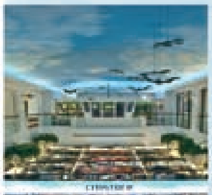
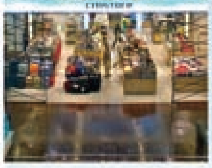
HONG KONG FERRY (HOLDINGS) CO. LTD.
香 港 小 輪 （ 集 團 ） 有 限 公 司

(Stock code 股份代號：00050)





Annual Report 年報
2008

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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. the Hon. 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
(retired on 7 May 2008)
Ms. Wong Yu Pok, Marina
(appointed on 8 May 2008)
Mr. Wu King Cheong

GROUP GENERAL MANAGER

Ir Dr. Ho Chi Shing, David

COMPANY SECRETARY

Mr. Yuen Wai Kuen, Peter

AUDITOR

KPMG

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Mizuho Corporate Bank, Limited
The Hongkong and Shanghai Banking
Corporation Limited

REGISTERED OFFICE

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

Telephone	:	(852) 2394 4294
Facsimile	:	(852) 2786 9001
Internet	:	http://www.hkf.com
E-Mail	:	hkferry@hkf.com

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, *FCILT, FHKIoD*, aged 57, appointed on 1 July 1986, is the Chairman of the Company. Mr. Lam has over 35 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 and Miramar Hotel and Investment Company, Limited, all of which are listed public companies. He is also a director of 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 member of the Court of The University of Hong Kong, a Director of The University of Hong Kong Foundation for Educational Development and Research Limited and a Director of Fudan University Education Development Foundation. Mr. Lam was awarded an Honorary University Fellowship by The University of Hong Kong in 2008. Mr. Lam is a Fellow of The Chartered Institute of Logistics and Transport in Hong Kong and a Fellow of The Hong Kong Institute of Directors.

MR. LI NING

Mr. Li Ning, *BSc, MBA*, aged 52, 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, all of which are listed public companies. 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.

DIRECTORS' & SENIOR MANAGEMENT'S PROFILE (Continued)

MR. AU SIU KEE, ALEXANDER

Mr. Au Siu Kee, **Alexander**, *OBE, ACA, FCCA, FCPA, AAIA, FCIB, FHKIB*, aged 62, 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, all of which are listed public companies. An accountant by training, Mr. Au is a Chartered Accountant as well as a Fellow of The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. 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 62, appointed on 5 May 1988, is a Non-Executive Director of the Company. He has over 35 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, all of which are listed public companies. Henderson Land has discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company.

DIRECTORS' & SENIOR MANAGEMENT'S PROFILE (Continued)

DR. THE HON. LEE SHAU KEE

Dr. the Hon. Lee Shau Kee, *GBM, DBA(Hon), DSSc(Hon), LLD(Hon),* aged 80, 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, 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, all of which are listed public companies. He is also a director of 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 74, appointed on 15 December 1981, is a Non-Executive Director of the Company. He is a Chartered Surveyor. 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, all of which are listed public companies. Henderson Land has discloseable interests under the provisions of Part XV of the Securities and Futures Ordinance in the Company.

DIRECTORS' & SENIOR MANAGEMENT'S PROFILE (Continued)

MR. WONG MAN KONG, PETER

Mr. Wong Man Kong, Peter, *BBS, JP, BSc, FCILT, MRINA*, aged 60, 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 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 11th National People's Congress of the People's Republic of China. Mr. Wong is the Chairman of M.K. Corporation Limited and North West Development 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, all of which are listed public companies.

MR. HO HAU CHONG, NORMAN

Mr. Ho Hau Chong, **Norman**, *BA, ACA, FCPA*, aged 53, appointed on 28 March 1995, is an Independent Non-Executive Director of the Company. Mr. Ho is a member of the Institute of Chartered Accountants in England and Wales, and a Fellow of the Hong Kong Institute of Certified Public Accountants. 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, all of which are listed public companies.

DIRECTORS' & SENIOR MANAGEMENT'S PROFILE (Continued)

MS. WONG YU POK, MARINA

Ms. Wong Yu Pok, Marina, *JP*, aged 60, appointed on 8 May 2008, is an Independent Non-Executive Director of the Company. Ms. Wong joined PricewaterhouseCoopers in 1968 and was responsible for the development of the firm's business in Mainland China since 1980. After her retirement as a partner from PricewaterhouseCoopers in July 2004, she joined Tricor Services Limited as a director from September 2004 to February 2006. Ms. Wong is a member of a number of Government advisory and other bodies in Hong Kong, including the Advisory Committee on Post-service Employment of Civil Servants, the Review Panel of the Pilot Project on Child Fatality Review of the Social Welfare Department, the Broadcasting Authority and is a director of The Applied Research Council. She is also a special appointed representative from Hong Kong SAR to the All China Women's Federation and an Executive Committee Member of the All China Federation of Industries and Commerce. Ms. Wong is a member of the Executive Committee of CityU Professional Services Limited. She is also the Vice-Chairman of the Hong Kong Federation of Women, a director of China Tibetan Children Health & Education Fund and a director of The Child Development Centre at Matilda. An accountant by training, Ms. Wong is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. She is also an Independent Non-Executive Director of Kerry Properties Limited, a listed public company.

