HONG KONG FERRY (HOLDINGS) CO. LTD.

香 港 小 輪 (集 團) 有 限 公 司

(Stock code 股份代號：50)

2007

Annual Report 年報

5 consecutive years

商界展關懷

caringcompany 2003-08

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香港社會服務聯會頒發

HONG KONG FERRY (HOLDINGS) CO. LTD.

Annual Report 2007

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CORPORATE INFORMATION

BOARD OF DIRECTORS

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

GROUP GENERAL MANAGER

Dr. Ho Chi Shing, David

COMPANY SECRETARY

Mr. Yuen Wai Kuen, Peter

QUALIFIED ACCOUNTANT

Mr. Tse Chuen Chi, Pollux

AUDITORS

KPMG

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Mizuho Corporate Bank, Limited
The Hongkong and Shanghai Banking Corporation Limited
The Bank of Tokyo-Mitsubishi UFJ, Ltd

REGISTERED OFFICE

98 Tam Kon Shan Road
Ngau Kok Wan
North Tsing Yi
New Territories
Hong Kong

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HONG KONG STOCK EXCHANGE STOCK CODE

00050

SHARE REGISTRARS

Tricor Standard Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

DIRECTORS' & SENIOR MANAGEMENT'S PROFILE

DIRECTORS' PROFILE

MR. LAM KO YIN, COLIN *(CHAIRMAN)*

Mr. Lam Ko Yin, Colin, *BSc(Hon), ACIB, MBIM, FCILT*, aged 56, appointed on 1 July 1986, is the Chairman of the Company. Mr. Lam has over 34 years' experience in banking and property development. He is also the Vice-Chairman of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited, a Director of The Hong Kong and China Gas Company Limited, Miramar Hotel and Investment Company, Limited, Wiselin Investment Limited ("Wiselin"), Max-mercan Investment Limited ("Max-mercan"), Camay Investment Limited ("Camay"), Henderson Development Limited ("Henderson Development"), Graf Investment Limited ("Graf"), Mount Sherpa Limited ("Mount"), Paillard Investment Limited ("Paillard"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"). Henderson Land, Wiselin, Max-mercan, Camay, Henderson Development, Graf, Mount, Paillard, Hopkins, Rimmer and Riddick have discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company. Mr. Lam is a Director of The University of Hong Kong Foundation for Educational Development and Research Limited and a member of the University Court of the University of Hong Kong.

MR. LI NING

Mr. Li Ning, *BSc, MBA*, aged 51, appointed on 20 October 1989, is an Executive Director of the Company. He is also an Executive Director of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited. Henderson Land has discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company. Mr. Li is the son-in-law of Dr. Lee Shau Kee, a Director of the Company.

MR. AU SIU KEE, ALEXANDER

Mr. Au Siu Kee, Alexander, *OBE, ACA, FCCA, FCPA, FCIB, FHKIB*, aged 61, was appointed as an Independent Non-Executive Director on 17 January 2005 and re-designated as a Non-Executive Director of the Company on 7 November 2005. Mr. Au was a well-known banker in Hong Kong and had more than 32 years' experience in local and international banking business, having been the Chief Executive of Hang Seng Bank Limited (from October 1993 to March 1998) and of Oversea-Chinese Banking Corporation Limited in Singapore (from September 1998 to April 2002). He is currently an executive director and the chief financial officer of Henderson Land Development Company Limited ("Henderson Land"), an independent non-executive Director of Wheelock and Company Limited and a non-executive director of Miramar Hotel and Investment Company, Limited. He is also a member of the Council of the Hong Kong University of Science and Technology. Henderson Land has discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company.

MR. LAU YUM CHUEN, EDDIE

Mr. Lau Yum Chuen, Eddie, aged 61, appointed on 5 May 1988, is a Non-Executive Director of the Company. He has over 36 years of experience in banking, finance and investment. He is also an Executive Director of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited and a Director of Miramar Hotel and Investment Company, Limited. Henderson Land has discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company.

DR. THE HON. LEE SHAU KEE

Dr. the Hon. Lee Shau Kee, *GBM, DBA(Hon), DSSc(Hon), LLD(Hon)*, aged 79, appointed on 15 December 1981, is a Non-Executive Director of the Company. He has been engaged in property development in Hong Kong for more than 50 years. He is the founder and the Chairman and Managing Director of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited. He is also the Chairman of The Hong Kong and China Gas Company Limited and Miramar Hotel and Investment Company, Limited, the Vice-Chairman of Sun Hung Kai Properties Limited, as well as a Director of The Bank of East Asia, Limited, Pataca Enterprises Limited ("Pataca"), Wiselin Investment Limited ("Wiselin"), Max-mercan Investment Limited ("Max-mercan"), Henderson Development Limited ("Henderson Development"), Graf Investment Limited ("Graf"), Mount Sherpa Limited ("Mount"), Paillard Investment Limited ("Paillard"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"). Henderson Land, Pataca, Wiselin, Max-mercan, Henderson Development, Graf, Mount, Paillard, Hopkins, Rimmer and Riddick have discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company. Dr. Lee is the father-in-law of Mr. Li Ning, a Director of the Company.

MR. LEUNG HAY MAN

Mr. Leung Hay Man, *FRICS, FHKIS, FCIArb, MCILT*, aged 73, appointed on 15 December 1981, is a Non-Executive Director of the Company. Mr. Leung is also a Director of Henderson Land Development Company Limited ("Henderson Land"), Henderson Investment Limited and The Hong Kong and China Gas Company Limited. Henderson Land has discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company.

MR. WONG MAN KONG, PETER

Mr. Wong Man Kong, Peter, *BBS, JP, BSc, FCILT, MRINA*, aged 59, appointed on 9 March 1992, is a Non-Executive Director of the Company. Mr. Wong was the President & Chief Executive Officer of the Company from 1992 to 1995. Mr. Wong has over 30 years of industrial, commercial and public service experience, having served as a Director of Kowloon-Canton Railway Corporation and a member in Hong Kong Government's Transport Advisory Board, Industry Development Board and Trade Advisory Board. He was also a member of the Hong Kong Special Administrative Region Preparatory Committee in 1996/1997 and a member of the Election Committee of the Second Chief Executive of the Hong Kong Special Administrative Region in 2002. He is serving as a deputy to the 10th National People's Congress of the People's Republic of China. Mr. Wong is the Chairman of M.K. Corporation Limited. Currently he holds directorship of Glorious Sun Enterprises Limited, China Travel International Investment Hong Kong Limited, Chinney Investments Limited, Sun Hung Kai & Company Limited, Sino Hotels (Holdings) Limited, Far East Consortium International Limited and New Times Group Holdings Limited.

MR. HO HAU CHONG, NORMAN

Mr. Ho Hau Chong, Norman, *BA, ACA, FCPA*, aged 52, appointed on 28 March 1995, is an Independent Non-Executive Director of the Company. Mr. Ho is an Executive Director of Honorway Investments Limited and Tak Hung (Holding) Company Limited and has over 20 years of experience in management and property development. He is also a Director of Lee Hing Development Limited, CITIC Pacific Limited, Miramar Hotel and Investment Company, Limited, Starlight International Holdings Limited, Taifook Securities Group Limited, New World Mobile Holdings Limited and Shun Tak Holdings Limited.

MR. KAN YUET LOONG, MICHAEL

Mr. Kan Yuet Loong, Michael, *JP, BSc, MBA*, aged 73, appointed on 6 April 1974, is an Independent Non-Executive Director of the Company. He has over 41 years' experience in banking and investment.

MR. WU KING CHEONG

Mr. Wu King Cheong, *BBS, JP*, aged 57, was appointed as an Independent Non-Executive Director of the Company on 17 January 2005. He is a Vice Chairman of the Chinese General Chamber of Commerce, Member of Hong Kong Housing Authority, the Honorary Permanent President of the Chinese Gold & Silver Exchange Society and the Permanent Honorary President of the Hong Kong Stockbrokers Association. He is an executive director of Lee Cheong Gold Dealers Ltd. Mr. Wu is currently an independent non-executive director of Yau Lee Holdings Limited, Chevalier Pacific Holdings Limited, Henderson Land Development Company Limited ("Henderson Land"), Henderson Investment Limited and Miramar Hotel and Investment Company, Limited, all of which are companies listed on The Stock Exchange of Hong Kong Limited. Henderson Land has discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company.

SENIOR MANAGEMENT'S PROFILE

The Senior Management of the Company is as follows:

Dr. Ho Chi Shing, David	Group General Manager and General Manager – Ferry and Property Operations
Ms. Chung Lai Kwok, Elaine	Director of Business Development
Mr. Leung Shu Keung, Brian	Internal Audit Manager
Mr. Tse Chuen Chi, Pollux	Chief Financial Officer
Mr. Wong Kam On, Frandie	General Manager – Travel & Hotel Operations
Mr. Yuen Chi Ming, Rayman	Deputy General Manager – Ferry Operation
Mr. Yuen Wai Kuen, Peter	Company Secretary

Ir Dr Ho Chi Shing, David, *DBA, FCILT, FCIM, FHKIoD, MHKIE, MPIA, MIHT, MCIArb*, aged 51, joined the Company in 1981 and has been the Group General Manager since 1996. He had over 27 years of experience in ferry operations. Dr. Ho is currently the Chairman of the Logistics Industry Training Advisory Committee, a Director of The Shipowners' Mutual Protection & Indemnity Association (Luxemburg), a Council Member of the Chartered Institute of Logistics and Transport in Hong Kong and the Chairman of the Safety Committee of Outward Bound® Hong Kong. Dr. Ho is extensively involved on the Vocational Training Council and was awarded VTC Honorary Fellow Award in 2007. He serves as the Chairman of the Transport Logistics Training Board, the Chairman of the Discipline Advisory Board (Business Administration), and a member of the Committee on Management and Supervisory Training. Dr. Ho is also a General Committee Member and the Chairman of the Transport and Logistics Services Council (Group 21) of the Federation of Hong Kong Industries. In addition to the above, he is an adjunct lecturer of the Faculty of Business, City University of Hong Kong.

Ms. Chung Lai Kwok, Elaine, *BBS, MBA, MBS*, aged 62, joined the Company as a Director of Business Development Department in April 2004. Ms. Chung was trained in economics at the University of Hong Kong, business administration at the Harvard Business School and China studies at the Tsinghua University. Prior to joining the Company, she has worked for the Government of the Hong Kong Special Administrative Region for over 30 years and took up a number of senior posts, including as Director of Urban Services. She was awarded the Bronze Bauhinia Star in October 2004 by the SAR Government. In her spare time, Ms. Chung did volunteer work for many community organizations. She served as Co-Chairman of the Community Chest's Environmental Committee and as a honorary consultant to the building of the Big Buddha on Lantau and the redevelopment of Chi Lin Nunnery. She is a member of the Governing Board of the Buddhist Hospital and a director of the Buddhist Mau Fung Memorial College.

Mr. Leung Shu Keung, Brian, *BA, CIA, CFE, CBM, PgD*, aged 46, is the Internal Audit Manager of the Company. He joined the Company in 1992 and has over 19 years of experience in accounting, auditing and management assurance.

Mr. Tse Chuen Chi, Pollux, *MBA, CPA, AAIA, MHKSI*, aged 54, has been the Chief Financial Officer of the Company since 1992. Mr. Tse has over 27 years of experience in accounting, corporate finance and corporate development in Hong Kong and overseas. He is also the Qualified Accountant of the Company.

Mr. Wong Kam On, Frandie, *CHA, CRDE, MBIM, MIMGT, MHCIMA*, aged 54, joined the Company in 1993. He has been the General Manager of the Hotel Operation since 1996. He has over 31 years of extensive experience in hotel management. Mr. Wong was also appointed as the General Manager of the Travel Operation on 1 June 2007.

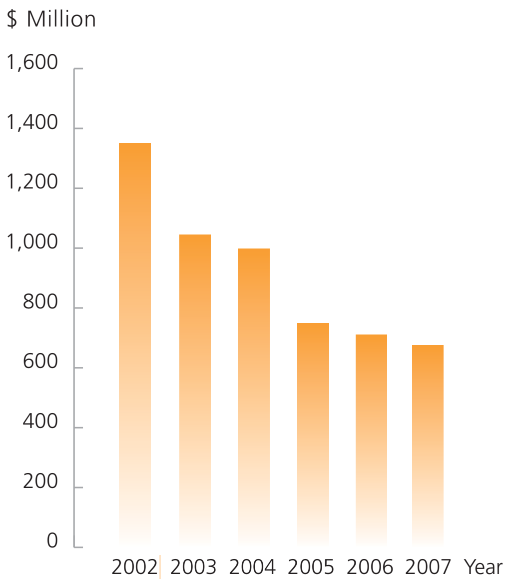
Mr. Yuen Chi Ming, Rayman, *BBus, PD, PgD, CMILT*, aged 45, worked in a number of public utility companies before joining the Company in 1989. He has been the Deputy General Manager of the Ferry Operation since 1997. From 2003 to 2007, Mr. Yuen served as the General Manager of the Travel Operation. Mr. Yuen is a member of the Maritime Services Training Board of the Vocational Training Council.

Mr. Yuen Wai Kuen, Peter, *BA, MBA, ACIS, ACS,* aged 49, has joined the Company in January 2005 and been appointed Secretary of the Company on 1 April 2005. Mr. Yuen has over 20 years of experience in company secretarial, corporate advisory and general management.

