,679	73,094	41	26	75,638	73,068
Others	40,993	29,759	19,206	20,944	21,787	8,815
	332,470	532,347	20,350	22,055	312,120	510,292
Analysed by :						
Turnover					298,326	496,641
Other revenue					13,794	13,651
					312,120	510,292

(b) Segmental Result

	Profit/(loss) from operations	
	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
Property development and investment <i>(Note c)</i>	97,365	166,603
Ferry, shipyard and related operations	(10,692)	(1,896)
Travel and hotel operations	(2,269)	(2,947)
Others <i>(Note d)</i>	19,421	7,166
	103,825	168,926

2. SEGMENTAL REPORTING *(Continued)*

- (c) The segmental result of the property development and investment operations included a revaluation surplus on investment properties in the amount of HK\$33,920,000 (2005: HK\$14,029,000).
- (d) The segmental result of "Others" mainly comprises financial income, investment income and corporate expenses.

3. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Amortisation of leasehold land premium	880	880
Cost of inventories	94,675	202,517
Depreciation	4,823	4,004
Dividend income	(934)	(1,201)
Interest income	(28,379)	(16,378)
Net gain on redemption of derivative financial instruments	(432)	–
Net unrealised losses on derivative financial instruments	1,170	–

4. TAXATION

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Provision for Hong Kong profits tax for the period	1,142	996
Deferred taxation	(18,919)	(22,267)
	(17,777)	(21,271)

The provision for Hong Kong profits tax is based on an estimate of the assessable profits for the six months ended 30 June 2006 less relief for available tax loss where applicable at 17.5% (2005: 17.5%).

5. DIVIDENDS

- (a) Dividend attributable to the interim period

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
Interim dividend declared after the interim period end of 9 cents per share (2005: 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	
	2006	2005
	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 (2005: 24 cents per share)	85,506	85,506

6. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on a profit of HK\$121,755,000 (2005: HK\$189,915,000) and 356,273,883 (2005: 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

	Investment properties <i>HK\$'000</i>	Other property, plant and equipment <i>HK\$'000</i>	Interest in leasehold land <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost or valuation:				
At 1 January 2006	692,300	519,704	160,084	1,372,088
Additions	378	2,333	–	2,711
Transfer from properties under development	29,858	–	–	29,858
Disposals	–	(528)	–	(528)
Cost adjustment (<i>Note (a)</i>)	(6,056)	–	–	(6,056)
Revaluation surplus	33,920	–	–	33,920
	<hr/>			
At 30 June 2006	750,400	521,509	160,084	1,431,993
	<hr/>			
Accumulated amortisation and depreciation:				
At 1 January 2006	–	370,694	87,048	457,742
Charge for the period	–	4,823	880	5,703
Written back on disposal	–	(486)	–	(486)
	<hr/>			
At 30 June 2006	–	375,031	87,928	462,959
	<hr/>			
Net book value:				
At 30 June 2006	750,400	146,478	72,156	969,034
	<hr/> <hr/>			
At 31 December 2005	692,300	149,010	73,036	914,346
	<hr/> <hr/>			

Note (a): Cost adjustment represents the reduction in the cost of construction accrued in previous years due to the change in cost estimation during the period.

Investment properties held by the Group were revalued by a firm of registered professional surveyors, DTZ Debenham Tie Leung Limited, at HK\$750,400,000 as at 30 June 2006 (at 31 December 2005: HK\$692,300,000) on an open market value basis. The revaluation surplus of HK\$33,920,000 (2005: HK\$14,029,000) has been credited to the consolidated profit and loss account.

