



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 2003-07
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發



Interim Report 2007 中期報告

INTERIM RESULTS AND DIVIDEND

The unaudited consolidated net profit after taxation of the Group for the six months ended 30 June 2007 amounted to HK\$214.5 million, representing an increase of 76% as compared with the figure for the first half of 2006. Earnings per share were 60.2 cents as compared with 34.2 cents over the corresponding period of 2006.

The Board has resolved to pay an interim dividend of 10 cents (2006: 9 cents) per share in respect of the financial year ending 31 December 2007. The interim dividend will be paid on or about Thursday, 18 October 2007 to shareholders whose names appear on the register of members at the close of business on Thursday, 11 October 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period, the major source of profits for the Group was mainly derived from the sale of residential flats of Metro Harbour View (8 Fuk Lee Street, Tai Kok Tsui, Kowloon) and MetroRegalia (51 Tong Mi Road). The Group also benefited from the increased returns from the rental income of the commercial property and securities investments.

Property Development and Investment Operations

8 Fuk Lee Street ("Metro Harbour View")

During the period under review, 50 residential units were sold. The number of outstanding unsold units is approximately 30. The Group recorded a profit of HK\$41 million from the units sold. Rental income derived from the commercial arcade, Metro Harbour Plaza, amounted to HK\$15.4 million, an increase of 53% as compared to the same period last year. The occupancy rate as at the end of June was 90% which figure would increase to 96% if commitments were taken into account.

222 Tai Kok Tsui Road

The infrastructure construction has been substantially completed and will undergo interior works by the end of this year. The project is expected to be completed by late 2008.

51 Tong Mi Road ("MetroRegalia")

During the period under review, 14 residential units were sold. The unsold units are approximately 45. The Group recorded a profit of HK\$12.2 million from the units sold. Rental income derived from the shopping mall of MetroRegalia amounted to HK\$415,000 with an occupancy rate of 36%.



6 Cho Yuen Street, Yau Tong

The construction of the building was in good progress. The project is expected to be completed in early 2009.

Ferry, Shipyard and Related Operations

The turnover of vehicular ferry operations rose by 3%. With the increased volume in ship repair, the turnover of the shipyard operations recorded an increase of 68%. Due to price competition, the turnover of the harbour cruise operations decreased slightly by about 3%. The losses associated with the Ferry, Shipyard and Related Operations narrowed to HK\$0.6 million during the period.

Travel and Hotel Operations

The turnover of the Travel and Hotel Operations recorded an increase of 14% as compared to the same period last year, with the deficit reduced to HK\$0.19 million.

PROSPECTS

The local economy demonstrated sustained growth. The introduction of new measures of CEPA on goods, services and financial cooperation and the plans under consideration by the mainland authority to relax restriction on mainland investors investing in Hong Kong securities encouraged investors and propelled the stock market to new highs, notwithstanding profit-takings. The turnover also reached new records. In the USA, the sub-prime mortgage crisis may likely lead to a cut in the interest rate in the later part of the year, thereby benefiting the Hong Kong economy. The sales prices of the remaining units of Metro Harbour View and MetroRegalia are expected to be favourable. The Company will continue to explore investment opportunities in the property and stock markets to maximize the return for the shareholders.

FINANCIAL REVIEW

Review of Results

During the six-month period ended 30 June 2007, the Group's turnover amounted to approximately HK\$317 million, representing an increase of 6.4% as compared to that recorded in the same period last year.

The consolidated profit after taxation of the Group for the six-month period ended 30 June 2007 was HK\$214.5 million, representing an increase of 76% against HK\$121.8 million for the same period last year.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2007, shareholders' funds amounted to HK\$3,513 million, an increase of 3.8% compared to the figure for 31 December 2006. 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 2007, the Group had no borrowing.

There was no material acquisition or disposal of any subsidiary or associate during the period. A net repayment of approximately HK\$17.1 million was received from an associate which provided mortgage loans to buyers of Metro Harbour View flats.

As at 30 June 2007, current assets of the Group stood at HK\$2,425 million, compared to current liabilities of HK\$268 million. Current ratio of the Group increased from 7.9 as at 31 December 2006 to 9.0 as at 30 June 2007 due to repayment of trade and other payables.