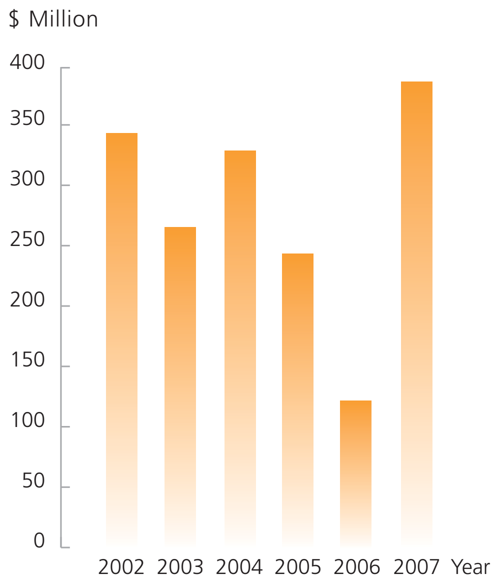
FINANCIAL HIGHLIGHTS

		2007	2006	Variance
Turnover	$M	**673**	708	-4.9%
Profit attributable to shareholders	$M	**385**	122	215.6%
Dividends	$M	**128**	118	8.5%
Shareholders' funds	$M	**3,683**	3,386	8.8%
Basic earnings per share	Cent	**107.9**	34.2	215.5%
Dividend per share	Cent	**36.0**	33.0	9.1%
Dividend cover	Time	**3.0**	1.0	200.0%
Return on equity	%	**10.4**	3.6	188.9%
Net assets per share	$	**10.3**	9.5	8.4%

Group Turnover



Profit attributable to shareholders



I have pleasure to present to the shareholders my report on the operations of the Group for the year.

BUSINESS RESULTS

The Group's consolidated profit after taxation for the year ended 31 December 2007 amounted to HK$385 million, representing an increase of 216% from the profit after taxation of HK$122 million in 2006. The earnings per share were 108 cents for the year as compared to 34.2 cents in the previous year.

DIVIDENDS

The Board of Directors recommended a final dividend of 26 cents (2006: 24 cents) per share. Subject to the shareholders' approval at the annual general meeting to be held on Wednesday, 7 May 2008, the final dividend will be paid on or about Friday, 16 May 2008 to equity shareholders whose names appear on the register of members at the close of business on Wednesday, 30 April 2008. This dividend, together with the interim dividend of 10 cents per share already paid, will make a total distribution of 36 cents for the full year.

BUSINESS REVIEW

During the year, local economy showed sustained growth with low unemployment rate and the stock market was buoyant. The residential property performed well and rentals of A-grade office and shops demonstrated strong growth.

The sale of the remaining residential units of Metro Harbour View and MetroRegalia together with returns on financial investment brought promising profit to the Group during the period. With the opening of the shops of MetroRegalia, the rental income also increased. The results of other businesses such as Shipyard, Hotel and Harbour Cruise recorded satisfactory growth.

51 Tong Mi Road

Property Development and Investment Operations

8 Fuk Lee Street ("Metro Harbour View")

During the year, the Group recorded an operating profit of approximately HK$61.8 million from the sale of 73 residential units of Metro Harbour View. The number of unsold units was 6. Rental income from the commercial arcade, Metro Harbour Plaza, amounted to approximately HK$31 million for the year. The occupancy rate at the end of the year was approximately 96%.

51 Tong Mi Road ("MetroRegalia")

During the year, the Group recorded a profit of approximately HK$44 million from the sale of 47 units with 12 units unsold. Rental income derived from the shops of MetroRegalia amounted to approximately HK$800,000 with an occupancy rate of 37%. The occupancy rate would be 96% after taking into account of the committed tenancies as at the end of the year.

83 Sycamore Street ("Shining Heights") [formerly 222 Tai Kok Tsui Road]

The superstructure has been substantially completed and will be ready for occupancy after completing interior decoration by the end of the year. The site, with a total gross floor area of approximately 320,000 sq. ft., comprises approximately 270,000 sq. ft. for residential use and 50,000 sq. ft. for non-residential use, and will be one of the tallest residential-cum-commercial property at West Kowloon. The project was awarded with the Certificate for Considerate Contractors Site Award Scheme last year.

83 Sycamore Street

6 Cho Yuen Street

6 Cho Yuen Street, Yau Tong

The construction works of the site are in good progress. The total gross floor area will be approximately 165,000 sq. ft., comprising approximately 140,000 sq. ft. for residential use and 25,000 sq. ft. for non-residential use. It is scheduled to be completed in early 2009.

Ferry, Shipyard and Related Operations

With the increase in the number of visitors from mainland China, the business of the harbour cruise operations showed an upward trend since the second half of the year and the turnover recorded an increase of 19% as compared to last year. The business of the Shipyard has been extended to refitting and maintenance of yachts. The turnover of the shipyard operations showed a rise of 40%. The Ferry, Shipyard and Related Operations recorded a profit of HK$4.4 million before taking into account on impairment loss over the evaluated shipyard assets of HK$34.7 million, legal fee of HK$13 million and additional provision of HK$60 million for the Central Pier Litigation as detailed below.

Hong Kong Shipyard

Travel and Hotel Operations

The Hotel Operation recorded a surplus of approximately HK$1.8 million this year. However, the Travel Operation recorded a deficit of HK$2.4 million.

Central Pier Litigation

In January 2007, the Group filed a Notice of Appeal against parts of the Judgment of the Court of First Instance, which was in favour of the Government. The appeal was heard in early March 2008 and judgment was handed down by the Court of Appeal on 12th March 2008. The Group was partly successful in the appeal. However, until a further trial takes place in November 2008, final liability and quantum cannot be determined. In this context, the solicitors acting for the Group are of the opinion that in addition to the HK$100 million provision made last year, a further provision of HK$60 million be made for the year.

PROSPECTS

The subprime crisis in the United States has caused substantial losses, probably in the region of US$400 billion, to the global financial industry. Banks suffered, along with securities firms, insurers, hedge funds, etc. The capital adequacy ratios of some banks are impaired, and therefore their lending capabilities. Lending standards of banks have since been tightened. Deleveraging and the tight supply of credit will slow global growth, with the U.S. on the verge of recession. Notwithstanding the aggressive rate cutting by the Federal Reserve, nervousness in the industry and hike in credit spreads persist. It remains to be seen whether the worst is over.

Amidst these global economic uncertainties, the Hong Kong Government has proceeded to alleviate the problem by returning the wealth to the people, making use of its high fiscal surplus. In the mainland, austerity program is being pursued to cool the overheated economy. The overall shape of the economy is still sound and the main challenge is to contain inflation. Whilst Hong Kong and the mainland stock markets will continue to be very volatile, the two economies should outperform the U.S.. Your Group will avail the opportunity to make use of its sizeable cash to bargain hunt in a down market and invest in property and financial investments which are beneficial to the shareholders.

The expected sale of the residential units of "Shining Heights" in the fourth quarter of 2008 together with the sale of the remaining residential units in Metro Harbour View and MetroRegalia, will be the main source of property income of the Group for the coming year. In the absence of unforeseen circumstances, the Group will achieve satisfactory results in the coming financial year.

ACKNOWLEDGEMENT

On behalf of the shareholders and the Board, I would like to take this opportunity to express appreciation to all our staff for their dedication and hard work during the year.

Colin K. Y. Lam
Chairman

Hong Kong, 14 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

The following comments should be read in conjunction with the Audited Consolidated Accounts of the Company and the related notes to the accounts.

REVIEW OF RESULTS

The Group's turnover for the year amounted to approximately HK$673 million, representing a decrease of 5% when compared to the previous year. This was mainly attributed to the decrease in sales of the residential units of Metro Harbour View.

Despite a further provision of HK$60 million made in the accounts in relation to the Central Pier litigation, profit from operations recorded an increase of 216% to approximately HK$385 million compared to the previous year.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As of 31 December 2007, shareholders' fund of the Group showed an increase of 9% as compared to the previous year and amounted to approximately HK$3,683 million. The increase was mainly due to the net effects of the profit from the sale of residential units of Metro Harbour View and MetroRegalia for the year, realised and unrealised gains on derivative financial instruments, provision for litigation and the payment of dividends.

There was no change as to the capital structure of the Group during the year. As of 31 December 2007, the Group had no borrowings. Funding for the Group's activities in the year under review was mainly generated from the sale of residential units of Metro Harbour View and MetroRegalia.

During the year, there was no material acquisition and disposal of subsidiary and associate. A net repayment of approximately HK$22 million was received from an associate who provides mortgage loans to buyers of residential units of Metro Harbour View.

Current assets of the Group were recorded at approximately HK$2,699 million as compared to the current liabilities of approximately HK$391 million as of 31 December 2007. Current ratio of the Group had been decreased to 6.9, mainly attributed to the provision for litigation in the accounts.

GEARING RATIO AND FINANCIAL MANAGEMENT

As there was no borrowings as at 31 December 2007, no gearing ratio, which is calculated on the basis of bank borrowing as a ratio of the Group's shareholders' fund, was shown. Assets of the Group had not been charged to any third parties in the year 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 Dollar. Certain equity-linked notes are denominated in United States dollar and Australian dollar, and the incidental foreign exchange exposure are kept under periodic review. The management will consider appropriate hedging measures, if necessary.

EMPLOYEES

As at 31 December 2007, the number of employees of the Group stood at about 380 (2006: 370). The remuneration packages to employees were commensurable to the market trend and levels of pay in similar industries. A discretionary year-end bonus was paid to employees based on individual performance. Other benefits to employees include medical insurance, retirement scheme, training programmes and educational subsidies. Total employees' costs for the year amounted to approximately HK$76 million, which is commensurate with that recorded in the previous year.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited accounts for the year ended 31 December 2007.

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 and securities investment.

The analysis 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:

	Percentage of the Group's total purchases
The largest supplier	26.2%
Five largest suppliers in aggregate	58%

Henderson Land Development Company Limited ("HLD"), through its subsidiaries, was one of the Group's five largest suppliers during the financial year. As at 31 December 2007, HLD, a substantial shareholder of the Company (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") beneficially owned approximately 31.36% of the entire issued share capital 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 2007 are set out in note 14 to the accounts.

ACCOUNTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2007, 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 34 to 104.

An interim dividend of 10 cents (2006: 9 cents) per share was paid on 18 October 2007. The directors now recommend a final dividend of 26 cents (2006: 24 cents) per share. Subject to the shareholders' approval at the annual general meeting to be held on Wednesday, 7 May 2008, the final dividend will be paid on or about Friday, 16 May 2008 to shareholders whose names appear on the register of members at the close of business on Wednesday, 30 April 2008.

CHARITABLE DONATIONS

The Group's charitable donations during the year amounted to HK$19,893 (2006: HK$9,593).

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 25 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

In accordance with Article 103(A) of the Company's Articles of Association, Mr. Au Siu Kee, Alexander, Mr. Leung Hay Man, Mr. Kan Yuet Loong, Michael and Mr. Wu King Cheong shall retire at the forthcoming Annual General Meeting, and, being eligible, Mr. Au Siu Kee, Alexander, Mr. Leung Hay Man and Mr. Wu King Cheong will offer themselves for re-election at the forthcoming Annual General Meeting. However, Mr. Kan Yuet Loong, Michael will not offer himself for re-election at the forthcoming Annual General Meeting due to the reason of retirement.

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.

DISCLOSURE OF INTERESTS

Directors' Interests in Securities

As at 31 December 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 *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 21)*	–	119,531,310	33.55%
Mr. Leung Hay Man	2,250	–	–	2,250	–
Mr. Li Ning	–	–	111,732,090 *(Note 5 on page 21)*	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

Notes:

1. 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.

2. 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 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 2007.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, 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
Substantial Shareholders		
Henderson Land Development Company 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%
Camay Investment Limited *(Note 2)*	41,532,090	11.66%
Henderson Development Limited *(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.

1. 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.

2. 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 31 December 2007.

Save as disclosed, as at 31 December 2007, 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 26 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 2007 are set out in note 22 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 PLANS

The Group's Hong Kong employees participate either in a defined benefit retirement plan or a Mandatory Provident Fund scheme. Particulars of these retirement plans 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 30 to the accounts.

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 23 to 31.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2007.

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, 14 March 2008

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance. The Board of Directors ("the Board") is devoted to the ongoing enhancement of the corporate governance practices of the Company as the Board believes that good corporate governance practices are fundamental to the effective operation of a company and enhancement of shareholders' value as a whole.

The corporate governance standard of the Company is formulated in compliance with the provisions of the Code on Corporate Governance Practice (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Board will continue to review and update the practices from time to time to ensure compliance with the legal and commercial standards. In the opinion of the Board, the Company has complied with the CG Code during the year ended 31 December 2007.

BOARD OF DIRECTORS

The Board comprises ten directors including two executive directors, five non-executive directors and three independent non-executive directors. Their biographical details are set out on pages 3 to 7 of this annual report. The names of the directors of the Company are as follows:

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

The functions reserved to the Board are basically provided by the Articles of Association of the Company and the Board will from time to time delegate the functions to the management whenever required. The Board is primarily responsible for the strategic planning and policy formulation of the Company. Several material matters are reserved for the Board's considerations and/or decisions including, among other things, overall strategy of the Company; business plans; annual financial budgets; annual and interim results and reports; dividend policy and payments; investment plans; disposal proposals; appointment of directors and oversight of management. The management of the Company is responsible for the day-to-day operations of the Company and implementation of strategies adopted by the Board.

The Board meets from time to time according to the business requirement of the Company. During the year, four board meetings were held to review financial results and business development. In order to meet tight time constraint and make timely decision for the Company's policies and businesses, Board approvals have also been sought by circulation of resolutions in writing from time to time in accordance with the Articles of Association of the Company. The Company Secretary shall attend all regular board meetings to advise on statutory compliance and corporate governance, when necessary.