MR. WU KING CHEONG

Mr. Wu King Cheong, *BBS, JP*, aged 58, was appointed as an Independent Non-Executive Director of the Company on 17 January 2005. He is a Member of Hong Kong Housing Authority, Life Honorary Chairman of the Chinese General Chamber of Commerce, 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.

DIRECTORS' & SENIOR MANAGEMENT'S PROFILE (Continued)

SENIOR MANAGEMENT'S PROFILE

The Senior Management of the Company is as follows:

Ir Dr. Ho Chi Shing, David	Group General Manager and General Manager – Ferry and Property Operations
Mr. Chau Siu Ping, Bosco	Deputy General Manager – Ferry Operation
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 Wai Kuen, Peter	Company Secretary

Ir Dr. Ho Chi Shing, David, *DBA, FCILT, FCIM, FHKIoD, MHKIE, MPIA, MCIArb,* aged 52, joined the Company in 1981 and has been the Group General Manager since 1996. He had over 28 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 (Luxembourg), 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 and the Chairman of the Discipline Advisory Board (Business Administration). 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.

Mr. Chau Siu Ping, Bosco, *DTp First Class Engineer,* aged 54, worked in a number of large shipping companies as Chief Engineer/Superintendent/Maintenance Manager before joining the Company in 2007. He has been the Deputy General Manager of the Ferry Operation since 2008. Mr. Chau has over 30 years of experience in Marine Operation.

Mr. Leung Shu Keung, Brian, *BA, CIA, CFE, CBM, PgD,* aged 47, is the Internal Audit Manager of the Company. He joined the Company in 1992 and has over 20 years of experience in accounting, auditing and management assurance.

Mr. Tse Chuen Chi, **Pollux**, *MBA, CPA, AAIA, MHKSI,* aged 55, has been the Chief Financial Officer of the Company since 1992. Mr. Tse has over 28 years of experience in accounting, corporate finance and corporate development in Hong Kong and overseas.

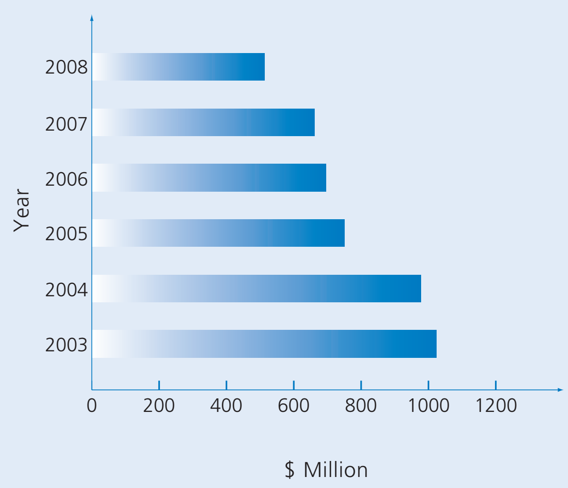
Mr. Wong Kam On, **Frandie**, *CHA, CRDE, MBIM, MIMGT, MHCIMA,* aged 55, joined the Company in 1993. He has been the General Manager of the Hotel Operation since 1996. He has over 32 years of extensive experience in hotel management. Mr. Wong was also appointed as the General Manager of the Travel Operation on 1 June 2007.

Mr. Yuen Wai Kuen, **Peter**, *BA, MBA, ACIS, ACS,* aged 50, 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.