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

On 22 December 2006, the court gave judgment in favour of the Hong Kong Government in respect of the disputes over the reimbursement of certain costs for the proposed redevelopment of the Central Ferry Pier, while the quantum is to be determined with interests and costs.

After consultation with the legal advisor of the Group, a provision of an amount of HK\$100 million was made to the accounts as at 31 December 2006, but the quantum on the loss will depend on the outcome of the appeal. The Company had lodged the appeal against judgment on the Central Ferry Pier litigation and the hearing of the appeal was scheduled for March 2008.

Employees

As at 30 June 2007, the Group employed about 380 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 Tuesday, 9 October 2007 to Thursday, 11 October 2007, 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, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Monday, 8 October 2007.

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 committed to maintain high standards of corporate governance. In the opinion of the directors of the board (the "Board"), the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the six months ended 30 June 2007.

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 2007.

The Company has also adopted the written guidelines on no less exacting terms than the Model Code for those relevant employees, (including employees of the Company or directors or employees of its subsidiaries who, because of such office or employment, is likely to be in possession of unpublished price sensitive information in relation to the Company or its securities) in respect of their dealings in the securities of the Company in compliance with the code provision A.5.4 of the CG Code.

AUDIT COMMITTEE

The Audit Committee has met in September 2007 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 2007 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 2007 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 August 2007. 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, 12 September 2007



DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2007, 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 | Corporate Interests | Family Interests | Total Interests | Approximate percentage of total issued shares |
| | Number of Shares | Number of Shares | Number of Shares | Number of 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 <i>(Note 6 on page 8)</i> | - | 119,531,310 | 33.55% |
| Mr. Leung Hay Man | 2,250 | - | - | 2,250 | - |
| Mr. Li Ning | - | - | 111,732,090 <i>(Note 5 on page 8)</i> | 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 <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 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.

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 2007.

SUBSTANTIAL SHAREHOLDERS AND OTHERS

As at 30 June 2007, the interests of every person 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 |
|--|---|--|
| Substantial Shareholders | | |
| Henderson Land Development Company Limited (<i>Note 1</i>) | 111,732,090 | 31.36% |
| Pataca Enterprises Limited (<i>Note 1</i>) | 70,200,000 | 19.70% |
| Wiselin Investment Limited (<i>Note 2</i>) | 41,532,090 | 11.66% |
| Max-mercan Investment Limited (<i>Note 2</i>) | 41,532,090 | 11.66% |
| Camay Investment Limited (<i>Note 2</i>) | 41,532,090 | 11.66% |
| Henderson Development Limited (<i>Note 3</i>) | 111,732,090 | 31.36% |
| Hopkins (Cayman) Limited (<i>Note 4</i>) | 111,732,090 | 31.36% |
| Rimmer (Cayman) Limited (<i>Note 4</i>) | 111,732,090 | 31.36% |
| Riddick (Cayman) Limited (<i>Note 4</i>) | 111,732,090 | 31.36% |
| Mr. Li Ning (<i>Note 5</i>) | 111,732,090 | 31.36% |
| Dr. Lee Shau Kee (<i>Note 6</i>) | 119,531,310 | 33.55% |
| Persons other than Substantial Shareholders | | |
| Graf Investment Limited (<i>Note 1</i>) | 23,400,000 | 6.57% |
| Mount Sherpa Limited (<i>Note 1</i>) | 23,400,000 | 6.57% |
| Paillard Investment Limited (<i>Note 1</i>) | 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 Land Development Company Limited ("HLD"). 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 HLD.
- These 41,532,090 shares, which constitute part of the said 111,732,090 shares, were beneficially owned by Wiselin Investment Limited which was a subsidiary of Max-mercan Investment Limited. Max-mercan Investment Limited was a subsidiary of Camay Investment Limited ("Camay") which in turn was a subsidiary of HLD.



3. These 111,732,090 shares are duplicated in the interests described in Notes 1 and 2. Henderson Development Limited ("HD") beneficially owned more than one-third of the issued share capital in HLD which was, in turn, the holding company of Camay.
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 30 June 2007.

Save as disclosed, as at 30 June 2007, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company.