Dr. Lee Shau Kee and Mr. Li Ning are deemed as having substantial interests in the issued share capital of the Company under the Securities and Futures Ordinance. Dr. Lee is the father-in-law of Mr. Li Ning. Dr. Lee Shau Kee, Messrs. Lam Ko Yin, Colin, Li Ning, Leung Hay Man, Lau Yum Chuen, Eddie and Wu King Cheong are directors of Henderson Land Development Company Limited ("Henderson Land"). Mr. Wu King Cheong is the independent non-executive director of Henderson Land. Mr. Au Siu Kee, Alexander is an executive director of Henderson Land. Henderson Land has discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company.

Save aforesaid, there is no financial, business, family or other material or relevant relationship among the directors.

CHAIRMAN AND GROUP GENERAL MANAGER

The roles of the Chairman and the Group General Manager of the Company are taken by two separate individuals who are not related to each other. The separation of the roles of the Chairman and the Group General Manager enables a clear division of responsibilities between the Board Chairman and the Group General Manager and also provide checks and balances effect.

The role of the Chairman of the Board is taken by Mr. Lam Ko Yin, Colin while the role of the Group General Manager (whose status is equivalent to chief executive officer for the purpose of the CG Code but not otherwise) is taken by Dr. Ho Chi Shing, David. The key function of the Chairman is the management of the Board whereas the key function of the Group General Manager is the day-to-day management of the Company's business.

NON-EXECUTIVE DIRECTORS

All non-executive directors (including independent non-executive directors) of the Company have been appointed for a specific term to 31 December 2010. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the Company's Articles of Association.

In accordance with the Articles of Association of the Company, 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.

BOARD COMMITTEES

The Board has established four board committees, namely, Executive Committee, Audit Committee, Remuneration Committee and Investment Committee to oversee particular aspects of the Company's affairs. Each committee has been delegated with certain functions of the Board.

Audit Committee

The Audit Committee comprises three independent non-executive directors, namely, Messrs. Kan Yuet Loong, Michael (Chairman of the Audit Committee), Ho Hau Chong, Norman and Wu King Cheong.

The Audit Committee is primarily responsible for review of the annual and interim accounts and oversight of the Company's financial reporting system and internal control and risk management of the Company.

For the year ended 31 December 2007, two audit committee meetings were held. During the meetings, the Audit Committee members had reviewed the annual results and its corresponding accounts for the year 2006, the Annual Internal Audit Report for 2006, Continuing Connected Transactions, the interim results and its corresponding accounts for the period ended 30 June 2007, the Interim Review of Audit Assignments for 2007, the audit fees for 2007 and the work of the Company's internal audit department and assessed the effectiveness of the Company's systems of risk management and internal control. The Audit Committee also oversaw internal control and risk management of the Group and discussed with the external auditors on financial reporting and compliance. The external auditors were invited to attend the meetings of Audit Committee to present their reports and reviews.

Remuneration Committee

The Remuneration Committee consists of two executive directors namely Messrs. Lam Ko Yin, Colin and Li Ning and three independent non-executive directors, namely, Messrs. Kan Yuet Loong, Michael (Chairman of the Remuneration Committee), Ho Hau Chong, Norman and Wu King Cheong.

The Remuneration Committee is responsible for reviewing the policy and structure for the remuneration of all directors and senior management of the Company and establishment of a formal procedure for developing policy on such remuneration. The remuneration of the directors and senior management is determined by reference to the skill, knowledge and the tasks assigned and also to the individual performance and the overall profitability of the Company as a whole. In determining the remuneration package, the Committee will also obtain relevant information from external source and consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, etc.

For the year ended 31 December 2007, one remuneration committee meeting was held. During the meeting, the Remuneration Committee members reviewed and determined the remuneration package of the senior management and made recommendations on the fees of all the directors of the Company for the financial year ended 31 December 2007.

The terms of reference of the Audit Committee and Remuneration Committee are available on the Company's website at www.hkf.com.

AUDITORS' REMUNERATION

Apart from carrying out the annual audit, KPMG, being the auditors of the Company carried out the review on the interim reports of the Company. The fee of the annual audit is HK$1,140,000 whereas the fee for the interim review is HK$231,000. Save the interim review, KPMG did not provide any substantial non-audit services to the Company.

FINANCIAL REPORTING

The Directors are responsible for the causing the preparation of the accounts for the financial period which give a true and fair view of the financial results of the Company in accordance with the statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the accounts of the Company is set out in the Auditors' Report on pages 32 to 33.

INTERNAL CONTROLS

The Company maintains a comprehensive and effective internal control system on income and capital and revenue expenditures. As part of internal audit, the Company has its own internal audit department and maintained a system of internal control, with manuals guiding internal controls on business operation. The Company will review the internal control manuals from time to time to meet with the changing business operation environment.

For the year ended 31 December 2007, the internal audit department has conducted a review of the effectiveness of the system of internal control on the areas of financial, operational and compliance controls and risk management functions.

The members of the Risk Management Committee met in February 2007. The senior management and the Internal Audit Manager had identified the relevant risks of the operational units and the control strategies of the Company and incorporated significant risk management and control strategies in the internal audit reports for the review of the Audit Committee members.

The Internal Audit Manager, who is independent to the Company's daily operations, reports directly to the Audit Committee and Group General Manager and regularly conducts audits of the practices, procedures, expenditures and internal control for business operations and corporate functions of the Company.

DIRECTORS' ATTENDANCE AT BOARD, AUDIT AND REMUNERATION COMMITTEES' MEETINGS

Details of the individual attendance of each director at meetings of the Board, the Audit Committee and the Remuneration Committee during the year are set out in the following table:

	No. of meetings attended/No. of meetings held		
	Board	Audit Committee	Remuneration Committee
Executive directors			
Mr. Lam Ko Yin, Colin	4/4	N/A	1/1
Mr. Li Ning	3/4	N/A	1/1
Non-executive directors			
Mr. Au Siu Kee, Alexander	3/4	N/A	N/A
Mr. Lau Yum Chuen, Eddie	4/4	N/A	N/A
Dr. Lee Shau Kee	2/4	N/A	N/A
Mr. Leung Hay Man	4/4	N/A	N/A
Mr. Wong Man Kong, Peter	2/4	N/A	N/A
Independent non-executive directors			
Mr. Ho Hau Chong, Norman	4/4	2/2	1/1
Mr. Kan Yuet Loong, Michael	3/4	2/2	1/1
Mr. Wu King Cheong	4/4	2/2	1/1

NOMINATION OF DIRECTORS

The Company does not have a nomination committee, and the power to nominate or appoint additional directors is vested in the Board in accordance with the Company's Articles of Association, in addition to the power of the shareholders to nominate any person to become a director of the Company in accordance with the Company's Articles of Association and the laws of Hong Kong.

The Board from time to time considers replenishing the composition of the Board whenever the Company requires to meet the business demand, opportunities and challenges and to comply with the laws and regulations. The nomination procedures basically follows Article 94 of the Articles of Association which empowers the Board from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. The Board will select and evaluate the balance of skills, qualification, knowledge and experience of the candidate to the directorship as may be required by the Company from time to time by such means as the Company may deems fit. The Board shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration his/her time devoted to the position.

During the year, there is no change in the composition of the Board.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received confirmation of independence from each of Messrs. Kan Yuet Loong, Michael, Ho Hau Chong, Norman and Wu King Cheong pursuant to Rule 3.13 of the Listing Rules.

The Board is of the view that during the year, the Company had maintained a sufficient number of independent non-executive directors and had an independent non-executive director with appropriate professional qualifications, or accounting or related financial management expertise.

The Board notes that Mr. Ho Hau Chong, Norman is an executive director of Miramar Hotel and Investment Company, Limited ("Miramar") and a director of Wealth Team Development Limited ("Wealth Team"), which is an indirect subsidiary of Henderson Land. Mr. Ho also has an indirect beneficial interests of 9.9% in all issued share capital of Wealth Team, but is not involved in the management and operation of Wealth Team. Miramar, Wealth Team and Henderson Land are connected persons of the Company under the Listing Rules. Save aforesaid, Mr. Ho has complied with other conditions set out in Rule 3.13 of the Listing Rules.

In view of the fact that Mr. Ho does not have any material interests in any principal business activity of and is not involved in any material business dealings with the Company, or any of its subsidiaries or with any connected persons of the Company, and that both the management and the operations of the Miramar group and the Group are totally independent from each other, the Board in good faith considers that the independence of Mr. Ho as an independent non-executive director of the Company is not in any way affected by his directorships in both Miramar and Wealth Team.

In conclusion, the Board considers Messrs. Kan Yuet Loong, Michael, Ho Hau Chong, Norman and Wu King Cheong as independent.

DIRECTORS' SECURITIES TRANSACTIONS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry, the Board confirmed that all directors of the Company have complied with the required standard as set out in the Model Code throughout the year ended 31 December 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.

INVESTOR RELATIONS AND SHAREHOLDER RIGHTS

The Group establish communication with shareholders through the publication of announcements, notices, circulars, interim and annual reports and in the Company's website at www.hkf.com.

The Company keeps the shareholders informed of the rights of shareholders to demand poll and poll procedure in all circulars in relation to shareholders meetings. The Chairman of the Board and the Chairman of other Board Committees, or in their absence, other members of the respective Committees, are available to answer questions at the shareholders' meetings.

CORPORATE SOCIAL RESPONSIBILITY

As a listed company, the Group values the importance of corporate social responsibility ("CSR") and its impact on the community. The Company integrates CSR elements in its business activities and participates in or encourages the staff to participate in the charitable activities to promote the good corporate citizenship in Hong Kong.

We care our employees

The Company recognizes that the staff is the valuable asset and human capital is important to the growth of the Company.

The Company provides staff training and sponsors personal development of staff to enhance their commercial and technical skills and expertise. In addition, we provide a safe working environment to staff of different trades.

The Company organized various functions for the staff and their families to promote team spirit and commitment in the Company.

We had organized two staff outings during the year. In April 2007, the employees had spent a wonderful day on Lantau Island. Our staff and their family members began the journey by riding Ngong Ping 360 from Tung Chung. After enjoying the magnificent views by the ride, our staff visited the Ngong Ping and Tai O fishing village.

In July 2007, the Company organized its first "Around the Island Cruise" for the employees and their family members. With overwhelming response, the Company had arranged for a re-run of the cruise in August 2007. The cruise promoted the awareness of the marvelous landscape of Hong Kong Island as well as the historic background of the scenes.

We love our Community

We have encouraged donation to the people in need by staff and our customers, e.g. supporting non-profit making organizations flag-selling events, joining events organized by the Community Chest; and placing the donation boxes in our travel outlets for donation by customers, etc.

As lined up by The Hong Kong Federation of Youth Groups (the "HKFYG"), we have given support to young people for running their new and small businesses by giving out some office furniture to them.

Our commitment on community service have been recognized by the Hong Kong Council of Social Service as a Caring Company for five consecutive years since 2003.

The Company actively participated in the community events. Throughout the year, the Company joined the "Rice Dumplings for the Community", jointly organized by Towngas and the Community Chest, to raise fund for various welfare organizations under the Community Chest.

In November 2007, the Group participated the biennial event "Hong Kong Harbour Day". We invited the 120 under-privileged children and their families from the HKFYG to embark on the vessel "Man On" to join the marine parade in Victoria Harbour.

We treasure our environment

For years, our Company aims to minimize the environmental impacts of our development projects by implementing an effective safety management system, compliance to statutory requirements, maintaining consciousness of environmental protection and being considerate to neighborhood and passers-by, etc. The construction sites of the Company at 51 Tong Mi Road and 83 Sycamore Street were awarded with Certificates for Considerate Contractors Site Award Scheme in 2006 and 2007 respectively.

We concern our products and services

The Company strives to provide quality products and services to our customers. By accomplishing this goal, we have obtained service awards such as Hong Kong Q-Mark awards and achieved international recognized standards like ISO 9000 standards. The Company continues to improve the quality of services of its various business sectors to meet with customers' demand in future.

REPORT OF THE AUDITORS

Independent auditor's report to the shareholders of
Hong Kong Ferry (Holdings) Company Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of Hong Kong Ferry (Holdings) Company Limited (the "Company") set out on pages 34 to 104, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE ACCOUNTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these accounts based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the group as at 31 December 2007 and of the group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

14 March 2008

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	3(a)	**673,318**	707,964
Cost of sales		**(415,566)**	(425,082)
		257,752	282,882
Other revenue	3(a) & 4	**42,056**	31,551
Other net income	4	**300,906**	10,473
Revaluation gains on investment properties	3(c) & 12	**14,589**	39,503
Selling and marketing expenses		**(24,279)**	(38,923)
Administrative expenses		**(54,457)**	(67,246)
Impairment losses in respect of fixed assets	3(d) & 12	**(34,704)**	–
Provision for litigation	29(a)	**(60,000)**	(100,000)
Other operating expenses		**(40,121)**	(42,934)
Profit from operations	3(b)	**401,742**	115,306
Share of profits of associates		**820**	260
Profit before taxation	5	**402,562**	115,566
Taxation	8(a)	**(18,040)**	6,141
Profit attributable to equity shareholders of the Company	3(b) & 9	**384,522**	121,707
Dividends payable to equity shareholders of the Company attributable to the year	10(a)	**128,258**	117,571
Basic earnings per share *(cents)*	11	**107.9**	34.2

The notes on pages 41 to 104 form part of these accounts.