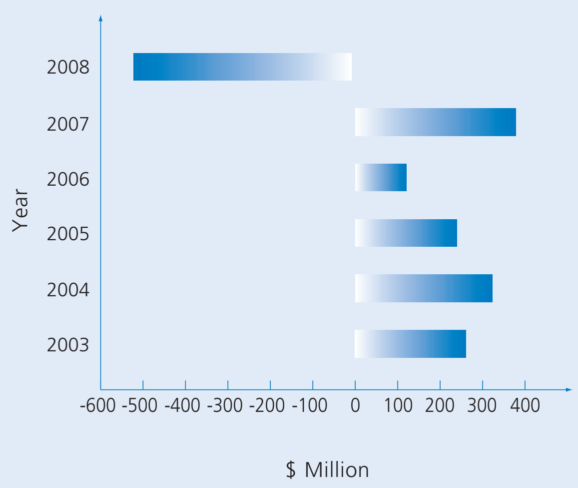
FINANCIAL HIGHLIGHTS

		2008	2007	Variance
Turnover	$M	**522**	673	-22.4%
(Loss)/profit attributable to shareholders	$M	**(526)**	385	-236.6%
Dividends	$M	**128**	128	–
Shareholders' funds	$M	**2,945**	3,683	-20.0%
Basic (loss)/earnings per share	Cent	**(147.7)**	107.9	-236.9%
Dividend per share	Cent	**36.0**	36.0	–
Dividend cover	Time	**–**	3.0	–
(Loss)/return on equity	%	**(17.9)**	10.4	-272.1%
Net assets per share	$	**8.3**	10.3	-19.4%

Group Turnover



(Loss)/profit attributable to shareholders



CHAIRMAN'S STATEMENT

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

BUSINESS RESULTS

The Group's consolidated loss after taxation for the year ended 31 December 2008 amounted to HK$526 million, compared with the consolidated profit after taxation in 2007 of HK$385 million. The loss per share was 148 cents, compared with the earnings per share of 108 cents in the previous year.

DIVIDENDS

The Board of Directors recommended a final dividend of 26 cents (2007: 26 cents) per share. Subject to the shareholders' approval at the annual general meeting to be held on Friday, 8 May 2009, the final dividend will be paid on or about Friday, 22 May 2009 to equity shareholders whose names appear on the register of members at the close of business on Friday, 8 May 2009. 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

In 2008, the credit crunch triggered by the US sub-prime mortgages has led to the failure of banks and investment banks in the US. The chain effect resulted in the most severe worldwide financial crisis in half a century. Many large banks in Europe and United States faced significant losses and required the support of their governments by way of capital injection. The stock prices of some banks dropped to one twentieth of their values as compared to one and a half year ago. 2008 witnessed a dramatic shrinking of global credit, plummeting stock markets and a significant decline in the prices of oil and commodities. Economies around the world are badly hit.

Hong Kong is not immune from the global financial turmoil. Trade and export volumes have decreased. Unemployment has surged and the stock market has seen a sharp fall. The Group's results have also been adversely affected.

The Group's investments in equity-linked notes recorded a marked-to-market loss of HK$610 million as at 31 December 2008. When compared with the relevant book costs, the equity-linked notes showed a deficit of HK$444 million as at year-end.

"Shining Heights"
83 Sycamore Street

CHAIRMAN'S STATEMENT (Continued)

There were no new residential projects launched for sale by the Company during 2008. However, the Company sold all 18 remaining units in Metro Harbour View and MetroRegalia. The sale proceeds of these units together with rental income from the commercial arcade of the two properties constituted the main source of income for 2008. Since the issue of the occupation permit of "Shining Heights" was delayed in 2008, the sale of the first batch of residential units was deferred until the end of February 2009.

Property Development and Investment Operations

8 Fuk Lee Street ("Metro Harbour View")

During the year, the Group recorded a gross profit of approximately HK$8 million from the sale of all the remaining residential units of Metro Harbour View. Rental income from the commercial arcade amounted to approximately HK$34 million for the year. The occupancy rate at the end of the year was approximately 88%.

51 Tong Mi Road ("MetroRegalia")

The Group recorded a gross profit of approximately HK$35 million from the sale of all the remaining units of MetroRegalia during the year. The commercial arcade was fully let during the year. Rental income derived from the shops of MetroRegalia amounted to approximately HK$1.3 million.

83 Sycamore Street ("Shining Heights")

As mentioned above, the first batch of residential units are currently on sale and 80 residential units have been sold, amounting to approximately HK$370 million. The project is a 60-storey building, 700 feet high, with gross floor area of approximately 336,000 sq. ft. It is the highest building in the district with commanding views of the Central District and the Lion Rock. The spacious clubhouse of approximately 30,000 sq. ft. has comprehensive facilities, including Star Theatre with the latest Stewart 138" perforated curve screen, outdoor swimming pool, banquet room, gymnasium, spa area, karaoke room, children play area, and sauna rooms, etc. It was expected that the project would generate satisfactory result for the Group.

6 Cho Yuen Street, Yau Tong

6 Cho Yuen Street, Yau Tong

The superstructure has been completed. The total gross floor area is approximately 165,000 sq. ft., comprising 140,000 sq. ft. for residential use and 25,000 sq. ft. for non-residential use. The occupation permit for the said project has just been issued and the project was currently undergoing interior decoration. The flats will be launched for sale in the not-too-distant future.