CONDENSED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2007 – unaudited

| | Note | Six months ended 30 June | |
|---|------|--------------------------|------------------|
| | | 2007 HK\$'000 | 2006 HK\$'000 |
| Turnover | 2(a) | 317,388 | 298,326 |
| Cost of sales | | (186,039) | (183,366) |
| | | 131,349 | 114,960 |
| Other revenue | 2(a) | 20,001 | 13,794 |
| Other net income | 3 | 111,629 | 1,417 |
| Revaluation gains on investment properties | 2(c) | 20,930 | 33,920 |
| Selling and marketing expenses | | (9,772) | (11,845) |
| Administrative expenses | | (20,032) | (26,974) |
| Other operating expenses | | (20,155) | (21,447) |
| Profit from operations | 2(b) | 233,950 | 103,825 |
| Share of results of associates | | 386 | 153 |
| Profit before taxation | 4 | 234,336 | 103,978 |
| Taxation | 5 | (19,834) | 17,777 |
| Profit attributable to shareholders | | 214,502 | 121,755 |
| Dividend attributable to the interim period | 6(a) | 35,627 | 32,065 |
| Basic earnings per share (cents) | 7 | 60.2 | 34.2 |

The notes on pages 13 to 29 form part of these condensed interim financial statements.



CONSOLIDATED BALANCE SHEET

As at 30 June 2007

| | Note | At 30 June 2007 (unaudited) | | At 31 December 2006 (audited) | |
|--|-------|--------------------------------|------------------|----------------------------------|------------------|
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Non-current assets | | | | | |
| Fixed assets | 8 | | | | |
| – Investment properties | | | 775,400 | | 756,900 |
| – Other property, plant and equipment | | | 138,777 | | 142,379 |
| – Interest in leasehold land | | | 70,396 | | 71,276 |
| | | | <u>984,573</u> | | <u>970,555</u> |
| Interest in associates | 9 | | 156,483 | | 173,205 |
| Properties under development – held for investment | | | 42,766 | | 36,801 |
| Available-for-sale equity securities | | | 158,270 | | 159,618 |
| Other non-current assets | | | 7,600 | | 6,610 |
| Deferred tax assets | | | 36,801 | | 43,466 |
| | | | <u>1,386,493</u> | | <u>1,390,255</u> |
| Current assets | | | | | |
| Inventories | 10 | | 978,324 | | 963,243 |
| Trade and other receivables | 11 | | 122,604 | | 136,691 |
| Derivative financial instruments | 12 | | 698,703 | | 31,972 |
| Tax recoverable | | | 1,702 | | 1,693 |
| Cash and cash equivalents | 13 | | 624,164 | | 1,178,919 |
| | | | <u>2,425,497</u> | | <u>2,312,518</u> |
| Current liabilities | | | | | |
| Bank overdrafts | 13 | | 291 | | 200 |
| Trade and other payables | 14 | | 148,665 | | 178,782 |
| Provision for litigation | 18(a) | | 98,450 | | 100,000 |
| Tax payable | | | 20,810 | | 12,259 |
| | | | <u>268,216</u> | | <u>291,241</u> |
| Net current assets | | | <u>2,157,281</u> | | <u>2,021,277</u> |
| Total assets less current liabilities | | | <u>3,543,774</u> | | <u>3,411,532</u> |
| Non-current liabilities | | | | | |
| Deferred tax liabilities | | | (30,315) | | (25,709) |
| NET ASSETS | | | <u>3,513,459</u> | | <u>3,385,823</u> |
| CAPITAL AND RESERVES | | | | | |
| Share capital | 15 | | 356,274 | | 356,274 |
| Reserves | 16 | | 3,157,185 | | 3,029,549 |
| TOTAL EQUITY | | | <u>3,513,459</u> | | <u>3,385,823</u> |

The notes on pages 13 to 29 form part of these condensed interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2007 – unaudited*

| | | Six months ended 30 June | |
|--|----|---------------------------------|-----------------|
| | | 2007 | 2006 |
| <i>Note</i> | | HK\$'000 | <i>HK\$'000</i> |
| Net cash generated from operating activities | | 33,484 | 63,347 |
| Net cash (used in)/generated from investing activities | | (502,824) | 51,174 |
| Net cash used in financing activities | | (85,506) | (85,506) |
| Net (decrease)/increase in cash and cash equivalents | | (554,846) | 29,015 |
| Cash and cash equivalents at 1 January | | 1,178,719 | 1,040,923 |
| Cash and cash equivalents at 30 June | 13 | 623,873 | 1,069,938 |

The notes on pages 13 to 29 form part of these condensed interim financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007 – unaudited

| | Six months ended 30 June | |
|---|--------------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 |
| Shareholders' equity at 1 January | 3,385,823 | 3,364,988 |
| Net income for the period recognised directly in equity: | | |
| Changes in fair value of available-for-sale equity securities | (1,348) | 3,653 |
| Net profit for the period | 214,502 | 121,755 |
| 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 | 3,513,459 | 3,404,878 |

The notes on pages 13 to 29 form part of these condensed interim financial statements.