CONSOLIDATED BALANCE SHEET

as at 31 December 2007

	Note	2007 HK$'000	2007 HK$'000	2006 HK$'000	2006 HK$'000
Non-current assets					
Fixed assets	*12*				
– Investment properties			**780,200**		756,900
– Other property, plant and equipment			**115,130**		142,379
– Interest in leasehold land			**54,501**		71,276
			949,831		970,555
Interest in associates	*15*		**151,868**		173,205
Properties under development					
– held for investment	*13*		**44,498**		36,801
Available-for-sale equity securities	*16*		**193,668**		159,618
Employee benefits assets	*17(a)*		**8,590**		6,610
Deferred tax assets	*24(c)*		**56,276**		43,466
			1,404,731		1,390,255
Current assets					
Inventories	*18(a)*	**1,022,040**		963,243	
Trade and other receivables	*19*	**164,598**		136,691	
Derivative financial instruments	*20*	**638,470**		31,972	
Tax recoverable	*24(a)*	**1,900**		1,693	
Cash and cash equivalents	*21*	**872,106**		1,178,919	
		2,699,114		2,312,518	
Current liabilities					
Bank overdraft	*22*	**287**		200	
Trade and other payables	*23*	**191,920**		178,782	
Provision for litigation	*29(a)*	**160,000**		100,000	
Tax payable	*24(b)*	**38,478**		12,259	
		390,685		291,241	
Net current assets			**2,308,429**		2,021,277
Total assets less current liabilities			**3,713,160**		3,411,532
Non-current liabilities					
Deferred tax liabilities	*24(c)*		**(29,922)**		(25,709)
NET ASSETS			**3,683,238**		3,385,823

CONSOLIDATED BALANCE SHEET (Continued)

as at 31 December 2007

		2007		2006	
	Note	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*
CAPITAL AND RESERVES					
Share capital	*25*		**356,274**		356,274
Reserves	*26*		**3,326,964**		3,029,549
TOTAL EQUITY			**3,683,238**		3,385,823

Approved and authorised for issue by the board of directors on 14 March 2008.

Colin K.Y. Lam
Chairman

Li Ning
Director

The notes on pages 41 to 104 form part of these accounts.

BALANCE SHEET

as at 31 December 2007

	Note	2007 HK$'000	2007 HK$'000	2006 HK$'000	2006 HK$'000
Non-current assets					
Interest in subsidiaries	*14*		**4,224,157**		4,185,507
Interest in associates	*15*		**2,902**		2,902
Available-for-sale equity securities	*16*		**45**		45
Employee benefits assets	*17(a)*		**8,590**		6,610
			4,235,694		4,195,064
Current assets					
Trade and other receivables	*19*	**1,882**		1,736	
Cash and cash equivalents	*21*	**55,112**		52,409	
		56,994		54,145	
Current liabilities					
Amounts due to subsidiaries		**357,441**		355,109	
Trade and other payables		**6,064**		5,905	
		363,505		361,014	
Net current liabilities			**(306,511)**		(306,869)
NET ASSETS			**3,929,183**		3,888,195
CAPITAL AND RESERVES					
Share capital	*25*		**356,274**		356,274
Reserves	*26*		**3,572,909**		3,531,921
TOTAL EQUITY			**3,929,183**		3,888,195

Approved and authorised for issue by the board of directors on 14 March 2008.

Colin K.Y. Lam
Chairman

Li Ning
Director

The notes on pages 41 to 104 form part of these accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

	Note	**2007** **HK$'000**	2006 HK$'000
Shareholders' equity at 1 January		**3,385,823**	3,364,988
Net income recognised directly in equity:			
Changes in fair value of available-for-sale equity securities	*26*	**34,050**	16,723
Net profit for the year	*26*	**384,522**	121,707
Net transfer to consolidated profit and loss account from reserves	*26*	**(24)**	(24)
Total recognised income and expenses for the year		**418,548**	138,406
Dividends approved and paid during the year	*26*	**(121,133)**	(117,571)
Shareholders' equity at 31 December		**3,683,238**	3,385,823

The notes on pages 41 to 104 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2007

	Note	2007 HK$'000	2007 HK$'000	2006 HK$'000	2006 HK$'000
Operating activities					
Profit before taxation			**402,562**		115,566
Adjustments for:					
Depreciation		**9,901**		9,802	
Amortisation of leasehold land premium		**1,760**		1,760	
Impairment losses of fixed assets		**34,704**		–	
Impairment losses on trade and other receivables		**347**		831	
Net loss on disposal of fixed assets		**48**		48	
Provision for litigation		**60,000**		100,000	
Revaluation gains on investment properties		**(14,589)**		(39,503)	
Net realised gains on derivative financial instruments		**(60,857)**		(3,848)	
Net unrealised gains on derivative financial instruments		**(159,704)**		(945)	
Net unrealised exchange gains on derivative financial instruments		**(45,899)**		–	
Net realised exchange gains on derivative financial instruments		**(43,134)**		–	
Interest income		**(41,247)**		(51,455)	
Dividend income		**(37,405)**		(3,938)	
Share of profits of associates		**(820)**		(260)	
Realisation of inter-company profits	*26*	**(24)**		(24)	
Profit on disposal of unlisted investments		**–**		(477)	
			(296,919)		11,991
Operating profit before changes in working capital			**105,643**		127,557
Increase in employee benefits surplus		**(1,980)**		(626)	
(Increase)/decrease in inventories		**(68,840)**		32,476	
(Increase)/decrease in trade and other receivables		**(16,716)**		305	
Increase in trade and other payables		**35,247**		34,381	
			(52,289)		66,536
Cash generated from operations			**53,354**		194,093
Profits tax paid		**(773)**		(227)	
Profits tax refunded		**148**		439	
			(625)		212
Net cash generated from operating activities			**52,729**		194,305

CONSOLIDATED CASH FLOW STATEMENT (Continued)

for the year ended 31 December 2007

	Note	2007 HK$'000	2007 HK$'000	2006 HK$'000	2006 HK$'000
Investing activities					
Interest received		**42,125**		51,732	
Mortgage loan advanced to buyers		**(3,443)**		–	
Purchase of fixed assets		**(14,580)**		(4,514)	
Payment for purchase of available-for-sale equity securities		**–**		(6,046)	
Payment for purchase of derivative financial instruments		**(589,912)**		(31,027)	
Payment for properties under development – held for investment		**(7,697)**		(13,685)	
Repayment from/(advanced to) associates		**22,157**		(14,223)	
Proceeds from disposal of derivative financial instruments		**282,218**		74,341	
Proceeds from disposal of unlisted investment		**–**		546	
Proceeds from disposal of fixed assets		**3**		–	
Dividends received from investments		**30,633**		3,938	
Net cash (used in)/generated from investing activities			**(238,496)**		61,062
Financing activity					
Dividends paid		**(121,133)**		(117,571)	
Net cash used in financing activity			**(121,133)**		(117,571)
Net (decrease)/increase in cash and cash equivalents			**(306,900)**		137,796
Cash and cash equivalents at 1 January			**1,178,719**		1,040,923
Cash and cash equivalents at 31 December	*21*		**871,819**		1,178,719

The notes on pages 41 to 104 form part of these accounts.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts.

(b) Basis of preparation of the accounts

The consolidated accounts for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– investment properties (see note 1(f));

– financial instruments classified as available-for-sale equity securities (see note 1(h)); and

– derivative financial instruments (see note 1(k)).

The preparation of accounts in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the accounts *(Continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated accounts from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated profit and loss account includes the Group's share of the post-acquisition, post-tax results of the associates for the year.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

1 **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(d) Associates *(Continued)*

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(i)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(f)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

1 **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(e) Leased assets *(Continued)*

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the profit and loss account in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(f)) or is held for development for sale (see note 1 (j)(iv)).

(f) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(e)) to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(o)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(e)) and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(e).

Property that is being constructed or developed for future use as investment property is classified as properties under development-held for investment and stated at cost until construction or development is completed, at which time it is reclassified as investment property at fair value. Any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

1 **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(g) Other property, plant and equipment

Other property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Land	Over the unexpired terms of the leases
Buildings	40 years or over the unexpired terms of the leases, if shorter
Ferry vessels and other crafts	8 to 15 years
Machinery, furniture and other fixed assets	
– Dry dock and ship lift	30 to 40 years
– Others	4 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries and associates, are as follows:

Investments in equity securities, being those held for non-trading purpose, are classified as available-for-sale securities. Available-for-sale equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Investments in equity securities *(Continued)*

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(i)).

At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity. Dividend income from these investments is recognised in accordance with the policy set out in note 1(o)(vii). When these investments are derecognised or impaired (see note 1(i)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(i) Impairment of assets

(i) Impairment of investments in equity securities and other receivables

Investment in equity securities (other than investments in subsidiaries and associates (see note 1(i)(ii)) and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale equity securities, the cumulative loss that has been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

1 **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(i) Impairment of assets *(Continued)*

(i) Impairment of investments in equity securities and other receivables (Continued)

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– pre-paid interests in leasehold land classified as being held under an operating lease;

– investments in subsidiaries and associates;

– properties under development-held for investment; and

– other property, plant and equipment.

If any such indication exists, the asset's recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

(i) Trading stocks

Trading stocks are stated at the lower of cost and net realisable value. Cost includes the cost of materials computed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories *(Continued)*

(ii) Spare parts and consumables

Spare parts and consumables are stated at cost, computed using the weighted average method, less provision for obsolescence.

(iii) Work in progress

Work in progress are construction and repairing in progress at the balance sheet date and are recorded at the net amount of costs incurred plus recognised profits less recognised losses and progress billings.

(iv) Property development

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Property under development – held for sale

The cost of properties under development – held for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses and an appropriate proportion of overheads. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– Completed property held for sale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

1 **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(k) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(s)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(o) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sale of properties

Revenue arising from the sale of properties held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under deposits received.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Revenue recognition *(Continued)*

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Sale of goods

Revenue is recognised when goods are delivered to customers' premises which is taken to be the point in time when the customers have accepted the goods and the related risks and rewards of ownership.

(iv) Ferry operations and related services

Revenue relating to ferry operations is recognised when the relevant ferry services are provided.

(v) Travel business

Revenue arising from the travel business is recognised on the completion date of the tours or when the relevant services are provided.

(vi) Interest income

Interest income is recognised as it accrues using the effective interest method.

(vii) Dividends

Dividend income from listed investments is recognised when the share price of the investments goes ex-dividend.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Deferred interest income

Where properties are sold under deferred terms with part of the sales proceeds being receivable after an interest-free period, the differences between the sale prices with and without such terms are treated as deferred income and is released to profit or loss on a straight-line basis over the interest-free period.

(q) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) The Group's net obligation in respect of defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in profit or loss.

In calculating the Group's obligation in respect of a plan, if any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion is recognised in profit or loss over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the net total of any cumulative unrecognised net actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

1 **SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

(r) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Income tax *(Continued)*

(iii) The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliable estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 1(s)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(u) 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.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format.

Segmental revenue, results, assets and liabilities 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 balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment.

Segmental capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, tax balances, corporate and financing expenses.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Related parties

For the purposes of these accounts, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

2 CHANGES IN ACCOUNTING POLICY

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these accounts for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements: Capital disclosures,* there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the accounts include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these accounts, in particular in note 31.

2 CHANGES IN ACCOUNTING POLICY *(Continued)*

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 26.

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 33).

3 SEGMENTAL INFORMATION

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

Inter-segment pricing is based on similar terms as those available to other external parties.

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".

3 SEGMENTAL INFORMATION *(Continued)*

The segmental information for the year about these business segments is presented below:

(a) Segmental revenue

	Total revenue		Elimination of inter-segment revenue		Revenue from external customers	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**277,642**	362,225	**–**	–	**277,642**	362,225
Ferry, shipyard and related operations	**190,196**	166,405	**2,363**	2,151	**187,833**	164,254
Travel and hotel operations	**177,939**	167,000	**195**	81	**177,744**	166,919
Securities investment	**42,367**	3,952	**–**	–	**42,367**	3,952
Others	**70,418**	80,024	**40,630**	37,859	**29,788**	42,165
	758,562	779,606	**43,188**	40,091	**715,374**	739,515
Analysed by:						
Turnover					**673,318**	707,964
Other revenue					**42,056**	31,551
					715,374	739,515

Turnover represents gross income from the sale of properties, sales value of goods delivered to customers, income from services rendered, rental income, interest income and dividend income.

3 SEGMENTAL INFORMATION *(Continued)*

(b) Segmental result

	Segmental result		Elimination of inter-segment transactions		Consolidated result	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment *(note c)*	**142,152**	204,327	**–**	–	**142,152**	204,327
Ferry, shipyard and related operations *(note d)*	**(103,351)**	(134,678)	**–**	–	**(103,351)**	(134,678)
Travel and hotel operations	**(676)**	(2,251)	**–**	–	**(676)**	(2,251)
Securities investment	**336,384**	7,526	**–**	–	**336,384**	7,526
Others *(note e)*	**27,233**	40,382	**–**	–	**27,233**	40,382
	401,742	115,306	**–**	–	**401,742**	115,306
Share of profits of associates					**820**	260
Profit before taxation					**402,562**	115,566
Taxation					**(18,040)**	6,141
Profit attributable to equity shareholders					**384,522**	121,707

(c) The segmental result of the property development and investment operations included revaluation gains on investment properties of HK$14,589,000 (2006: HK$39,503,000).

(d) Due to the current operating environment of the shipyard operations, the segmental result of the ferry, shipyard and related operations included impairment losses in respect of the shipyard assets of HK$34,704,000 (2006: HK$Nil) which are based on the Group's assessment of the recoverable amount of the related shipyard assets.