CHAIRMAN'S STATEMENT (Continued)

Ferry, Shipyard and Related Operations

The turnover of harbour cruise operations increased by 13%. The turnover of both the vehicular ferry operations and the shipyard operations rose by 11% and 34% respectively. During the year, the demand for the maintenance service of yachts, passenger catamaran and tugboat has increased as a whole. The Ferry, Shipyard and Related Operations recorded a profit of approximately HK$3.4 million.

Harbour Cruise – "Bauhinia"

Travel and Hotel Operations

The Hotel Operation recorded a deficit of HK$2.3 million due to the fall in rooms available for rental during the renovation period of the old wing of Silvermine Beach Hotel. Faced with a difficult environment for tourism, the Travel Operation recorded a loss of HK$3.8 million.

Silvermine Beach Hotel

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 case was heard in the Court of Appeal in March 2008 and judgment was handed down soon thereafter. The Group was partly successful in the appeal. The second trial was scheduled to take place in November 2008, when final liability and quantum can be determined. According to the evidence of both parties, the Group's legal advisors assessed the Group's maximum potential liability would be in the region of about HK$290 million.

Prior to the conclusion of the second trial, the parties signed a consent summons on 20 November 2008 for the complete settlement of the Action (including the counterclaim) with the Group agreeing to pay the Government a sum of HK$125 million (inclusive of interest and legal costs). The Board considered that it was acceptable and represented a significant reduction from the maximum potential liability estimated by the Group. It is also within the amount of HK$160 million provided for in the accounts of the Group's potential liability in respect of the Government's claims. A sum of surplus provision HK$23 million had been written back as a profit item of the Group in the financial year ended 31 December 2008.

PROSPECTS

In an attempt to combat the ongoing financial crisis, the United States, Europe and China have launched economic stimulus packages respectively and adopted appropriate monetary and fiscal policies. However, it will take time for these measures to show effect. At present, significant negative pressures still overhang the worldwide economy. It is expected that the local economy will be fragile and unemployment will increase further.

CHAIRMAN'S STATEMENT (Continued)

In the prevailing adverse market condition, the Group will adopt a prudent policy to maintain a sizable cash position and preserve our financial strength to take advantage of attractive investment opportunities in future. The Group would make new investments in properties, securities and/or bonds once the economy, the stock market and the foreign exchange market become more stable. The revenue from sale of flats of "Shining Heights" and Cho Yuen Street in Yau Tong will be the major source of income of the year. The Group expects the business operations in the coming year to improve.

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, 13 March 2009

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$522 million, representing a decrease of 22% when compared to the previous year. This was mainly attributed to the decrease in the sales of the residential units in Metro Harbour View and MetroRegalia.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As of 31 December 2008, shareholders' fund of the Group showed a decrease of 20% as compared to the previous year and amounted to approximately HK$2,945 million. The decrease was mainly due to the net effects of realised and unrealised losses on the equity-linked notes ("ELNs"), the decrease in property sales, fall in fair value of available-for-sale equity securities and the payment of dividends.

There was no change as to the capital structure of the Group during the year. As of 31 December 2008, the Group had a bank borrowing of HK$100 million. 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$44 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$2,167 million as compared to the current liabilities of approximately HK$547 million as of 31 December 2008. Current ratio of the Group had been decreased to 4, mainly attributed to the reduction in cash reserves, the diminution in market value of the ELNs and the increase in trade and other payables.

GEARING RATIO AND FINANCIAL MANAGEMENT

At 31 December 2008, the gearing ratio stood at 3.4%, which was calculated on the basis of bank borrowing as a ratio of the Group's shareholders' fund.

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 and United States dollar. Certain ELNs and deposits 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 2008, the number of employees of the Group stood at about 380 (2007: 380). 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$79 million, which is commensurate with that recorded in the previous year.

REPORT OF THE DIRECTORS

The directors submit herewith their annual report together with the audited accounts for the year ended 31 December 2008.

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 2 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	23.9%
Five largest suppliers in aggregate	61%

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 2008, 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 2008 are set out in note 13 to the accounts.

ACCOUNTS AND DIVIDENDS

The loss of the Group for the year ended 31 December 2008, 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 32 to 104.

An interim dividend of 10 cents (2007: 10 cents) per share was paid on 17 October 2008. The directors now recommend a final dividend of 26 cents (2007: 26 cents) per share. Subject to the shareholders' approval at the annual general meeting to be held on Friday, 8 May 2009, the final dividend will be paid on or about Friday, 22 May 2009 to shareholders whose names appear on the register of members at the close of business on Friday, 8 May 2009.