NOTES TO 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, 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 Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity", issued by the HKICPA. KPMG's review report to the board of directors is included on page 30.

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 2006 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 2006 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 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 16 March 2007.

The same accounting policies adopted in the 2006 annual accounts have been applied to the condensed interim financial statements.

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 2007 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 21).



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. Securities investment has been identified as a reportable segment in the current period because its segmental result and assets have exceeded 10% of the Group's respective total amounts; prior period segmental data that is presented for comparative purposes has been restated to reflect the newly reportable segment as a separate segment.

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

2. SEGMENTAL REPORTING *(Continued)*

The segmental information for the six months ended 30 June 2007 and 2006 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 | |
| | 2007 | 2006 (restated) | 2007 | 2006 (restated) | 2007 | 2006 (restated) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Property development and investment | 124,628 | 136,072 | – | – | 124,628 | 136,072 |
| Ferry, shipyard and related operations | 84,469 | 79,726 | 1,082 | 1,103 | 83,387 | 78,623 |
| Travel and hotel operations | 86,621 | 75,679 | 163 | 41 | 86,458 | 75,638 |
| Securities investment | 25,623 | 947 | – | – | 25,623 | 947 |
| Others | 36,366 | 40,046 | 19,073 | 19,206 | 17,293 | 20,840 |
| | 357,707 | 332,470 | 20,318 | 20,350 | 337,389 | 312,120 |
| Analysed by: | | | | | | |
| Turnover | | | | | 317,388 | 298,326 |
| Other revenue | | | | | 20,001 | 13,794 |
| | | | | | 337,389 | 312,120 |



2. SEGMENTAL REPORTING *(Continued)*

(b) Segmental Result

| | Profit/(loss) from operations | |
|---|--------------------------------------|-------------------|
| | Six months ended 30 June | |
| | 2007 | 2006 |
| | <i>HK\$'000</i> | <i>(restated)</i> |
| | | <i>HK\$'000</i> |
| Property development and investment <i>(Note c)</i> | 84,943 | 97,365 |
| Ferry, shipyard and related operations | (640) | (10,692) |
| Travel and hotel operations | (189) | (2,269) |
| Securities investment | 133,932 | 150 |
| Others <i>(Note d)</i> | 15,904 | 19,271 |
| | 233,950 | 103,825 |

(c) The segmental result of the property development and investment operations included a revaluation surplus on investment properties in the amount of HK\$20,930,000 (2006: HK\$33,920,000).

(d) The segmental result of "Others" mainly comprises interest income and corporate expenses.

3. OTHER NET INCOME

| | Six months ended 30 June | |
|---|---------------------------------|-----------------|
| | 2007 | 2006 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Income from sale of spare parts | 684 | 844 |
| Net realized gains on derivative financial instruments | – | 432 |
| Net unrealized gains/(losses) on derivative financial instruments | 69,689 | (1,170) |
| Net exchange gains on derivative financial instruments | 40,358 | – |
| Sundry income | 898 | 1,311 |
| | 111,629 | 1,417 |

4. PROFIT BEFORE TAXATION

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

| | Six months ended 30 June | |
|--|---------------------------------|----------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Amortisation of leasehold land premium | 880 | 880 |
| Cost of inventories | 84,804 | 94,675 |
| Depreciation | 4,901 | 4,823 |
| Dividend income | (23,112) | (934) |
| Interest income | (25,665) | (28,379) |

5. TAXATION

| | Six months ended 30 June | |
|--|---------------------------------|----------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Provision for Hong Kong profits tax for the period | 8,563 | 1,142 |
| Deferred taxation | 11,271 | (18,919) |
| | 19,834 | (17,777) |

The provision for Hong Kong profits tax is based on an estimate of the assessable profits for the six months ended 30 June 2007 less relief for available tax losses where applicable at 17.5% (2006: 17.5%).