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

3 SEGMENTAL INFORMATION *(Continued)*

(f) Segmental balance sheet

	Segmental assets		Inter-segment elimination		Total assets	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**2,115,904**	2,028,012	**–**	–	**2,115,904**	2,028,012
Ferry, shipyard and related operations	**172,397**	206,369	**–**	–	**172,397**	206,369
Travel and hotel operations	**49,378**	50,430	**–**	–	**49,378**	50,430
Securities investment	**1,122,180**	191,547	**–**	–	**1,122,180**	191,547
Others	**643,986**	1,226,415	**–**	–	**643,986**	1,226,415
Total assets	**4,103,845**	3,702,773	**–**	–	**4,103,845**	3,702,773

	Segmental liabilities		Inter-segment elimination		Total liabilities	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**115,358**	117,463	**–**	–	**115,358**	117,463
Ferry, shipyard and related operations	**197,294**	126,169	**–**	–	**197,294**	126,169
Travel and hotel operations	**31,575**	27,824	**–**	–	**31,575**	27,824
Securities investment	**139**	123	**–**	–	**139**	123
Others	**76,241**	45,371	**–**	–	**76,241**	45,371
Total liabilities	**420,607**	316,950	**–**	–	**420,607**	316,950

The "Others" segment mainly comprises financial assets, tax recoverable and payable and deferred tax assets and liabilities.

3 SEGMENTAL INFORMATION (Continued)

(g) Other segmental information

	Depreciation and amortisation		Impairment loss		Capital expenditure incurred	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**73**	58	**347**	831	**19,886**	15,126
Ferry, shipyard and related operations	**8,836**	8,893	**34,704**	–	**815**	1,560
Travel and hotel operations	**2,574**	2,455	**–**	–	**1,457**	1,349
Securities investment	**–**	–	**–**	–	**–**	–
Others	**178**	156	**–**	–	**120**	164
	11,661	11,562	**35,051**	831	**22,278**	18,199

4 OTHER REVENUE AND NET INCOME

	2007	2006 (restated)
	HK$'000	*HK$'000*
Other revenue		
Other interest income	**19,126**	16,836
Management fee income	**11,912**	6,899
Air-conditioning charges income	**5,813**	4,091
Other rental income	**4,014**	3,377
Other income	**1,191**	348
	42,056	31,551
Other net income		
Net unrealised gains on derivative financial instruments	**159,704**	945
Net realised gains on derivative financial instruments	**60,857**	3,848
Net unrealised exchange gains on derivative financial instruments	**45,899**	–
Net realised exchange gains on derivative financial instruments	**43,134**	–
Income from sale of spare parts	**1,970**	1,812
Sundry income	**1,385**	2,071
Deposits forfeited	**63**	934
Profit on disposal of unlisted investment	**–**	477
Commission and rebates	**–**	408
Net loss on disposal of fixed assets	**(48)**	(48)
Net exchange (losses)/gains	**(12,058)**	26
	300,906	10,473

5 PROFIT BEFORE TAXATION

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

(a) Staff costs:

	2007	2006
	HK$'000	*HK$'000*
Decrease in liability for defined benefit retirement plan *(note 17(a)(v))*	**(1,980)**	(469)
Contributions to Mandatory Provident Funds	**2,300**	2,061
Retirement costs	**320**	1,592
Salaries, wages and other benefits	**75,396**	69,183
	75,716	70,775

(b) Other items:

	2007	2006
	HK$'000	*HK$'000*
Amortisation of leasehold land premium	**1,760**	1,760
Depreciation	**9,901**	9,802
Cost of inventories *(note 18(b))*	**206,988**	232,878
Auditors' remuneration		
– audit services	**1,140**	1,059
– other services	**249**	259
Operating lease charges in respect of		
– premises	**4,422**	3,326
– vessels	**729**	645
Impairment losses on trade and other receivables	**347**	831
Rental receivable from investment properties net of outgoings of HK$14,686,000 (2006: HK$15,213,000)	**(10,353)**	(4,441)
Rental receivable from operating leases, other than those relating to investment properties, net of outgoings HK$840,000 (2006: HK$824,000)	**(4,754)**	(4,304)
Interest income	**(46,139)**	(56,987)
Dividend income from listed investments	**(37,405)**	(3,938)

6 DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	Directors' fee	
	2007	2006
	HK$'000	*HK$'000*
Executive directors		
Mr. Lam Ko Yin, Colin	**150**	150
Mr. Li Ning	**100**	100
Non-executive directors		
Mr. Au Siu Kee, Alexander	**50**	50
Mr. Lau Yum Chuen, Eddie	**50**	50
Dr. Lee Shau Kee	**50**	50
Mr. Leung Hay Man	**50**	50
Mr. Wong Man Kong, Peter	**50**	50
Independent non-executive directors		
Mr. Ho Hau Chong, Norman	**250**	225
Mr. Kan Yuet Loong, Michael	**250**	250
Mr. Wu King Cheong	**250**	250
	1,250	1,225

7 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

None of the five individuals with the highest emoluments is a director of the Company. The emoluments of the five highest paid employees are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other emoluments	**7,306**	6,952
Retirement scheme contributions	**130**	164
	7,436	7,116

7 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS *(Continued)*

The emoluments of the five individuals with the highest emoluments are within the following bands:

HK$	**2007 Number of individuals**	2006 Number of individuals
1,000,000 or below	**1**	1
1,000,001–1,500,000	**2**	2
1,500,001–2,000,000	**1**	1
2,000,001–2,500,000	**1**	1

8 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

(a) Taxation in the consolidated profit and loss account represents:

	2007 ***HK$'000***	2006 *HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**26,633**	905
Under/(over)-provision in respect of prior years	**4**	(21)
	26,637	884
Deferred tax		
Origination and reversal of temporary differences	**(8,597)**	(7,025)
	18,040	(6,141)

The provision for Hong Kong profits tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year.

8 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT *(Continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2007 HK$'000	2006 HK$'000
Profit before taxation	**402,562**	115,566
Notional tax on profit before taxation, calculated at 17.5% (2006: 17.5%)	**70,448**	20,224
Tax effect of non-deductible expenses	**18,524**	23,906
Tax effect of non-taxable income	**(38,539)**	(14,327)
Tax effect of current year's tax losses not recognised	**909**	1,080
Tax effect of prior year's unrecognised tax losses utilised this year	**(1,997)**	(474)
Tax effect of prior year's tax losses recognised this year	**(31,104)**	(36,256)
Under/(over)-provision in prior years	**4**	(21)
Tax effect of excess of profit on disposal of fixed assets over balancing charge	**(37)**	(54)
Tax effect of temporary differences on fixed assets	**(168)**	(219)
Actual tax expense	**18,040**	(6,141)

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$153,621,000 (2006: HK$173,845,000) which has been dealt with in the accounts of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2007 HK$'000	2006 HK$'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's accounts	**153,621**	173,845
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**8,500**	15,900
Company's profit for the year *(note 26(b))*	**162,121**	189,745

10 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2007 *HK$'000*	2006 *HK$'000*
Interim dividend declared and paid of 10 cents (2006: 9 cents) per ordinary share	**35,627**	32,065
Final dividend proposed after the balance sheet date of 26 cents (2006: 24 cents) per ordinary share	**92,631**	85,506
	128,258	117,571

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2007 *HK$'000*	2006 *HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 24 cents (2006: 24 cents) per share	**85,506**	85,506

11 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$384,522,000 (2006: HK$121,707,000) and 356,273,883 (2006: 356,273,883) ordinary shares in issue during the year.

There were no dilutive potential ordinary shares in existence during the years 2006 and 2007.

12 FIXED ASSETS

Group

	Other property, plant and equipment							
	Hotel properties	Buildings	Ferry vessels and other crafts	Machinery, furniture and others	Sub-total	Investment properties	Interest in leasehold land	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:								
At 1 January 2006	63,083	69,603	122,734	264,284	519,704	692,300	160,084	1,372,088
Additions	800	372	1,273	774	3,219	1,295	–	4,514
Transfer in	–	–	–	–	–	29,858	–	29,858
Cost adjustment *(Note)*	–	–	–	–	–	(6,056)	–	(6,056)
Disposals	–	(413)	–	(297)	(710)	–	–	(710)
Revaluation surplus	–	–	–	–	–	39,503	–	39,503
At 31 December 2006	63,883	69,562	124,007	264,761	522,213	756,900	160,084	1,439,197
Representing:								
Cost	63,883	69,562	124,007	264,761	522,213	–	160,084	682,297
Valuation	–	–	–	–	–	756,900	–	756,900
	63,883	69,562	124,007	264,761	522,213	756,900	160,084	1,439,197
Accumulated amortisation and depreciation:								
At 1 January 2006	27,540	50,455	111,072	181,627	370,694	–	87,048	457,742
Charge for the year	1,636	1,250	2,845	4,071	9,802	–	1,760	11,562
Written back on disposal	–	(376)	–	(286)	(662)	–	–	(662)
At 31 December 2006	29,176	51,329	113,917	185,412	379,834	–	88,808	468,642
Net book value:								
At 31 December 2006	34,707	18,233	10,090	79,349	142,379	756,900	71,276	970,555

12 FIXED ASSETS *(Continued)*

Group *(Continued)*

	Other property, plant and equipment							
	Hotel properties	Buildings	Ferry vessels and other crafts	Machinery, furniture and others	Sub-total	Investment properties	Interest in leasehold land	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:								
At 1 January 2007	63,883	69,562	124,007	264,761	522,213	756,900	160,084	1,439,197
Additions	–	644	236	1,512	2,392	12,188	–	14,580
Cost adjustment *(Note)*	–	–	–	–	–	(3,477)	–	(3,477)
Disposals	–	(231)	(12)	(533)	(776)	–	–	(776)
Revaluation surplus	–	–	–	–	–	14,589	–	14,589
At 31 December 2007	63,883	69,975	124,231	265,740	523,829	780,200	160,084	1,464,113
Representing:								
Cost	63,883	69,975	124,231	265,740	523,829	–	160,084	683,913
Valuation	–	–	–	–	–	780,200	–	780,200
	63,883	69,975	124,231	265,740	523,829	780,200	160,084	1,464,113
Accumulated amortisation and depreciation:								
At 1 January 2007	29,176	51,329	113,917	185,412	379,834	–	88,808	468,642
Charge for the year	1,638	1,052	2,982	4,229	9,901	–	1,760	11,661
Impairment loss *(note 3(d))*	–	3,668	–	16,021	19,689	–	15,015	34,704
Written back on disposal	–	(185)	(12)	(528)	(725)	–	–	(725)
At 31 December 2007	30,814	55,864	116,887	205,134	408,699	–	105,583	514,282
Net book value:								
At 31 December 2007	33,069	14,111	7,344	60,606	115,130	780,200	54,501	949,831

Note: Cost adjustment represents the revision of the original construction cost of the properties completed in prior years, confirmed by the surveyor during the year.

12 FIXED ASSETS *(Continued)*

(a) Investment properties held by the Group were revalued by a firm of registered professional surveyors, DTZ Debenham Tie Leung Limited, who have recent experience in the location and category of property being valued, at HK$780,200,000 as at 31 December 2007 (2006: HK$756,900,000) on an open market value basis calculated by reference to net rental income allowing for reversionary income potential.

(b) The analysis of the net book value of all the properties, which are held in Hong Kong, is as follows:

Group

	2007		2006	
	Fixed assets	**Completed properties held for sale**	Fixed assets	Completed properties held for sale
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Medium term lease	**836,881**	**51,605**	837,116	170,223
Long term lease	**45,000**	**–**	44,000	–

(c) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one month to three years. Certain of the leases include contingent rentals calculated with reference to the revenue of tenants.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The Group's total future lease payments under non-cancellable operating leases are receivable as follows:

	2007	2006
	HK$'000	*HK$'000*
Within 1 year	**23,330**	21,594
After 1 year but within 5 years	**16,974**	19,967
	40,304	41,561

13 PROPERTIES UNDER DEVELOPMENT

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**823,891**	858,846
Additions	**182,741**	118,802
Transfer to investment properties	**–**	(29,858)
Transfer to completed properties held for sale	**–**	(123,899)
At 31 December	**1,006,632**	823,891
Analysis of properties under development:		
For sale *(Note 18(a))*	**962,134**	787,090
For investment	**44,498**	36,801
	1,006,632	823,891

The above properties are situated in Hong Kong and held under medium-term leases.

Except for HK$592,247,000 (2006: HK$Nil) as at 31 December 2007, all of the properties under development for sale are not expected to be recovered within one year.

14 INTEREST IN SUBSIDIARIES

	Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**166,888**	166,888
Amounts due from subsidiaries	**5,175,567**	5,289,125
Less: Impairment loss	**(1,118,298)**	(1,270,506)
	4,224,157	4,185,507

14 INTEREST IN SUBSIDIARIES *(Continued)*

Details of principal subsidiaries, which materially affect the results or assets of the Group, are as follows:

	Ordinary share capital			
	Issued *HK$*	% held by the Company	% held by subsidiaries	Principal activities
HYFCO Development Company Limited	12,000,030	100	–	Property investment
The Hong Kong Shipyard Limited	17,000,000	100	–	Shipbuilding and repairs
HYFCO Trading and Investments Company Limited	2	100	–	Trading
HYFCO Estate Management & Agency Limited	25,000,000	100	–	Property management
HYFCO Properties Limited	21,700,000	100	–	Hotel investment
HYFCO Travel Agency Limited	3,500,000	100	–	Travel business
The Hongkong and Yaumati Ferry Company Limited	100,000,000	100	–	Ferry operations
Fine Time Development Limited	2	100	–	Property investment
Galaxy Hotel Management Company Limited	1,350,000	–	100	Floating restaurant business
Genius Star Development Limited	2	100	–	Property investment
Pico International Limited	6,000,000	100	–	Investment holding
Hong Kong Ferry Finance Company Limited	2	100	–	Group financing
Thommen Limited	20	100	–	Investment holding
Lenfield Limited	2	100	–	Property development
HKF Property Investment Limited	2	100	–	Property investment
Join Galaxy Limited	2	–	100	Property investment and financing
Merry World Assets Limited	390,000	100	–	Investment holding

All the subsidiaries listed above are incorporated in Hong Kong except for Merry World Assets Limited which is incorporated in the British Virgin Islands.