REPORT OF THE DIRECTORS (Continued)

CHARITABLE DONATIONS

The Group's charitable donations during the year amounted to HK$14,762 (2007: HK$19,893).

FIXED ASSETS

Movements in fixed assets during the year are set out in note 11 to the accounts.

SHARE CAPITAL

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

DIRECTORS

The directors of the Company during the financial year were:

Executive directors

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

Non-executive directors

Mr. Au Siu Kee, Alexander
Mr. Lau Yum Chuen, Eddie
Dr. the Hon. 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 (retired on 7 May 2008)
Ms. Wong Yu Pok, Marina (appointed on 8 May 2008)
Mr. Wu King Cheong

In accordance with Article 103(A) of the Company's Articles of Association, Mr. Lam Ko Yin, Colin, Mr. Lau Yum Chuen, Eddie, Dr. Lee Shau Kee and Mr. Wong Man Kong, Peter shall retire at the forthcoming annual general meeting, and, being eligible, offer themselves for re-election as directors. Pursuant to Article 94 of the Company's Articles of Association, Ms. Wong Yu Pok, Marina, who was appointed on 8 May 2008 as director of the Company, shall hold office until the forthcoming annual general meeting and being eligible, offer herself for re-election as director.

The Company has received from each independent non-executive director an annual confirmation of his/her 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 8.

DIRECTORS' REMUNERATION

Details of directors' remuneration are set out in note 5 to the accounts.

DIRECTORS' INTEREST IN CONTRACTS

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

DIRECTORS' SERVICE CONTRACTS

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

REPORT OF THE DIRECTORS (Continued)

DISCLOSURE OF INTERESTS

Directors' Interests in Securities

As at 31 December 2008, 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	–	–	–	–	0.00%
Mr. Ho Hau Chong, Norman	3,313,950	–	–	3,313,950	0.93%
Mr. Lau Yum Chuen, Eddie	–	–	–	–	0.00%
Dr. Lee Shau Kee	7,799,220	111,732,090 *(Note 6 on page 20)*	–	119,531,310	33.55%
Mr. Leung Hay Man	2,250	–	–	2,250	0.00%
Mr. Li Ning	–	–	111,732,090 *(Note 5 on page 20)*	111,732,090	31.36%
Mr. Wong Man Kong, Peter	1,051,000	–	–	1,051,000	0.29%
Ms. Wong Yu Pok, Marina	–	–	–	–	0.00%
Mr. Wu King Cheong	–	–	–	–	0.00%

	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

	WINWIDE LIMITED	
	Corporate Interests *Number of Shares*	**Family Interests** *Number of Shares*
Dr. Lee Shau Kee *(Note 3)*	70	–
Mr. Li Ning *(Note 4)*	–	70

REPORT OF THE DIRECTORS (Continued)

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.

3. These 70 shares representing 70% equity interest in Winwide Limited (an associated company in which the Company through a subsidiary owned the remaining 30% interest) were beneficially owned by a company in which HLD had a 40% interest. 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 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 70 shares in Winwide Limited.

4. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 70 shares in Winwide 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 2008.

REPORT OF THE DIRECTORS (Continued)

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2008, the interests in ordinary shares of the Company of every person as recorded in the register required to be kept under Section 336 of the SFO were as follows:

	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.

REPORT OF THE DIRECTORS (Continued)

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 2008.

Save as disclosed, as at 31 December 2008, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company.

RESERVES

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

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

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

ARRANGEMENT TO PURCHASE SHARES, WARRANTS, OPTIONS OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares, options, debentures or warrants of the Company or any other body corporate.

BANK LOAN AND OVERDRAFT

Particulars of bank loan and overdraft of the Group as at 31 December 2008 are set out in note 21 to the accounts.

FINANCIAL SUMMARIES

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

GROUP PROPERTIES

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

RETIREMENT PLANS

The Group's Hong Kong employees participate either in a defined benefit retirement scheme or a Mandatory Provident Fund scheme. Particulars of these retirement plans are set out in note 16 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.

REPORT OF THE DIRECTORS (Continued)

Continuing Connected Transactions

During the year ended 31 December 2008, the Company and/or its subsidiaries had entered into certain continuing connected transactions, with details below, which were subject to the annual review and reporting requirements under Chapter 14A of the Listing Rules.