6. DIVIDENDS

- (a) Dividend attributable to the interim period

| | Six months ended 30 June | |
|--|---------------------------------|----------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Interim dividend declared after the interim period end of 10 cents (2006: 9 cents) per share | 35,627 | 32,065 |

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



6. DIVIDENDS *(Continued)*

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

| | Six months ended 30 June | |
|---|---------------------------------|----------|
| | 2007 | 2006 |
| | HK\$'000 | HK\$'000 |
| Final dividend in respect of the previous financial year, approved and paid during the interim period, of 24 cents (2006: 24 cents) per share | 85,506 | 85,506 |

7. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on a profit of HK\$214,502,000 (2006: HK\$121,755,000) and 356,273,883 (2006: 356,273,883) ordinary shares in issue during the period.

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

8. FIXED ASSETS

Valuation

Investment properties held by the Group were revalued by a firm of registered professional surveyors, DTZ Debenham Tie Leung Limited, at HK\$775,400,000 as at 30 June 2007 (at 31 December 2006: HK\$756,900,000) on an open market value basis calculated by reference to net rental income allowing for reversionary income potential.

9. INTEREST IN ASSOCIATES

| | At 30 June 2007 HK\$'000 | At 31 December 2006 HK\$'000 |
|-----------------------------|---|------------------------------------|
| Share of net assets | 3,296 | 2,910 |
| Amounts due from associates | 159,657 | 176,765 |
| | 162,953 | 179,675 |
| Less: Impairment loss | (6,470) | (6,470) |
| | 156,483 | 173,205 |

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

Other particulars of associates are as follows:

| | Particulars of issued & paid up capital | Proportion of ownership interest held by subsidiaries | Principal activities |
|-------------------------|--|--|-----------------------------|
| 2OK Company Limited | 10 ordinary shares of HK\$1 each | 50 | Property financing |
| Authian Estates Limited | 5,000 A shares of HK\$1 each 5,000 B shares of HK\$1 each | 50 | Property investment |



10. INVENTORIES

Inventories in the balance sheet comprise:

| | At 30 June 2007 HK\$'000 | At 31 December 2006 HK\$'000 |
|--|---|------------------------------------|
| Property development | | |
| Properties under development – held for sale | 852,203 | 787,090 |
| Completed properties held for sale | 118,058 | 170,223 |
| | 970,261 | 957,313 |
| Other operations | | |
| Trading stocks | 1,430 | 695 |
| Spare parts and consumables | 2,476 | 2,272 |
| Work in progress | 4,157 | 2,963 |
| | 8,063 | 5,930 |
| | 978,324 | 963,243 |

The amount of spare parts and consumables, carried at net realisable value is HK\$1,707,000 (at 31 December 2006: HK\$1,665,000).

11. TRADE AND OTHER RECEIVABLES

| | At 30 June 2007 HK\$'000 | At 31 December 2006 HK\$'000 |
|-----------------------------------|---|------------------------------------|
| Trade receivables | 90,161 | 109,550 |
| Other receivables and prepayments | 29,933 | 27,141 |
| Instalment receivables | 2,510 | – |
| | 122,604 | 136,691 |

11. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in trade and other receivables are trade receivables (excluding retention money recoverable of HK\$798,000 (at 31 December 2006: HK\$9,734,000) and net of specific provisions for bad and doubtful debts) with the following ageing analysis:

| | At 30 June 2007 HK\$'000 | At 31 December 2006 HK\$'000 |
|---|---|------------------------------------|
| Current | 86,423 | 95,832 |
| 1 to 3 months overdue | 2,203 | 3,221 |
| More than 3 months overdue but less than 12 months overdue | 150 | 349 |
| More than 12 months overdue | 587 | 414 |
| | 89,363 | 99,816 |

Instalment receivables amounted to HK\$2,483,000 (at 31 December 2006: HK\$NIL) are expected to be settled more than one year.

