

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 December 2006.

## PRINCIPAL PLACE OF BUSINESS

Hong Kong Ferry (Holdings) Company Limited is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 98 Tam Kon Shan Road, Ngau Kok Wan, North Tsing Yi, New Territories, Hong Kong.

## PRINCIPAL ACTIVITIES

The principal activities of the Group are property development and investment, ferry and related businesses, travel business and hotel operation.

The analyses of the principal activities of the Company and its subsidiaries during the financial year are set out in note 3 to the accounts.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's purchases attributable to the major suppliers during the financial year is as follows:

	<b>Percentage of the Group's total purchases</b>
The largest supplier	15.5%
Five largest suppliers in aggregate	44.5%

Henderson Land Development Company Limited ("HL"), through its subsidiaries, was one of the Group's five largest suppliers during the financial year. As at 31 December 2006, HL through its subsidiaries beneficially owned approximately 67.94% of the entire issued share capital of Henderson Investment Limited, a substantial shareholder (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, hereinafter referred to as the "Listing Rules") of the Company.

No analysis in respect of the Group's major customers is shown as the percentages of turnover attributable to the Group's five largest customers is less than 30%.

Apart from the foregoing, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2006 are set out in note 14 to the accounts.



## Report of the Directors (Continued)

### ACCOUNTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2006, the state of affairs of the Company and of the Group at that date and the related notes are set out in the accounts on pages 36 to 104.

An interim dividend of 9 cents (2005: 9 cents) per share was paid on 20 October 2006. The directors now recommend a final dividend of 24 cents (2005: 24 cents) per share to shareholders whose names appear in the register of members on 3 May 2007.

### CHARITABLE DONATIONS

The Group's charitable donations during the year amounted to HK\$9,593 (2005: HK\$2,572).

### FIXED ASSETS

Movements in fixed assets during the year are set out in note 12 to the accounts.

### SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in note 24 to the accounts.

### DIRECTORS

The directors of the Company during the financial year were:

#### Executive directors

Mr. Lam Ko Yin, Colin (*Chairman*)  
Mr. Li Ning

#### Non-executive directors

Mr. Au Siu Kee, Alexander  
Mr. Lau Yum Chuen, Eddie  
Dr. Lee Shau Kee  
Mr. Leung Hay Man  
Mr. Wong Man Kong, Peter

#### Independent non-executive directors

Mr. Ho Hau Chong, Norman  
Mr. Kan Yuet Loong, Michael  
Mr. Wu King Cheong

## *Report of the Directors (Continued)*

In accordance with Article 103(A) of the Company's Articles of Association, Mr. Li Ning, Mr. Lau Yum Chuen, Eddie, Mr. Wong Man Kong, Peter and Mr. Ho Hau Chong, Norman shall retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to rule 3.13 of the Listing Rules and the Company considered all of them to be independent.

### **BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

The biographical details of Directors and Senior Management are set out on pages 3 to 9.

### **DIRECTORS' REMUNERATION**

Details of directors' remuneration are set out in note 6 to the accounts.

### **DIRECTORS' INTEREST IN CONTRACTS**

Except for the "Connected Transactions" as disclosed in this report, no other contract of significance, to which the Company or any of its holding company, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

### **DIRECTORS' SERVICE CONTRACTS**

None of the directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment other than statutory compensation.

# Report of the Directors (Continued)

## DISCLOSURE OF INTERESTS

### Directors' Interests in Securities

As at 31 December 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 Number of Shares	Corporate Interests Number of Shares	Family Interests Number of Shares	Total Interests Number of Shares	Approximate percentage of total issued shares
Mr. Lam Ko Yin, Colin	150,000	–	–	150,000	0.04%
Mr. Au Siu Kee, Alexander	–	–	–	–	–
Mr. Ho Hau Chong, Norman	3,313,950	–	–	3,313,950	0.93%
Mr. Kan Yuet Loong, Michael	22,965	–	–	22,965	0.01%
Mr. Lau Yum Chuen, Eddie	–	–	–	–	–
Dr. Lee Shau Kee	7,799,220	111,732,090 (Note 6 on page 22)	–	119,531,310	33.55%
Mr. Leung Hay Man	2,250	–	–	2,250	–
Mr. Li Ning	–	–	111,732,090 (Note 5 on page 22)	111,732,090	31.36%
Mr. Wong Man Kong, Peter	1,051,000	–	–	1,051,000	0.29%
Mr. Wu King Cheong	–	–	–	–	–
	2OK COMPANY LIMITED				
	Corporate Interests Number of Shares		Family Interests Number of Shares		
Dr. Lee Shau Kee (Note 1)	5		–		–
Mr. Li Ning (Note 2)	–		5		5

#### Notes:

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

## Report of the Directors (Continued)

Other than as stated above, no directors or chief executives 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 31 December 2006.