	Date	Connected persons	Transactions
1	27 November 2008	Henderson Real Estate Agency Limited ("HREAL"), a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD")	The Group entered into the Sales Management Agreement with HREAL, for the appointment of HREAL as the sales manager for the development of 220-222 Tai Kok Tsui Road, Kowloon, Hong Kong (the "TKT Road Property") for a term of 3 years commencing from 1 November 2008.
2	27 November 2008	HREAL	On 15 August 2008, HREAL entered into the Miramar/HREAL Agreements with Shahdan Limited ("Shahdan"), a wholly-owned subsidiary of Miramar Hotel and Investment Company, Limited ("Miramar"). On 27 November 2008, the Group entered into a letter agreement with HREAL for marketing of the property that HREAL would act as agent of the Group and the Group shall be the principal under the Miramar/HREAL Agreements with Shahdan (the "Tenancy Arrangements"), for the period from 16 June 2008 to the earlier of 15 December 2009 and the date on which the last residential unit in the TKT Road Property to be sold is sold.

Details of the above continuing connected transactions are set out in note 30 to the accounts.

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

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

REPORT OF THE DIRECTORS (Continued)

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 29.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial results of the Group for the year ended 31 December 2008.

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.

AUDITOR

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the board

Colin K.Y. Lam	**Li Ning**
Chairman	*Director*

Hong Kong, 13 March 2009

CORPORATE GOVERNANCE REPORT

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 of 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 2008.

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 (retired on 7 May 2008)
Ms. Wong Yu Pok, Marina (appointed on 8 May 2008)
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; oversight of management and review of the effectiveness of the internal control system including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting function, and their respective training programmes and budget. 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.

CORPORATE GOVERNANCE REPORT (Continued)

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, Au Siu Kee, Alexander, 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. 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, Mr. Ho Hau Chong, Norman (Chairman of the Audit Committee), Ms. Wong Yu Pok, Marina and Mr. 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 2008, 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 2007, the Annual Internal Audit Report for 2007, Continuing Connected Transactions, the interim results and its corresponding accounts for the period ended 30 June 2008, the Interim Review of Audit Assignments for 2008, the audit fees for 2008 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.

CORPORATE GOVERNANCE REPORT (Continued)

The Audit Committee oversaw internal control system of the Group including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their relevant training programmes and budget. The Audit Committee also oversaw the risk management of the Group and discussed with the external auditor on financial reporting and compliance. The external auditor 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, Mr. Wu King Cheong (Chairman of the Remuneration Committee), Mr. Ho Hau Chong, Norman and Ms. Wong Yu Pok, Marina.

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 2008, 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 2008.

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

AUDITOR'S REMUNERATION

Apart from carrying out the annual audit, KPMG, being the auditor of the Company carried out the review on the interim reports of the Company. The fee of the annual audit is HK$1,190,000 whereas the fee for the interim review is HK$240,000. 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 of 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 Auditor of the Company about their reporting responsibilities on the accounts of the Company is set out in the Auditor's Report on pages 30 to 31.

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 2008, 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.

CORPORATE GOVERNANCE REPORT (Continued)

The members of the Risk Management Committee met twice in February and August 2008 respectively. 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	0/1
Non-executive directors			
Mr. Au Siu Kee, Alexander	4/4	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	4/4	N/A	N/A
Independent non-executive directors			
Mr. Ho Hau Chong, Norman	4/4	2/2	1/1
Mr. Kan Yuet Loong, Michael *(Note 1)*	1/1	1/1	N/A
Ms. Wong Yu Pok, Marina *(Note 2)*	3/3	1/1	1/1
Mr. Wu King Cheong	4/4	2/2	1/1

Notes:

1. Mr. Kan Yuet Loong, Michael retired from his office as an independent non-executive director of the Company by rotation in accordance with the Articles of Association of the Company on 7 May 2008. Mr. Kan also ceased to be the Chairman and member of the Audit Committee and the Remuneration Committee of the Company.

2. Ms. Wong Yu Pok, Marina was appointed as independent non-executive director of the Company and member of the Audit Committee and the Remuneration Committee on 8 May 2008.

CORPORATE GOVERNANCE REPORT (Continued)

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.

CHANGE OF DIRECTOR

During the year, Mr. Kan Yuet Loong, Michael retired from his office as an independent non-executive director of the Company by rotation in accordance with the Articles of Association of the Company on 7 May 2008 and did not offer himself for re-election for the reason of retirement. Mr. Kan also ceased to be the Chairman and member of the Audit Committee and the Remuneration Committee of the Company. On 8 May 2008, Ms. Wong Yu Pok, Marina was appointed as independent non-executive director of the Company and member of the Audit Committee and the Remuneration Committee. The biographical details of Ms. Wong are set out on page 7 of this annual report.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Board has received confirmation of independence from each of Mr. Ho Hau Chong, Norman, Ms. Wong Yu Pok, Marina and Mr. 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 Mr. Ho Hau Chong, Norman, Ms. Wong Yu Pok, Marina and Mr. Wu King Cheong as independent.