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. DERIVATIVE FINANCIAL INSTRUMENTS

At 30 June 2007, the Group's derivative financial instruments comprised equity-linked notes (the "Notes") with different maturity dates in years 2008 and 2009. 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.

| Notional Amount | Maturity |
|------------------------|-----------------|
| USD4,000,000 | 2008 |
| AUD89,000,000 | 2009 |

Certain Notes are subject to early redemption by the respective issuers when the market prices of the underlying shares rise / fall to pre-determined price levels at the respective determination dates stipulated in the final terms and conditions of each Note. The remaining Notes with a total notional amount of AUD53 million are subject to redemption at maturity.

Fair value of the Notes is based on the pricing model using the market closing prices of the underlying stocks and/or index, the volatilities, correlations and interest rate at the balance sheet date.

Investments in derivative financial instruments are subject to changes in market prices. The exposure to price changes is managed by closely monitoring the changes in market conditions that may have an impact on the market prices or factor affecting the value of these Notes.



13. CASH AND CASH EQUIVALENTS

| | At 30 June 2007 HK\$'000 | At 31 December 2006 HK\$'000 |
|--|---|------------------------------------|
| Deposits with banks and other financial institutions | 604,367 | 1,163,657 |
| Cash at bank and in hand | 19,797 | 15,262 |
| | 624,164 | 1,178,919 |
| Cash and cash equivalents in the balance sheet | (291) | (200) |
| | 623,873 | 1,178,719 |
| Cash and cash equivalents in the cash flow statement | 623,873 | 1,178,719 |

14. TRADE AND OTHER PAYABLES

All of the trade and other payables except for HK\$10,933,000 (at 31 December 2006: HK\$4,821,000), being retention money payables, are expected to be settled within one year.

Included in trade and other payables are trade payables with the following ageing analysis:

| | At 30 June 2007 HK\$'000 | At 31 December 2006 HK\$'000 |
|---------------------------------|---|------------------------------------|
| Due within 1 month or on demand | 61,585 | 93,585 |
| Due after 12 months | 10,933 | 4,821 |
| | 72,518 | 98,406 |

15. SHARE CAPITAL

| | No. of shares '000 | Amount HK\$'000 |
|---|-------------------------------|----------------------------|
| <i>Authorised:</i> | | |
| Ordinary shares of HK\$1 each at 1 January 2007 and 30 June 2007 | <u>550,000</u> | <u>550,000</u> |
| <i>Issued and fully paid:</i> | | |
| Ordinary shares of HK\$1 each at 1 January 2007 and 30 June 2007 | <u>356,274</u> | <u>356,274</u> |

There was no movement in share capital during the period.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

16. 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 2007 | 1,398,527 | 66,148 | 965 | 1,563,909 | 3,029,549 |
| Dividend approved in respect of the previous financial year | – | – | – | (85,506) | (85,506) |
| Changes in fair value of available-for-sale equity securities | – | (1,348) | – | – | (1,348) |
| Realisation of inter-company profits | – | – | (12) | – | (12) |
| Profit for the period | – | – | – | 214,502 | 214,502 |
| At 30 June 2007 | <u>1,398,527</u> | <u>64,800</u> | <u>953</u> | <u>1,692,905</u> | <u>3,157,185</u> |

17. CAPITAL AND OTHER COMMITMENTS

Capital and other commitments outstanding at 30 June 2007 not provided for in the Group's accounts are as follows:

| | At 30 June 2007 <i>HK\$'000</i> | At 31 December 2006 <i>HK\$'000</i> |
|----------------|--|---|
| Contracted for | <u>680,286</u> | <u>696,936</u> |



18. CONTINGENT LIABILITIES

(a) Litigation

At 30 June 2007, 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 in the proceedings was for the sum of approximately HK\$77 million and other amounts 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 disagreement over the high premium requested by the Government Lands Department. Based on legal advice, the Group contested this claim.

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.

A liability hearing was held during the period October to December 2006 and in December 2006, the High Court gave judgement in favour of the Government and dismissed the counterclaim. The solicitors acting for the Company and HYF have estimated that the maximum potential liability of the Company and HYF for the claim and related costs plus interest may amount to HK\$202 million but considered that there are strong grounds to appeal aspects of the judgement which, if successful, would reduce the amount of the liability. The Company and HYF filed a Notice of Appeal to the Court of Appeal in January 2007. The amount of the liability of the Company and HYF, if any, is to be determined at a later trial on quantum. Accordingly, in addition to the legal costs which were incurred and charged to the profit and loss account (included in the administrative expenses), a provision of HK\$100 million for the settlement of the above court case has been made at 31 December 2006, with a remaining balance of HK\$98.5 million at 30 June 2007.