Except for HYFCO Travel Agency Limited which operates outbound tours in the Mainland China and Macau, all the other subsidiaries operate in Hong Kong.

15 INTEREST IN ASSOCIATES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares, at cost	**–**	–	**–**	–
Share of net assets	**3,730**	2,910	**–**	–
Amounts due from associates	**154,608**	176,765	**9,372**	9,372
	158,338	179,675	**9,372**	9,372
Less: Impairment loss	**(6,470)**	(6,470)	**(6,470)**	(6,470)
	151,868	173,205	**2,902**	2,902

Except for the amount advanced to 2OK Company Limited is interest-bearing, as disclosed in note 30(b)(iii), all other amounts due from associates are unsecured, interest-free and have no fixed repayment terms.

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

Other particulars of the associates are as follows:

	Particulars of issued & paid up capital	**% 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

15 INTEREST IN ASSOCIATES *(Continued)*

Summary financial information on associates

	Assets *HK$'000*	Liabilities *HK$'000*	Equity *HK$'000*	Revenues *HK$'000*	Profit *HK$'000*
2007					
100 per cent	**304,939**	**(310,420)**	**(5,481)**	**15,462**	**1,639**
Group's effective interest	**152,470**	**(155,210)**	**(2,740)**	**7,731**	**820**
2006					
100 per cent	341,007	(348,127)	(7,120)	20,400	520
Group's effective interest	170,504	(174,064)	(3,560)	10,200	260

16 AVAILABLE-FOR-SALE EQUITY SECURITIES

	Group		Company	
	2007 *HK$'000*	2006 *HK$'000*	**2007** *HK$'000*	2006 *HK$'000*
Unlisted shares	**45**	45	**45**	45
Listed shares				
– in Hong Kong	**191,788**	158,934	**–**	–
– outside Hong Kong	**1,835**	639	**–**	–
	193,623	159,573	**–**	–
	193,668	159,618	**45**	45
Market value of listed shares at 31 December	**193,623**	159,573	**–**	–

17 EMPLOYEE BENEFITS ASSETS

(a) Defined benefit retirement plan

The Group makes contribution to a defined benefit retirement plan which covers about 21.2% (2006: 23.7%) of the Group's employees. The plan is administered by independent trustees with their assets held separately from those of the Group.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendations based on annual actuarial valuations. The latest independent actuarial valuation of the plan was at 31 December 2007 and was prepared by qualified staff of Watson Wyatt Hong Kong Limited, who are members of recognised actuarial bodies, using the projected unit credit method. The actuarial valuation indicates that the Group's obligations under the defined benefit retirement plan were fully covered by the plan assets held by the trustees.

(i) The amounts recognised in the balance sheets are as follows:

	The Group and the Company	
	2007	2006
	HK$'000	*HK$'000*
Present value of wholly or partly funded obligations	**(39,371)**	(37,730)
Fair value of plan assets	**70,031**	68,834
Net unrecognised actuarial gains	**(22,070)**	(24,494)
	8,590	6,610

The plan assets do not include any share issued by the Company or any property occupied by the Group.

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group does not expect to pay contributions to defined benefit retirement plan in 2008.

17 EMPLOYEE BENEFITS ASSETS *(Continued)*

(a) Defined benefit retirement plan *(Continued)*

(ii) Plan assets consist of the following:

	The Group and the Company	
	2007	2006
Equities	**30.5%**	29.7%
Bonds	**0.7%**	1.1%
Fixed deposits	**68.8%**	69.2%
Total	**100%**	100%

The plan target asset allocation is 30% in equities and 70% in deposits. The expected long-term annual return of equities and bonds are determined to be approximately 9.5% and 3.0%, respectively. The expected return is determined to be 5.0% per annum.

(iii) Movements in the present value of the defined benefit obligations:

	The Group and the Company	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**37,730**	34,818
Current service cost	**1,718**	1,671
Interest cost	**1,400**	1,537
Actual benefits paid by the plan	**(1,963)**	(1,528)
Actuarial losses	**486**	1,232
At 31 December	**39,371**	37,730

17 EMPLOYEE BENEFITS ASSETS *(Continued)*

(a) Defined benefit retirement plan *(Continued)*

(iv) Movements in plan assets:

	The Group and the Company	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**68,834**	56,575
Group's contributions paid to the plan	**–**	157
Actuarial expected return on plan assets	**3,421**	2,796
Actual benefits paid by the plan	**(1,963)**	(1,528)
Actuarial (losses)/gains	**(261)**	10,834
At 31 December	**70,031**	68,834

(v) Income recognised in the consolidated profit and loss account is as follows:

	2007	2006
	HK$'000	*HK$'000*
Current service cost	**1,718**	1,671
Interest cost	**1,400**	1,537
Actuarial expected return on plan assets	**(3,421)**	(2,796)
Net actuarial gains recognised	**(1,677)**	(881)
	(1,980)	(469)

17 EMPLOYEE BENEFITS ASSETS *(Continued)*

(a) Defined benefit retirement plan *(Continued)*

(v) The above income is recognised in the following line item in the consolidated profit and loss account:

	2007	2006
	HK$'000	*HK$'000*
Administrative expenses	**(1,980)**	(469)

The actual return on plan assets of the Group (taking into account all changes in the fair value of the plan assets excluding contributions paid and received) was net income of HK$3,160,000 (2006: HK$13,630,000).

(vi) The principal actuarial assumptions used as at 31 December 2007 (expressed as weighted averages) are as follows:

	The Group and the Company	
	2007	2006
Discount rate at 31 December	**3.5%**	3.75%
Expected rate of return on plan assets	**5%**	5%
Future salary increases		
– 2007	**–**	2%
– 2008 and onwards	**3%**	3%

The expected long-term rate of return on plan assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

17 EMPLOYEE BENEFITS ASSETS *(Continued)*

(a) Defined benefit retirement plan *(Continued)*

(vi) **Historical information**

	The Group and the Company	
	2007	2006
	HK$'000	*HK$'000*
Present value of defined benefit obligations	**39,371**	37,730
Less: Fair value of plan assets	**(70,031)**	(68,834)
Surplus	**(30,660)**	(31,104)
Experience gains on plan liabilities	**(237)**	(614)
Experience losses/(gains) on plan assets	**261**	(10,834)

(b) Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not covered by the defined benefit retirement plan. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employers and their employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the MPF Scheme vest immediately.

18 INVENTORIES

(a) Inventories in the balance sheet comprise:

	Group 2007 HK$'000	2006 HK$'000
Property development		
Properties under development – held for sale *(note 13)*	**962,134**	787,090
Completed properties held for sale *(note 12(b))*	**51,605**	170,223
	1,013,739	957,313
Other operations		
Trading stocks	**3,205**	695
Spare parts and consumables	**2,391**	2,272
Work in progress	**2,705**	2,963
	8,301	5,930
	1,022,040	963,243

The amount of spare parts and consumables carried at net realisable value is HK$1,522,000 (2006: HK$1,665,000).

(b) The analysis of the amount of inventories recognised as expense is as follows:

	2007 HK$'000	2006 HK$'000
Carrying amount of inventories sold	**206,988**	232,863
Write down of inventories	**–**	15
	206,988	232,878

19 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**123,666**	110,891	**–**	–
Less: allowance for doubtful debts	**(1,347)**	(1,341)	**–**	–
	122,319	109,550	**–**	–
Other receivables and prepayments	**42,279**	27,141	**1,882**	1,736
	164,598	136,691	**1,882**	1,736

All of the trade and other receivables except instalment receivables HK$3,443,000 (2006: HK$Nil) are expected to be recovered within one year.

(a) Ageing analysis

Included in trade and other receivables are trade receivables (excluding retention money recoverable of HK$798,000 (2006: HK$9,734,000) and net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current	**117,122**	95,832
1 to 3 months overdue	**3,213**	3,221
More than 3 months overdue but less than 12 months overdue	**230**	349
More than 12 months overdue	**956**	414
	121,521	99,816

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. The Group's credit policy is set out in note 31(a).

19 TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Impairment of trade receivables

At 31 December 2007, the Group's trade receivables of HK$1,947,000 (2006: HK$1,941,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of HK$1,347,000 (2006: HK$1,341,000) were recognised. The Group does not hold any collateral over these balances.

The movement in the allowance for doubtful debts during the year is as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**1,341**	574
Impairment loss recognised	**347**	831
Uncollectible amounts written off	**(341)**	(64)
At 31 December	**1,347**	1,341

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables (excluding retention money receivables) that are neither individually nor collectively considered to be impaired are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Neither overdue nor impaired	**117,122**	95,832
1 to 3 months overdue	**3,213**	3,221
More than 3 months overdue but less than 12 months overdue	**230**	163
More than 12 months overdue	**356**	–
	3,799	3,384
	120,921	99,216

19 TRADE AND OTHER RECEIVABLES *(Continued)*

(c) Trade receivables that are not impaired *(Continued)*

Receivables that were neither overdue nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were overdue but not impaired relate to independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20 DERIVATIVE FINANCIAL INSTRUMENTS

At 31 December 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
AUD63,000,000	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 AUD27 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.

Included in derivative financial instruments are the following amounts denominated in a currency other than Hong Kong dollars:

	Group	
	2007	2006
	'000	*'000*
United States dollars	**2,122**	4,113
Australian dollars	**90,748**	–

21 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits with banks and other financial institutions	**862,460**	1,163,657	**54,673**	51,978
Cash at bank and in hand	**9,646**	15,262	**439**	431
Cash and cash equivalents in the balance sheet	**872,106**	1,178,919	**55,112**	52,409
Bank overdraft *(note 22)*	**(287)**	(200)		
Cash and cash equivalents in the cash flow statement	**871,819**	1,178,719		

Included in cash and cash equivalents are the following amounts denominated in a currency other than Hong Kong dollars:

	Group		Company	
	2007	2006	**2007**	2006
	'000	*'000*	***'000***	*'000*
United States dollars	**7,020**	6,689	**7,020**	6,689
Australian dollars	**41,303**	–	**–**	–

22 BANK OVERDRAFT

At 31 December 2007, unsecured bank overdraft is repayable as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 1 year or on demand	**287**	200

23 TRADE AND OTHER PAYABLES

All of the trade and other payables, apart from the retention payables HK$3,792,000 (2006: HK$4,821,000) are expected to be settled within one year.

Included in trade and other payables are trade payables with the following ageing analysis as of balance sheet date:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Due within 1 month or on demand	**75,897**	93,585
Due after 1 month but within 3 months	**248**	–
Due after 3 months but within 6 months	**16,717**	–
Due after 12 months	**3,792**	4,821
	96,654	98,406

24 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

(a) Tax recoverable in the consolidated balance sheet represents:

	2007	2006
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax for the year	**231**	–
Provisional profits tax paid	**(586)**	–
	(355)	–
Balance of profits tax recoverable relating to prior years	**(1,545)**	(1,693)
	(1,900)	(1,693)

24 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

(b) Tax payable in the consolidated balance sheet represents:

	2007 HK$'000	2006 HK$'000
Provision for Hong Kong profits tax for the year	**26,401**	905
Provisional profits tax paid	**(31)**	(227)
	26,370	678
Balance of profits tax provision relating to prior years	**12,108**	11,581
	38,478	12,259

(c) Deferred tax assets and liabilities recognised:

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Temporary differences arising from fixed assets HK$'000	Future benefit of tax losses HK$'000	Intra-group interest capitalised in properties under development HK$'000	Total HK$'000
Deferred tax arising from:				
At 1 January 2006	25,337	(32,691)	(3,378)	(10,732)
Charged/(credited) to the consolidated profit and loss account *(note 8(a))*	9,216	(11,675)	(4,566)	(7,025)
At 31 December 2006	34,553	(44,366)	(7,944)	(17,757)
At 1 January 2007	**34,553**	**(44,366)**	**(7,944)**	**(17,757)**
Charged/(credited) to the consolidated profit and loss account *(note 8(a))*	**4,558**	**(7,173)**	**(5,982)**	**(8,597)**
At 31 December 2007	**39,111**	**(51,539)**	**(13,926)**	**(26,354)**

24 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET *(Continued)*

(c) Deferred tax assets and liabilities recognised: *(Continued)*

	2007	2006
	HK$'000	*HK$'000*
Represented by:		
Net deferred tax assets recognised on the consolidated balance sheet	**(56,276)**	(43,466)
Net deferred tax liabilities recognised on the consolidated balance sheet	**29,922**	25,709
	(26,354)	(17,757)

(d) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(r), the Group has not recognised the following deferred tax assets in respect of deductible temporary differences and cumulative tax losses as the management are uncertain whether sufficient taxable profit will be available against which deductible temporary differences and the tax losses can be utilised. The deductible temporary differences and tax losses do not expire under current tax legislation.

	2007		2006	
	Deductible temporary difference/ tax loss	**Deferred tax asset**	Deductible temporary difference/ tax loss	Deferred tax asset
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
(i) Excess of tax written down values over accounting carrying values of certain fixed assets	**218,100**	**38,168**	246,771	43,185
(ii) Tax losses	**235,623**	**41,234**	416,987	72,973
	453,723	**79,402**	663,758	116,158

25 SHARE CAPITAL

	Number of shares		Nominal value	
	2007	2006	**2007**	2006
			HK$'000	*HK$'000*
Authorised:				
Ordinary shares of HK$1 each	**550,000,000**	550,000,000	**550,000**	550,000
Issued and fully paid:				
Ordinary shares of HK$1 each	**356,273,883**	356,273,883	**356,274**	356,274

There was no movement in share capital during the years 2006 and 2007.