CORPORATE GOVERNANCE REPORT (Continued)

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 has 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 2008.

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 charitable activities to promote good corporate citizenship in Hong Kong.

Elderly home visit

Flag-selling event

To continue our commitment to the community service, we have proudly established the Group's Staff Volunteer Team comprising approximately 20 members under "HKF Volunteer Award Scheme" (「香港小輪有心人義工獎勵計劃」) in January 2008 to promote the awareness of and concern for the underprivileged group and serve the community as a whole.

Our continuous commitment to community service and care of employees have been recognized by the Hong Kong Council of Social Service as a Caring Company for six consecutive years since 2003.

Caring Company award ceremony

CORPORATE GOVERNANCE REPORT (Continued)

Community Service

In response to the 12 May Sichuan Earthquake, our Group had made donation and also swiftly organized a fundraising campaign within the Company to help the victims.

We recognize the contribution of the elderly to the society and their need. Our volunteer team members, together with the helpers from The Hong Kong Federation of Youth Groups and students of CCC Chuen Yuen College, visited the Helping Hand Tai Wo Hau Christa Tisdall Jockey Club Care Home in April 2008. During the visit, we enjoyed the time with the elderly and shared the joy with them by playing games, making handicrafts and distributing gifts. We also joined a flag-selling event organized by the Senior Citizen Home Safety Association in September 2008 to raise fund for "The PE Link Service" and "The Elder Ring Hotline Service".

To echo with the Senior Citizen's Day in November 2008, our volunteer team as well as their family members joined together to visit TWGH Ma Cheng Suk Ying Home for the Elderly at Lei Cheng Uk Estate, and offered the elders with presents and hand-made cookie.

Staff Volunteer recognition ceremony

Day trip to East Overseas Chinese Town, Shenzhen

Staff Activities

The Group normally organized staff outing activities at least once every year to enhance the social contact among all staff. On 13 April 2008, the Group had organized a day trip out of Hong Kong to East Overseas Chinese Town, Shenzhen, a newly developed scenic spot which was built as a model town of Switzerland. About 100 staff and their family members enjoyed great time there.

Employees Development

The Group provides various seminars and workshops to senior and operational staff organized by internal departments and external organizations to enhance the job-related experience of the staff.

Environment Awareness

Our Group continues to contribute to the preservation of the environment and its resources: minimizing 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.

REPORT OF THE AUDITOR

KPMG

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 32 to 104, which comprise the consolidated and Company balance sheets as at 31 December 2008, 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.

REPORT OF THE AUDITOR (Continued)

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 2008 and of the Group's loss 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

13 March 2009

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2008

	Note	2008 HK$'000	2007 HK$'000
Turnover	2(a)	**522,361**	673,318
Cost of sales		**(383,716)**	(415,566)
		138,645	257,752
Other revenue	2(a) & 3	**37,073**	42,056
Other net (loss)/income	3	**(621,013)**	300,906
Fair value gain on transfer of properties held for sale to investment properties	2(c)	**23,045**	–
Valuation (losses)/gains on investment properties	2(c) & 11	**(30,027)**	14,589
Impairment on available-for-sale equity securities	2(g)	**(15,932)**	–
Impairment losses on fixed assets	2(d) & 11	**–**	(34,704)
Reversal of provision/(provision) for litigation	28	**22,933**	(60,000)
Selling and marketing expenses		**(17,469)**	(24,279)
Administrative expenses		**(41,749)**	(54,457)
Other operating expenses		**(38,703)**	(40,121)
(Loss)/profit from operations	2(b)	**(543,197)**	401,742
Finance costs	4(a)	**(969)**	–
Share of profits of associates		**242**	820
(Loss)/profit before taxation	4	**(543,924)**	402,562
Taxation	7(a)	**17,879**	(18,040)
(Loss)/profit attributable to equity shareholders of the Company	2(b) & 8	**(526,045)**	384,522
Dividends payable to equity shareholders of the Company attributable to the year	9(a)	**128,258**	128,258
Basic (loss)/earnings per share *(cents)*	10	**(147.7)**	107.9

The notes on pages 39 to 104 form part of these accounts.