18. CONTINGENT LIABILITIES *(Continued)*

(b) Financial guarantees issued

As at 30 June 2007, the Company has issued guarantees to certain suppliers in respect of granting or giving credit facilities to its wholly-owned subsidiaries. Under the guarantees, the Company is liable to the amount due from the subsidiaries to these respective parties in the event of any default and its liability shall at no time exceed the sum stated on the letters of guarantee.

As at the balance sheet date, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the balance sheet date under the guarantees issued above is the outstanding amount due to the relevant suppliers by its wholly-owned subsidiaries, being HK\$1,974,000 (at 31 December 2006: HK\$1,256,000).

The Company has not recognised any deferred income in respect of the guarantees issued as its fair value cannot be reliably measured and its transaction price was HK\$Nil.

19. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

- (a) In 1998, the Group appointed a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD") as the development and sales manager (the "Project Manager") for the redevelopment of Metro Harbour View, Kowloon Inland Lot No. 11127 (the "MHV 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\$246,000 (2006: HK\$498,000) had been charged to the Group for the six months ended 30 June 2007. As at 30 June 2007, an amount of HK\$18,000,000 (at 31 December 2006: 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 HLD and two wholly-owned subsidiaries of HLD ("HLD Sub"), whereby HLD 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, HLD Sub agreed to reimburse the Group 50% of its development expenditures relating to the residential portion of the MHV Property. An amount of HK\$8,936,000 (2006: HK\$18,106,000) was credited to HLD Sub in this regard based on the latest project cost estimation. As at 30 June 2007, an amount of HK\$8,672,000 (at 31 December 2006: HK\$23,351,000) remained unpaid and was included in trade and other receivables.



19. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

- (b) The Group engaged another wholly-owned subsidiary of HLD as the main contractor for a fee of 5% on all works relating to the redevelopment of the MHV Property. As a result of the change in the latest cost estimates, an amount of HK\$21,165,000 and HK\$1,008,000 (2006: HK\$42,267,000 and HK\$2,013,000), representing a corresponding adjustment in fees, were credited 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 MHV Property respectively. At 30 June 2007, an amount of HK\$1,765,000 (at 31 December 2006: HK\$22,930,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.
- (c) 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 MHV Property. HLD through its subsidiaries beneficially owned the remaining 50% equity interest in 2OK as at 30 June 2007. During the six months ended 30 June 2007, the Group received management and administrative fees in the total of HK\$248,000 (2006: HK\$248,000) from 2OK. The Group and HLD 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 2007, the Group received interest amounting to HK\$2,283,000 (2006: HK\$4,694,000) from 2OK. At 30 June 2007, the amount advanced by the Group totalling HK\$149,735,000 (at 31 December 2006: HK\$166,893,000) is in proportion to the Group's equity interest in 2OK and is unsecured and has no fixed repayment terms.
- (d) In December 2002, the Group appointed the Project Manager as the leasing and promotion agent of the commercial arcade of the MHV Property, Metro Harbour Plaza ("MHP"), for an initial term of two years at the remuneration of 5% of the monthly rental income from MHP 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 "Continuing Connected Transaction"). An amount of HK\$486,000 (2006: HK\$323,000) was charged to the Group for the six months ended 30 June 2007. As at 30 June 2007, an amount of HK\$488,000 (at 31 December 2006: HK\$426,000) remained unpaid and was included in trade and other payables.
- (e) In September 2004, the Group appointed a wholly-owned subsidiary of HLD 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\$250,000 (2006: HK\$518,000) was charged to the Group for the period ended 30 June 2007. As at 30 June 2007, an amount of HK\$685,000 (at 31 December 2006: HK\$435,000) remained unpaid and was included in trade and other payables.

19. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

- (f) In September 2004, the Group appointed another wholly-owned subsidiary of HLD 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. During the six months ended 30 June 2007, the main contractor did not charge the Group as the construction work was completed in 2006. In accordance with the contract entered into with the Group, an amount of HK\$31,814,000, of which HK\$2,371,000 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 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 2007, an amount of HK\$14,146,000 (at 31 December 2006: HK\$16,844,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.
- (g) In May 2006, the Group appointed a wholly-owned subsidiary of HLD 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\$3,033,000. In accordance with the contract entered into with the Group, an amount of HK\$2,000,000 (2006: HK\$NIL), of which HK\$950,000 (2006: HK\$NIL) being cost of work carried out by the project manager or the connected persons (as defined in the Listing Rules) of the Company and HK\$1,050,000 (2006: HK\$NIL) being the 1% fee, was charged by the project manager for the period ended 30 June 2007 for the development of the TKT Property. As at 30 June 2007, an amount of HK\$4,200,000 (at 31 December 2006: HK\$2,200,000) remained unpaid and was included in trade and other payables.
- (h) In May 2006, the Group also appointed another wholly-owned subsidiary of HLD 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\$61,126,000 (2006: HK\$9,436,000), of which HK\$5,647,000 (2006: 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 2007 for the superstructure work of the development of the TKT Property. As at 30 June 2007, an amount of HK\$21,570,000 (at 31 December 2006: HK\$13,761,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.



19. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

- (i) In September 2006, the Group as landlord entered into a Lease Agreement with a wholly-owned subsidiary of HLD as tenant. Pursuant to the Lease Agreement, the tenant agreed to take the lease of certain shops and spaces of MHP for a term of three years commencing from 1 July 2006 at a monthly rental of HK\$357,000 and other ancillary expenses and a turnover rent of 7% (if any) of annual gross turnover of the tenant's business conducted over HK\$142,241,000 which shall be payable monthly in arrears.

Pursuant to the Lease Agreement, the Group also entered into (i) a Wall Signage Licence Agreement for six external wall signages at MHP; and (ii) an Entrance Signage Licence Agreement for four signages at the entrances of MHP. Total annual licence fee payable under the Wall Signage Agreement and the Entrance Signage Licence Agreement is HK\$72,000 and HK\$24,000 respectively. Payments under the Licence Agreements are to be made in the form of cash. Each of the Licence Agreements is for a fixed term of 3 years commencing from 1 July 2006 and ending on 30 June 2009.

- (j) In September 2006, the Group as landlord and a wholly-owned subsidiary of HLD as tenant entered into a Sales Office Lease Agreement. Pursuant to the Sales Office Lease Agreement, the tenant agreed to take certain shops and spaces of MHP for a term of two years commencing from 22 November 2006 at a monthly rental of HK\$201,000 and other ancillary expenses.

The annual value of the aforementioned lease and licence was subjected to certain annual cap.

During the six month ended 30 June 2007 an amount of HK\$6,535,000 (2006: HK\$NIL), being aggregate rental and fees receivable under the aforementioned lease and licence mentioned in notes 19(i) and (j), was credited to the Group.

- (k) Pursuant to the ordinary resolution passed at the extraordinary general meeting held on 20 December 2006, a conditional project management agreement ("PMA") and a conditional prime cost contract ("PCC") in relation to the development of No. 6 Cho Yuen Street, Yau Tong, Kowloon, Hong Kong (the "Yau Tong Property"), both executed in November 2006, were approved by the independent shareholders of the Company.

Pursuant to the PMA, the Group appointed a wholly-owned subsidiary of HLD as the project and sales manager for the Yau Tong Property for a term of three years commencing from 1 January 2007 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 Yau Tong Property (but excluding those sale effected by a third party sales agent) and other ancillary fees for supplementary services, subject to the total annual ceiling of the respective years.

19. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

Pursuant to PCC, the Group also appointed another wholly-owned subsidiary of HLD as the main contractor for a fee of 5% on all works relating to the development of the Yau Tong 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 the respective years.

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

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.

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation. Further details are disclosed in Note 2.

21. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2007

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 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 the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the accounts:

**Effective for accounting period
beginning on or after**

HKFRS 8, Operating segments

1 January 2009



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

INTRODUCTION

We have reviewed the interim financial report set out on pages 9 to 29 which comprises the consolidated balance sheet of Hong Kong Ferry (Holdings) Company Limited as of 30 June 2007 and the related consolidated statements of income, and changes in equity and condensed consolidated statement of cash flows for the 6 month period then ended and explanatory notes. 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 directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2007 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

KPMG

Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

12 September 2007



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