8. INTEREST IN ASSOCIATES

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Share of net assets	2,803	2,650
Amounts due from associates	150,260	162,542
	153,063	165,192
Less: Provision	(6,470)	(6,470)
	146,593	158,722

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

Other particulars of associates are as follows:

	% of equity interest held by Subsidiaries	Principal activities
2OK Company Limited	50	Property financing
Authian Estates Limited	50	Property investment

9. INVENTORIES

Inventories in the balance sheet comprise:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Property development		
Properties under development – held for sale	743,116	805,872
Completed properties held for sale	262,264	208,013
	1,005,380	1,013,885
Other operations		
Trading stocks	454	1,046
Spare parts and consumables	2,744	2,203
Work in progress	3,058	3,254
	6,256	6,503
	1,011,636	1,020,388

The amount of inventories, which comprise spare parts and consumables, carried at net realisable value is HK\$1,923,000 (at 31 December 2005: HK\$1,580,000).

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Trade debtors	82,559	122,502
Other debtors and prepayments	29,541	32,877
Derivative financial instruments	48,754	70,493
	160,854	225,872

Included in trade and other receivables are trade debtors (excluding retention money recoverable of HK\$11,165,000 (at 31 December 2005: HK\$11,165,000) and net of specific provisions for bad and doubtful debts) with the following aging analysis:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Current	64,902	106,445
1 to 3 months overdue	4,819	3,699
More than 3 months overdue but less than 12 months overdue	934	1,101
More than 12 months overdue	739	92
	71,394	111,337

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.

Derivative financial instruments

At 30 June 2006, the Group's derivative financial instruments comprised three equity-linked notes (the "Notes") with different maturity dates in years 2007 and 2008. The Notes will be settled either by cash or by delivery of the underlying shares depending on the market prices of the underlying shares at maturity date.

11. CASH AND CASH EQUIVALENTS

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Deposits with banks and other financial institutions	1,054,721	1,002,188
Cash at bank and in hand	15,439	39,044
	1,070,160	1,041,232
Cash and cash equivalents in the balance sheet		
Bank overdraft	(222)	(309)
	1,069,938	1,040,923
Cash and cash equivalents in the cash flow statement		

12. TRADE AND OTHER PAYABLES

Included in trade and other payables are retention payable of HK\$30,794,000 (at 31 December 2005: HK\$29,099,000), of which HK\$3,443,000 (at 31 December 2005: HK\$2,797,000) are expected to settle after one year, and trade payables with the following aging analysis:

	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Due within 1 month or on demand	87,273	119,275
Due after 12 months	3,443	2,797
	90,716	122,072

13. SHARE CAPITAL

	No. of shares '000	Amount HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$1 each at 1 January 2006 and 30 June 2006	550,000	550,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$1 each at 1 January 2006 and 30 June 2006	356,274	356,274

14. RESERVES

	Share premium <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 2006	1,398,527	49,425	989	1,559,773	3,008,714
Dividend approved in respect of the previous financial year	–	–	–	(85,506)	(85,506)
Changes in fair value of available-for-sale securities	–	3,653	–	–	3,653
Realisation of inter-company profits	–	–	(12)	–	(12)
Profit for the period	–	–	–	121,755	121,755
At 30 June 2006	<u>1,398,527</u>	<u>53,078</u>	<u>977</u>	<u>1,596,022</u>	<u>3,048,604</u>

15. CAPITAL AND OTHER COMMITMENTS

Capital and other commitments outstanding at 30 June 2006 not provided for in the Group's accounts are as follows:

	At 30 June 2006 <i>HK\$'000</i>	At 31 December 2005 <i>HK\$'000</i>
Contracted for	398,682	32,385
Authorised but not contracted for	148,705	440,717
	<u>547,387</u>	<u>473,102</u>

16. CONTINGENT LIABILITIES

At 30 June 2006, there were contingent liabilities in respect of the following:

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

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

17. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

- (i) 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\$498,000 (2005: HK\$1,047,000) had been charged to the Group for the six months ended 30 June 2006. As at 30 June 2006, an amount of HK\$18,000,000 (at 31 December 2005: HK\$18,000,000) payable to the Project Manager was included in trade and other payables.