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.

26 RESERVES

(a) Group

	Note	Share premium *HK$'000*	Securities revaluation reserve *HK$'000*	Other capital reserves *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
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	*10*	–	–	–	(85,506)	(85,506)
Changes in fair value of available-for-sale equity securities		–	16,723	–	–	16,723
Realisation of inter-company profits		–	–	(24)	–	(24)
Profit for the year		–	–	–	121,707	121,707
Dividends declared in respect of the current year	*10*	–	–	–	(32,065)	(32,065)
At 31 December 2006		1,398,527	66,148	965	1,563,909	3,029,549
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	*10*	**–**	**–**	**–**	**(85,506)**	**(85,506)**
Changes in fair value of available-for-sale equity securities		**–**	**34,050**	**–**	**–**	**34,050**
Realisation of inter-company profits		**–**	**–**	**(24)**	**–**	**(24)**
Profit for the year		**–**	**–**	**–**	**384,522**	**384,522**
Dividends declared in respect of the current year	*10*	**–**	**–**	**–**	**(35,627)**	**(35,627)**
At 31 December 2007		**1,398,527**	**100,198**	**941**	**1,827,298**	**3,326,964**

26 RESERVES *(Continued)*

(b) Company

	Share premium *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
At 1 January 2006	1,398,527	2,061,220	3,459,747
Dividends approved in respect of the previous financial year	–	(85,506)	(85,506)
Profit for the year	–	189,745	189,745
Dividends declared in respect of the current year	–	(32,065)	(32,065)
At 31 December 2006	1,398,527	2,133,394	3,531,921
At 1 January 2007	**1,398,527**	**2,133,394**	**3,531,921**
Dividends approved in respect of the previous financial year	**–**	**(85,506)**	**(85,506)**
Profit for the year	**–**	**162,121**	**162,121**
Dividends declared in respect of the current year	**–**	**(35,627)**	**(35,627)**
At 31 December 2007	**1,398,527**	**2,174,382**	**3,572,909**

(c) Distributability of reserves

The distributable reserves of the Company at 31 December 2007 amounted to HK$1,317,396,000 (2006: HK$1,253,286,000), representing part of its retained profits at that date. The Company's other reserves are not distributable. After the balance sheet date the directors proposed a final dividend of 26 cents (2006: 24 cents) per share, amounting to HK$92,631,000 (2006: HK$85,506,000). This dividend has not been recognised as a liability at the balance sheet date.

(d) Nature and purpose of reserves

(i) Share premium

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance.

26 RESERVES *(Continued)*

(d) Nature and purpose of reserves *(Continued)*

(ii) Securities revaluation reserve

Securities revaluation reserve has been set up and dealt with in accordance with the accounting policies adopted for the revaluation of securities (see note 1(h)).

Included in the retained profits of the Group is a loss of HK$2,745,000 (2006: HK$3,565,000), being the accumulated losses attributable to associates.

(e) Capital management

The primary objective of the Group's capital management is to ensure that it maintains a healthy capital ratio in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio. This ratio is calculated on the basis of bank borrowing as a ratio of the Group's shareholders' fund. There was no borrowing as at 31 December 2007.

27 OPERATING LEASE COMMITMENTS

The Group leases a number of retail outlets and offices under operating leases. The leases typically run for an initial period of two years. Lease payments are usually fixed during the period of the leases. None of the leases includes contingent rentals.

The total future lease payments under non-cancellable operating leases are payable as follows:

	2007	2006
	HK$'000	*HK$'000*
Within 1 year	**3,545**	3,915
After 1 year but within 5 years	**2,604**	3,115
	6,149	7,030

28 CAPITAL AND OTHER COMMITMENTS

Capital and other commitments outstanding at 31 December 2007 not provided for in the Group's accounts are as follows:

	2007	2006
	HK$'000	*HK$'000*
Contracted for	**564,096**	696,936

29 CONTINGENT LIABILITIES

(a) Litigation

A statement of claim was filed in the Court of First Instance of 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 unliquidated 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. The 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 Court of First Instance gave judgment ("CFI Judgment") in favour of the Government. A further trial has now been scheduled to take place for 15 days in November 2008 ("Stage 2 Trial") to deal with remaining liability and quantum issues which could result in a liability for further costs and accrued interest. In January 2007, the Company and HYF filed a Notice of Appeal to the Court of Appeal against parts of the CFI Judgment. The appeal was heard in early March 2008 and judgment was handed down by the Court of Appeal on 12th March 2008. The Company and HYF were partly successful in the appeal. However, until the Stage 2 Trial has been completed, final liability and quantum cannot be determined. In this context, the solicitors acting for the Company and HYF are of the opinion that in addition to the HK$100 million provision made last year, a further provision of HK$60 million be made for the year.

29 CONTINGENT LIABILITIES *(Continued)*

(b) Financial guarantees issued

As at 31 December 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$2,321,000 (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.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to certain of the Company's directors and the highest paid employees as disclosed in note 6 and note 7 respectively, is as follows:

	2007	2006
	HK$'000	*HK$'000*
Short-term employee benefits	**7,556**	7,202
Post-employment benefits	**130**	164
	7,686	7,366

Total remuneration is included in "staff costs" (see note 5(a)).

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(b) Other material related party and connected transactions

(i) 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. During the year, an amount of HK$331,000 (2006: HK$750,000) had been charged to the Group. At 31 December 2007, an amount of HK$18,000,000 (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. At 31 December 2007, an amount of HK$8,672,000 (2006: HK$23,351,000) remained unpaid and was included in trade and other receivables.

(ii) 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. During the year, as a result of the change in the latest cost estimates, an amount of HK$20,157,000 and HK$1,008,000 (2006: HK$40,254,000 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 31 December 2007, an amount of HK$1,765,000 (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.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(b) Other material related party and connected transactions *(Continued)*

(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 the MHV Property. HLD through its subsidiaries beneficially owned the remaining 50% equity interest in 2OK as at 31 December 2007. During the year, the Group received management and administrative fees in the total of HK$548,000 (2006: HK$495,000) from 2OK. The Group and HLD Sub have made advances to 2OK to finance the latter's mortgage operation and interest was charged on amounts advanced. During the year, the Group received interest amounting to HK$5,223,000 (2006: HK$9,009,000) from 2OK. At 31 December 2007, the amount advanced by the Group totalling HK$144,686,000 (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.

(iv) 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$1,004,000 (2006: HK$761,000) was charged to the Group for the year. At 31 December 2007, an amount of HK$1,007,000 (2006: HK$426,000) remained unpaid and was included in trade and other payables.

As the aforementioned agreement was renewable on the yearly basis until terminated by either party, the Company had monitored the receipt of the funds during the year and confirm that this Continuing Connected Transaction was on commercial terms where

1. each of the percentage ratios (other than the profits ratio) is on an annual basis less than 0.1%; or

2. each of the percentage ratios (other than the profits ratio) is on an annual basis equal to or more than 0.1% but less than 2.5% and the annual consideration is less than HK$1,000,000.

During the year, this Continuing Connected Transaction is exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(b) Other material related party and connected transactions *(Continued)*

(v) 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$558,000 (2006: HK$518,000) was charged to the Group for the year. At 31 December 2007, an amount of HK$993,000 (2006: HK$435,000) remained unpaid and was included in trade and other payables.

(vi) 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 year, as a result of change in the latest cost estimates, an amount of HK$899,000 and HK$45,000, represented a corresponding adjustment in fees, were credited to the company in relation to the superstructure work of the development and the 5% fee on all works relating to the development of the TMR Property respectively. In accordance with the contract entered into with the Group, an amount of HK$33,033,000, of which HK$3,234,000 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$867,000 being the 5% fee, was charged by the main contractor for the year ended 31 December 2006 for the superstructure work of the development of the TMR Property. At 31 December 2007, an amount of HK$13,202,000 (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.

(vii) 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$3,010,000 (2006: HK$2,200,000), of which HK$1,850,000 (2006: HK$1,400,000) 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$1,160,000 (2006: HK$800,000) being the 1% fee, was charged by the project manager for the year ended 31 December 2007 for the development of the TKT Property. At 31 December 2007, an amount of HK$5,210,000 (2006: HK$2,200,000) remained unpaid and was included in trade and other payables.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(b) Other material related party and connected transactions *(Continued)*

(viii) 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$118,956,000 (2006: HK$48,211,000), of which HK$10,852,000 (2006: HK$5,658,000) being cost of work carried out by the main contractor or the connected persons (as defined in the Listing Rules) of the Company and the 5% fee, was charged by the main contractor during the year for the superstructure work of the development of the TKT Property. At 31 December 2007, an amount of HK$26,862,000 (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.

(ix) 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 ("Premises A") 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 at Premises A 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 three years commencing from 1 July 2006 and ending on 30 June 2009.

(x) 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 ("Premises B") for a term of two years commencing from 22 November 2006 at a monthly rental of HK$201,000 and other ancillary expenses.

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(b) Other material related party and connected transactions *(Continued)*

(x) The annual caps of the aggregate of the Lease Agreement, the Sales Office Lease Agreement, the Wall Signage Licence Agreement and the Entrance Signage Licence Agreement are based on the aggregate rentals, management fees, air-conditioning charges, promotional levy and other miscellaneous fees in relation to Premises A and Premises B.

From 1 July 2006 to 30 June 2007	HK$17,400,000
From 1 July 2007 to 30 June 2008	HK$19,000,000
From 1 July 2008 to 30 June 2009	HK$17,100,000

During the year ended 31 December 2007, an amount of HK$13,215,000 (2006: HK$4,050,000), being aggregate rental and fees receivable under the aforementioned lease and licence, was credited to the Group.

(xi) 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.

The maximum aggregate annual value (the "Annual Caps") of the PMA for the respective years are as follows:

Year ending 31 December 2007	HK$15,000,000
Year ending 31 December 2008	HK$16,000,000
Year ending 31 December 2009	HK$17,000,000

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS *(Continued)*

(b) Other material related party and connected transactions *(Continued)*

(xi) In accordance with the contract entered into with the Group, an amount of HK$2,667,000 (2006: HK$Nil), of which HK$1,500,000 (2006: HK$Nil) being cost of work carried out by the project and sales manager or the connected persons (as defined in the Listing Rules) of the Company and HK$1,167,000 (2006: HK$Nil) being the 1% fee, was charged by the project and sales manager for the year ended 31 December 2007 for the development of the Yau Tong Property. As at 31 December 2007, an amount of HK$2,667,000 (2006: HK$Nil) remained unpaid and was included in trade and other payables.

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.

The Annual Caps of the PCC for the respective years are as follows:

Year ending 31 December 2007	HK$25,000,000
Year ending 31 December 2008	HK$35,000,000
Year ending 31 December 2009	HK$10,000,000

In accordance with the contract entered into with the Group, an amount of HK$51,084,000 (2006: HK$Nil), of which HK$10,909,000 (2006: HK$Nil) being cost of work carried out by the main contractor or the connected persons (as defined in the Listing Rules) of the Company and the 5% fee, was charged by the main contractor for the year ended 31 December 2007 for the superstructure work of the development of the Yau Tong Property. As at 31 December 2007, an amount of HK$11,209,000 (2006: HK$Nil), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

(xii) As at 31 December 2007, HLD (as defined in the Listing Rules) beneficially owned approximately 31.36% of the entire issued share capital of the Company.

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 the relevant requirements under Chapter 14A of the Listing Rules.

31 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables and derivative financial instruments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. These receivables 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. Normally, the Group does not obtain collateral from customers.

The Group has policies in place on the approval of entering into financial derivative instruments. Transactions involving derivative financial instruments are dealing with counterparties with sound credit ratings. Given their high credit ratings, management does not expect any investment counterparties to fail to meet its obligations.

The Group's exposure to credit risk is not influenced by the individual characteristics of each customer as the Group does not have a certain concentration of credit risk of the total trade and other receivables.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheets. Except for the financial guarantees given by the Group as set out in note 29(b), the Group does not provide any guarantees to third parties which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in note 29(b).

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

31 FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk

The treasury functions of the Group is centralised at the head office. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Currency risk

The Group is exposed to currency risk primarily through cash and cash equivalents and derivative financial instruments that are denominated in a currency other than the Hong Kong dollar. The currencies giving rise to this risk are primarily United States dollars and Australian dollars.

For derivative financial instruments denominated in United States dollars, the Group considers the risk of movements in exchange rates between the Hong Kong dollar and the United States dollar to be insignificant. In respect of cash and cash equivalents and derivative financial instruments held in Australian dollars, the Group ensures that the net exposure is kept to an acceptable level, by buying and selling foreign currencies at spot rates where necessary to address short-term imbalances.

Other than the above, the Group has no significant exposure to foreign currency risk given its large asset base and operational cash flow primarily denominated in Hong Kong dollars.

Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) and other components of consolidated equity in response to reasonably possible changes in the foreign exchange rates to the Group's monetary assets in which the Group has significant exposure at the balance sheet date.

Group

	2007		2006	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit or loss** *HK$'000*	Increase/ (decrease) in foreign exchange rates	Effect on profit or loss *HK$'000*
Australian dollars	**10%**	**90,499**	–	–
	(10%)	**(90,499)**	–	–

31 FINANCIAL INSTRUMENTS *(Continued)*

(c) Currency risk *(Continued)*

The sensitivity analysis above has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis presented in the above table represent aggregation of the effects on each of the Group entities' profits after tax and equity measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. As at 31 December 2006, the Group does not have derivative financial instruments denominated in Australian dollars. Accordingly, no analysis is performed for 2006.