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the interests of every person, other than directors of the Company in the ordinary shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

	No. of shares in which interested	Approximate percentage of total issued shares
<b>Substantial Shareholders</b>		
Henderson Investment Limited (Note 1)	111,732,090	31.36%
Pataca Enterprises Limited (Note 1)	70,200,000	19.70%
Wiselin Investment Limited (Note 2)	41,532,090	11.66%
Max-mercan Investment Limited (Note 2)	41,532,090	11.66%
Henderson Development Limited (Note 3)	111,732,090	31.36%
Henderson Land Development Company Limited (Note 3)	111,732,090	31.36%
Kingslee S.A. (Note 3)	111,732,090	31.36%
Hopkins (Cayman) Limited (Note 4)	111,732,090	31.36%
Rimmer (Cayman) Limited (Note 4)	111,732,090	31.36%
Riddick (Cayman) Limited (Note 4)	111,732,090	31.36%
Mr. Li Ning (Note 5)	111,732,090	31.36%
Dr. Lee Shau Kee (Note 6)	119,531,310	33.55%

### Persons other than Substantial Shareholders

Graf Investment Limited (Note 1)	23,400,000	6.57%
Mount Sherpa Limited (Note 1)	23,400,000	6.57%
Paillard Investment Limited (Note 1)	23,400,000	6.57%

Notes:

All shares referred to below, unless otherwise stated, form part of the same parcel of 111,732,090 shares.

- These 111,732,090 shares were beneficially owned by some of the subsidiaries of Henderson Investment Limited ("HI"). Of these 111,732,090 shares, 70,200,000 shares were owned by some of the subsidiaries (viz., Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, each of which owned 23,400,000 shares) of Pataca Enterprises Limited, which was itself a subsidiary of HI.



## Report of the Directors (Continued)

2. These 41,532,090 shares held by Wiselin Investment Limited and in which Max-mercan Investment Limited was taken to be interested refer to the same lot of shares. Wiselin Investment Limited, a subsidiary of Max-mercan Investment Limited which was a subsidiary of HI, beneficially owned 41,532,090 shares all of which constitute part of the said 111,732,090 shares.
3. These 111,732,090 shares are duplicated in the interests described in Notes 1 and 2. HD beneficially owned more than one-third of the issued share capital in Henderson Land Development Company Limited which was, in turn, the holding company of Kingslee S.A. Kingslee S.A. has a controlling interest in HI.
4. These 111,732,090 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 held units in a unit trust (the "Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owned all the issued ordinary shares, which carry the voting rights in the share capital of HD.
5. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 111,732,090 shares as Mr. Li's spouse was one of the discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust. These 111,732,090 shares are duplicated in the interests described in Notes 1, 2, 3 and 4.
6. Dr. Lee Shau Kee beneficially owned 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 was taken to be interested in 111,732,090 shares which are duplicated in the interests described in Notes 1, 2, 3 and 4. Together with his personal shareholding of 7,799,220 shares, Dr. Lee Shau Kee was taken to be interested in 119,531,310 shares (approximately 33.55 per cent of the total issued share capital of the Company) as at 31 December 2006.

Save as disclosed, as at 31 December 2006, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company.

### RESERVES

Movements in reserves of the Company and of the Group during the year are set out in note 25 to the accounts.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### ARRANGEMENT TO PURCHASE SHARES, WARRANTS, OPTIONS OR DEBENTURES

At no time during the year 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.

### BANK OVERDRAFT

Particulars of bank overdraft of the Group as at 31 December 2006 are set out in note 21 to the accounts.

### FINANCIAL SUMMARIES

The five years' summary of assets and liabilities and ten years' financial summary of the Group are set out on pages 105 to 107.

### GROUP PROPERTIES

A summary of the Group's properties is set out on pages 108 to 109.