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\$18,106,000 was credited (2005: HK\$2,926,000 charged) to HL Sub in this regard based on the latest project cost estimation. As at 30 June 2006, an amount of HK\$19,969,000 (at 31 December 2005: HK\$38,800,000) remained unpaid and was included in trade and other receivables.

17. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

(Continued)

- (ii) The Group 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. As a result of the change in the latest cost estimates, an amount of HK\$42,267,000 and HK\$2,013,000, representing a corresponding adjustment in fees, were credited (2005: HK\$6,508,000 and HK\$310,000 charged) to the Group in relation to the superstructure work of the development and the 5% fee on all works relating to the redevelopment of the Property respectively. As at 30 June 2006, an amount of HK\$22,930,000 (at 31 December 2005: HK\$65,197,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.
- (iii) 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 2006. During the six months ended 30 June 2006, the Group received management and administrative fees in the total of HK\$248,000 (2005: 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 2006, the Group received interest amounting to HK\$4,694,000 (2005: HK\$5,355,000) from 2OK. As at 30 June 2006, the amount advanced by the Group totalling HK\$140,389,000 (at 31 December 2005: HK\$152,670,000) is in proportion to the Group's equity interest in 2OK and is unsecured and has no fixed repayment terms.
- (iv) 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 (the "Ongoing Connected Transaction"). An amount of HK\$323,000 (2005: HK\$310,000) was charged to the Group for the six months ended 30 June 2006. As at 30 June 2006, an amount of HK\$266,000 (at 31 December 2005: HK\$223,000) remained unpaid and was included in trade and other payables.
- (v) In September 2004, the Group appointed a wholly-owned subsidiary of HL 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\$518,000 (2005: HK\$265,000) was charged to the Group for the period ended 30 June 2006. As at 30 June 2006, an amount of HK\$940,000 (at 31 December 2005: HK\$621,000) remained unpaid and was included in trade and other payables.

17. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

(Continued)

- (vi) In September 2004, the Group 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\$31,814,000 (2005: HK\$12,740,000), of which HK\$2,371,000 (2005: HK\$3,027,000) 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\$1,515,000 (2005: HK\$607,000) being the 5% fee, was charged by the main contractor for the period ended 30 June 2006 for the superstructure work of the development of the TMR Property. As at 30 June 2006, an amount of HK\$23,174,000 (at 31 December 2005: HK\$9,382,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.
- (vii) In May 2006, the Group appointed a wholly-owned subsidiary of HL as the project manager for the development of Nos. 220-222 Tai Kok Tsui Road, Kowloon, Hong Kong (the "TKT Property") for a term of three years commencing from 1 April 2006 in consideration for a fee equivalent to the aggregate of 1% of the construction cost, and other lump sum fees for supplementary services, subject to a total annual ceiling of HK\$3,033,334.
- (viii) In May 2006, 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 TKT 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 annual ceiling of HK\$16,000,000. In accordance with the contract entered into with the Group, an amount of HK\$9,436,000, of which 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, was charged by the main contractor for the period ended 30 June 2006 for the superstructure work of the development of the TKT Property. As at 30 June 2006, an amount of HK\$5,919,000, which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

As at 30 June 2006, HL through its subsidiaries beneficially owned 67.94% 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.

18. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2006

Up to the date of issue of the interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2006 and which have not been adopted in the interim financial report.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

19. COMPARATIVE FIGURES

Following publication of the Interim Report 2005, having regard to the amendments to the Listing Rules issued by the SEHK in February 2006, which aligned certain disclosure requirements with the implementation guidance in HKAS 1 "Presentation of financial statements", the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the respective shares of profit or loss reported in the consolidated profit and loss account before arriving at the Group's profit or loss before tax in the 2005 annual accounts.

Accordingly, the presentation of comparative information in respect of the six-month ended 30 June 2005 which appears in these interim financial statements has been conformed with the presentation adopted in the 2005 annual accounts. The changes are presentational, and have no impact on profit for the period or total equity.

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 10 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 2006.

KPMG

Certified Public Accountants

Hong Kong, 14 September 2006



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