(d) Equity price risk

The Group is exposed to equity price change arising from equity investments classified as available-for-sale equity securities (see note 16) and derivative financial instruments (see note 20).

The Group's listed investments are listed on the Stock Exchange of Hong Kong and are included in the Hang Seng Index. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

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.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the reporting date.

It is estimated that a general increase/decrease of 10% in the market prices of the underlying investments in derivative financial instruments, provided that all other variables including the volatility and time factor were held constant, would increase/decrease the net profit for the year ended 31 December 2007 by approximately HK$63,847,000 (2006: increase/decrease by HK$3,197,000).

31 FINANCIAL INSTRUMENTS *(Continued)*

(d) Equity price risk *(Continued)*

It is estimated that a general increase/decrease of 10% in the market prices of the underlying investments in available-for-sale equity securities would increase/decrease securities revaluation reserve by approximately HK$19,367,000 (2006: increase/decrease by HK$15,962,000).

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006 and 2007 except as follows:

		2007		2006	
	Note	**Carrying amount** ***HK$'000***	**Fair value** ***HK$'000***	Carrying amount *HK$'000*	Fair value *HK$'000*
Group					
Amounts due from associates	*(1)*	**3,402**	**–**	3,402	–
Available-for-sale equity securities					
– unlisted	*(2)*	**45**	**–**	45	–
Company					
Amounts due from associates	*(1)*	**2,902**	**–**	2,902	–
Available-for-sale equity securities					
– unlisted	*(2)*	**45**	**–**	45	–

Notes:

(1) The amounts due from associates (except for HK$144,686,000 (2006: HK$166,893,000) due from 2OK Company Limited) are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values.

(2) These investments do not have a quoted market price in an active market and whose fair value cannot be realiably measured. They are recognised at cost less impairment losses.

31 FINANCIAL INSTRUMENTS *(Continued)*

(f) Estimation of fair values

The following summaries the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Listed equity securities

Fair value is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

(ii) Derivative financial instruments

Fair value 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.

32 COMPARATIVE FIGURES

As a result of adopting HKFRS 7, *Financial instruments: Disclosures*, and the amendments to HKAS 1, *Presentation of financial statements: Capital disclosures*, certain comparative figures have been adjusted to conform with changes in presentation and disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

In addition, certain comparative figures have been reclassified to conform with the current year's presentation.

33 POST BALANCE SHEET EVENT

On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual Budget which proposes a cut in the profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008-09. Subject to Legislative Council's approval and formal adoption of this revised tax rate, Group's accumulated deferred tax liabilities and deferred tax assets as at 1 January 2008 would be reduced by HK$3.2 million and HK$1.7 million respectively. It is impracticable to further estimate the impact on future financial statements of the change in tax rate.

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these accounts.

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.

FIVE YEARS' SUMMARY OF ASSETS AND LIABILITIES

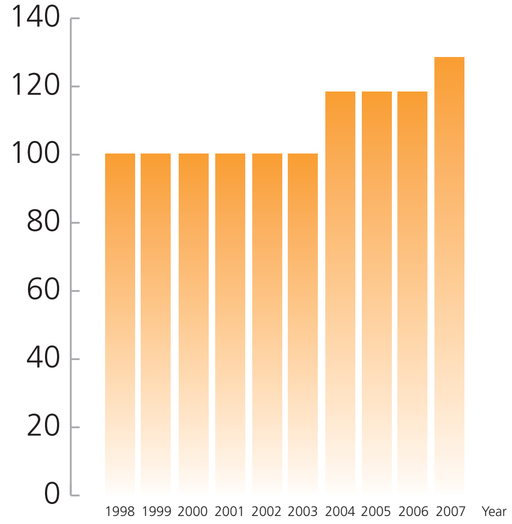
Year	2003	2004	2005	2006	**2007**
	HK$ Million	*HK$ Million*	*HK$ Million*	*HK$ Million*	***HK$ Million***
Fixed assets and interest in leasehold land	995	1,605	914	971	**950**
Interest in associates	228	219	159	173	**152**
Properties under development	77	85	859	824	**1,007**
Investments	102	71	213	198	**841**
Deferred tax assets	12	6	28	43	**56**
Current assets	2,010	1,552	1,413	1,494	**1,098**
Total assets	3,424	3,538	3,586	3,703	**4,104**
Liabilities	418	331	221	317	**421**
Net assets employed	3,006	3,207	3,365	3,386	**3,683**

TEN YEARS' FINANCIAL SUMMARY

Year		1998	1999	2000	2001	2002	2003	2004	2005	2006	**2007**
Turnover	*HK$M*	964	889	777	1,403	1,345	1,041	994	764	708	**673**
(Loss)/profit attributable to shareholders	*HK$M*	(275)	121	127	282	341	265	328	243	122	**385**
Dividends	*HK$M*	100	100	100	100	100	100	118	118	118	**128**
Shareholders' funds	*HK$M*	3,139	3,118	3,016	2,912	3,060	3,006	3,207	3,365	3,386	**3,683**
Basic (loss)/earnings per share	*Cent*	(77.2)	34.0	35.5	79.1	95.8	74.3	92.0	68.3	34.2	**107.9**
Dividend per share	*Cent*	28.0	28.0	28.0	28.0	28.0	28.0	33.0	33.0	33.0	**36.0**
Dividend cover	*Times*	–	1.2	1.3	2.8	3.4	2.6	2.8	2.1	1.0	**3.0**
(Loss)/return on equity	%	(8.8)	3.9	4.2	9.7	11.1	8.8	10.2	7.2	3.6	**10.4**
Net assets per share	*HK$*	8.8	8.8	8.5	8.2	8.6	8.4	9.0	9.4	9.5	**10.3**

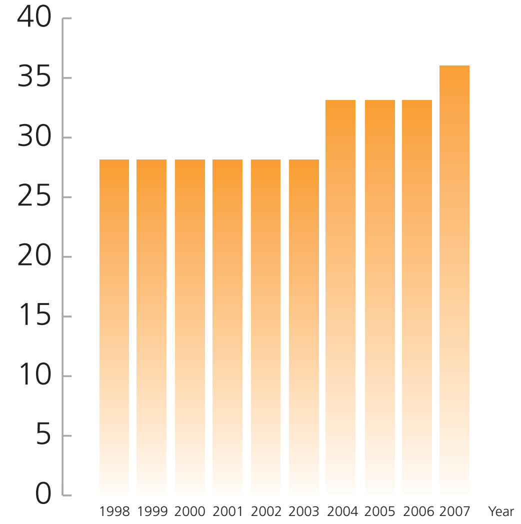
DIVIDENDS

$ Million



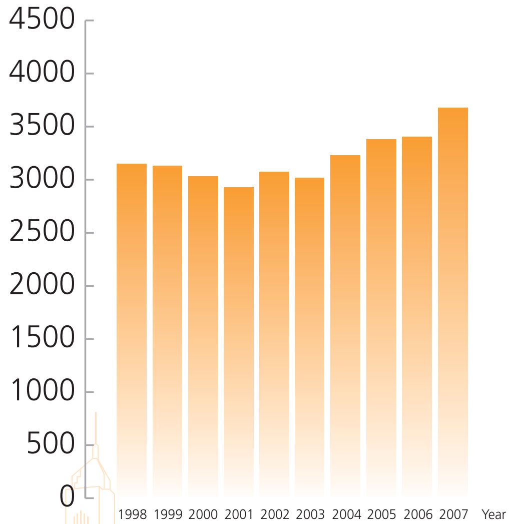
DIVIDEND PER SHARE

Cent



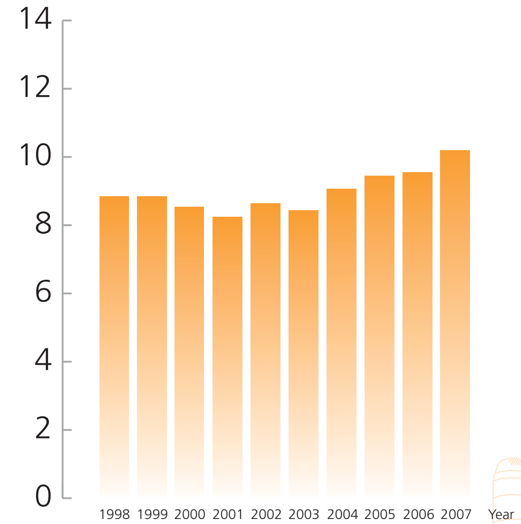
SHAREHOLDERS' FUNDS

$ Million



NET ASSETS PER SHARE

Dollar



GROUP PROPERTIES

as at 31 December 2007

1. PROPERTIES UNDER DEVELOPMENT

Location	Lot No.	Site area *(sq.m.)*	Gross floor area *(sq.m.)*	Group's interest *(%)*	Intended use
Shining Heights 83 Sycamore Street	KIL 11159	3,358	30,217	100	Commercial and residential
6 Cho Yuen Street Yau Tong	Yau Tong Inland Lot No. 38	2,329	15,407	100	Commercial and residential

2. PROPERTIES HELD FOR SALE

Location	Lot No.	Gross floor area *(sq.m.)*	Group's interest *(%)*	Existing use
Metro Harbour View 8 Fuk Lee Street Tai Kok Tsui	KIL 11127 RP	460*	100**	Residential
MetroRegalia 51 Tong Mi Road Tai Kok Tsui	KIL 4281	1,213*	100	Residential

3. PROPERTIES HELD FOR INVESTMENT

Location	Lot No.	Gross floor area *(sq.m.)*	Lease expiry *(year)*	Existing use
Metro Harbour Plaza 8 Fuk Lee Street Tai Kok Tsui	KIL 11127 RP	23,549	2047	Commercial arcade
Leyburn Villa Cheung Sha	DD 332, Lot No. 695	405	2047	Residential
20 Tin Dai Yan Road Chung Uk Tsuen Hung Shui Kiu	Lot Nos. 3039A, 3039RP & 3042 in DD 124 Hung Shui Kiu	1,912	2047	Godown
MetroRegalia 51 Tong Mi Road Tai Kok Tsui	KIL 4281	831	2090	Commercial arcade

as at 31 December 2007

4. OTHER PROPERTIES

Location	Lot No.	Site area *(sq.m.)*	Lease expiry *(year)*	Group's interest *(%)*	Description
98 Tam Kon Shan Road Ngau Kok Wan North Tsing Yi	Tsing Yi Town Lot No. 102	19,740	2047	100	Shipyard and office
Mui Wo	DD 2 Lot No. 648	7,544	2047	100	Hotel
Mui Wo	DD 2 Lot Nos. 614 RP, 619 Sec. B, C and RP	4,233	2047	100	Agricultural land
Mui Wo	DD 2 Lot Nos. 431-487, 569 and 635-637	28,606	2047	50	Agricultural land
Mui Wo	DD 2 Lot Nos 498-499, and 588-591	849	2047	100	Agricultural land

* *The area represents gross floor area of unsold units as at 31 December 2007.*

** *Pursuant to the Agreement as mentioned in note 30 on the accounts, 50% of the sales proceeds that may be derived from the sale of residential units of the properties was disposed of to a related party in 1999.*

Metro Harbour View 港灣豪庭

8 Fuk Lee Street 福利街8號

This is a residential-cum-commercial development with a total gross floor area of approximately 1.95 million sq. ft., being 1.71 million sq. ft. in residential and 240,000 sq. ft. in commercial use. It is located at the intersection of Tai Kok Tsui Road and Fuk Lee Street in Tai Kok Tsui, Kowloon and within the walking distance to the Prince Edward Station and Olympic Station of the MTR, and the West Rail Nam Cheong Station.

The development consists of 10 blocks of residential buildings, divided into 3,520 residential units with an average size of about 490 sq. ft., plus a 2 storey commercial arcade and about 1,100 car parking spaces. Residents' facilities include outdoor swimming pool, indoor sport hall, gymnasium, bowling alley, rock climbing wall, kids' playroom and more.

There were 6 unsold units at the end of 2007. The development supplies small to medium sized residential units for the buyers in region.

此乃商住發展項目，總樓宇面積約為一百九十五萬平方呎，當中一百七十一萬平方呎作住宅用途及二十四萬平方呎作商業用途。該址位於九龍大角咀大角咀道及福利街交界，鄰近地下鐵路太子站及奧運站，及西鐵南昌站。

該發展項目包括十幢住宅大廈，分為三千五百二十個住宅單位，每單位平均為四百九十平方呎，以及兩層商場及約一千一百個汽車泊位。住宅設施包括室外游泳池、室內運動場、健身室、保齡球場、攀石牆、兒童遊樂室及其他設施等。

於二零零七年底，未售單位僅六伙。該發展項目為區內供應小型至中型住宅單位。

ELEVATION DESIGN OF
Shining Heights
83 Sycamore Street
亮賢居之立面圖
詩歌舞街83號
(Formerly 222 Tai Kok Tsui Road
前稱大角咀道222號)

MetroRegalia 新港豪庭

51 Tong Mi Road 塘尾道51號

The project is a residential-cum-commercial property with a total gross floor area of approximately 53,000 sq. ft., comprising approximately 43,000 sq. ft. for residential use and approximately 10,000 sq. ft. for non-residential use. The development comprises only one block and is divided into about 80 residential units plus a two storey commercial arcade. The project was offered for sale in December 2006 and received favourable response. There were 12 unsold units at the end of 2007.

該項目為商住物業，可建總樓面約五萬三千平方呎，當中住宅樓面約四萬三千平方呎，非住宅樓面約一萬平方呎。此項目由一幢大廈組成，分為約八十個住宅單位以及兩層商場。該物業已於二零零六年十二月開售及取得理想反應。於二零零七年底，未售單位僅十二伙。

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