### RETIREMENT SCHEMES

The Group's Hong Kong employees participate either in a defined benefit retirement scheme or a Mandatory Provident Fund scheme. Particulars of these retirement schemes are set out in note 17 to the accounts.

### CONNECTED TRANSACTIONS

Pursuant to the transactions and arrangements entered into by the Group with persons who are connected persons for the purposes of the Listing Rules, the Group recorded the transactions as described in note 29 to the accounts.

#### Continuing Connected Transactions

During the year ended 31 December 2006, the Company and/or its subsidiaries had entered into certain continuing connected transactions, with details below, which were subject to the annual review and reporting requirements under Chapter 14A of the Listing Rules.

	<b>Date</b>	<b>Connected persons</b>	<b>Transactions</b>
1	19 May 2006	Henderson Real Estate Agency Limited ("HREAL"), a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD")	The Group had entered into the Project Management Agreement with HREAL for the appointment of HREAL as the project manager for the development of Nos. 220-222 Tai Kok Tsui Road, Kowloon, Hong Kong (the "TKT Property").
2	19 May 2006	Heng Tat Construction Company Limited ("Heng Tat"), a wholly-owned subsidiary of HLD	The Group had entered into the Prime Cost Contract with Heng Tat for the appointment of Heng Tat as the main contractor for the development of the TKT Property.

## Report of the Directors (Continued)

Date	Connected persons	Transactions
3	14 September 2006 Citistore (Hong Kong) Limited ("Citistore"), a wholly-owned subsidiary of HLD	<p>The Group had entered into:</p> <ul style="list-style-type: none"> <li>(i) the Citistore Lease Agreement with Citistore for leasing of Shop Nos. G01, Portion of G31, G35-G50, Portion of G51, Portion of G52, G63-G74 and corridors and atrium on Ground Floor, and Shop Nos. 127-161 and corridors and toilets on Level 1, Metro Harbour Plaza, No. 8 Fuk Lee Street, Kowloon, Hong Kong ("Premises A").</li> <li>(ii) the Wall Signage Licence Agreement for six external wall signages at Metro Harbour Plaza.</li> <li>(iii) the Entrance Signage Licence Agreement for four signages at the entrances of Metro Harbour Plaza.</li> </ul>
4	14 September 2006 HREAL	<p>The Group had entered into the Sales Office Lease Agreement for leasing of Portion of Shop Nos. G51-52, G53, G56-G57, G59-G62, and corridor on Ground Floor, Metro Harbour Plaza, No. 8 Fuk Lee Street, Kowloon, Hong Kong ("Premises B").</p>



## Report of the Directors (Continued)

	<b>Date</b>	<b>Connected persons</b>	<b>Transactions</b>
5	9 November 2006	HREAL	The Group had entered into the Project Management Agreement with HREAL for the appointment of HREAL as the project manager for the development of No. 6, Cho Yuen Street, Yau Tong, Kowloon, Hong Kong (the "Yau Tong Property"). Independent Shareholders had approved the Project Management Agreement and its annual caps at the extraordinary general meeting on 20 December 2006.
6	9 November 2006	Heng Shung Construction Company Limited ("Heng Shung"), a wholly-owned subsidiary of HLD	The Group had entered into the Prime Cost Contract with Heng Shung for the appointment of Heng Shung as the main contractor for the development of the Yau Tong Property. Independent Shareholders had approved the Prime Cost Contract and its annual caps at the extraordinary general meeting on 20 December 2006.

Details of the above continuing connected transactions are set out in note 29 to the accounts.

The independent non-executive directors of the Company have reviewed and confirmed that the above continuing connected transactions have been entered into (i) in the ordinary and usual course of the business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also confirmed to the Board in writing that the above continuing connected transactions (i) have received the approval of the board of directors of the Company; (ii) have been entered into in accordance with the relevant agreements governing the transactions; and (iii) have not exceeded the cap disclosed in the previous announcements.

### CORPORATE GOVERNANCE

The Company is committed to maintaining the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 27 to 33.



## *Report of the Directors (Continued)*

### **AUDIT COMMITTEE**

The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2006.

### **PUBLIC FLOAT**

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the directors.

### **AUDITORS**

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

**Colin K.Y. Lam**  
*Chairman*

**Li Ning**  
*Director*

Hong Kong, 16 March 2007