CONSOLIDATED BALANCE SHEET

as at 31 December 2008

	Note	2008 HK$'000	2008 HK$'000	2007 HK$'000	2007 HK$'000
Non-current assets					
Fixed assets	11				
– Investment properties			**872,000**		780,200
– Other property, plant and equipment			**109,139**		115,130
– Interest in leasehold land			**53,121**		54,501
			1,034,260		949,831
Properties under development					
– held for investment	12		**–**		44,498
Interest in associates	14		**108,395**		151,868
Available-for-sale equity securities	15		**127,827**		193,668
Employee benefits assets	16(a)		**10,482**		8,590
Deferred tax assets	23(c)		**73,375**		56,276
			1,354,339		1,404,731
Current assets					
Tax recoverable	23(a)	**2,414**		1,900	
Derivative financial instruments	17	**191,624**		638,470	
Inventories	18(a)	**1,393,741**		1,022,040	
Trade and other receivables	19	**100,161**		164,598	
Cash and cash equivalents	20	**478,713**		872,106	
		2,166,653		2,699,114	
Current liabilities					
Bank loan and overdraft	21	**100,216**		287	
Trade and other payables	22	**415,895**		191,920	
Provision for litigation	28	**–**		160,000	
Tax payable	23(b)	**31,314**		38,478	
		547,425		390,685	
Net current assets			**1,619,228**		2,308,429
Total assets less current liabilities			**2,973,567**		3,713,160
Non-current liabilities					
Deferred tax liabilities	23(c)		**(29,049)**		(29,922)
NET ASSETS			**2,944,518**		3,683,238

CONSOLIDATED BALANCE SHEET (Continued)

as at 31 December 2008

	Note	**2008** *HK$'000*	**2008** *HK$'000*	2007 *HK$'000*	2007 *HK$'000*
CAPITAL AND RESERVES					
Share capital	*24*		**356,274**		356,274
Reserves	*25*		**2,588,244**		3,326,964
TOTAL EQUITY			**2,944,518**		3,683,238

Approved and authorised for issue by the board of directors on 13 March 2009.

Colin K.Y. Lam
Chairman

Li Ning
Director

The notes on pages 39 to 104 form part of these accounts.

BALANCE SHEET

as at 31 December 2008

	Note	2008 HK$'000	2008 HK$'000	2007 HK$'000	2007 HK$'000
Non-current assets					
Interest in subsidiaries	13		**3,382,695**		4,224,157
Interest in associates	14		**2,902**		2,902
Available-for-sale equity securities	15		**45**		45
Employee benefits assets	16(a)		**10,482**		8,590
			3,396,124		4,235,694
Current assets					
Trade and other receivables	19	**1,959**		1,882	
Cash and cash equivalents	20	**310,001**		55,112	
		311,960		56,994	
Current liabilities					
Amounts due to subsidiaries	13	**362,347**		357,441	
Trade and other payables		**6,625**		6,064	
		368,972		363,505	
Net current liabilities			**(57,012)**		(306,511)
NET ASSETS			**3,339,112**		3,929,183
CAPITAL AND RESERVES					
Share capital	24		**356,274**		356,274
Reserves	25		**2,982,838**		3,572,909
TOTAL EQUITY			**3,339,112**		3,929,183

Approved and authorised for issue by the board of directors on 13 March 2009.

Colin K.Y. Lam
Chairman

Li Ning
Director

The notes on pages 39 to 104 form part of these accounts.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008

	Note	2008 *HK$'000*	2007 *HK$'000*
Shareholders' equity at 1 January		**3,683,238**	3,385,823
Net income recognised directly in equity:			
Changes in fair value of available-for-sale equity securities	*25(a)*	**(100,325)**	34,050
Transfers from equity:			
Transfer to profit or loss on impairment of available-for-sale equity securities	*25(a)*	**15,932**	–
Transfer to profit or loss from other capital reserves	*25(a)*	**(24)**	(24)
		15,908	(24)
Net (loss)/profit for the year	*25(a)*	**(526,045)**	384,522
Total recognised income and expenses for the year		**(610,462)**	418,548
Dividends approved and paid during the year	*25(a)*	**(128,258)**	(121,133)
Shareholders' equity at 31 December		**2,944,518**	3,683,238

The notes on pages 39 to 104 form part of these accounts.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008

	Note	2008 HK$'000	2008 HK$'000	2007 HK$'000	2007 HK$'000
Operating activities					
(Loss)/profit before taxation			**(543,924)**		402,562
Adjustments for:					
Depreciation		**9,010**		9,901	
Amortisation of leasehold land premium		**1,380**		1,760	
Impairment losses on fixed assets		**–**		34,704	
Impairment losses on trade and other receivables		**18**		347	
Impairment on available-for-sale equity securities		**15,932**		–	
Fair value gain on transfer of properties held for sale to investment properties		**(23,045)**		–	
Net (profit)/loss on disposal of fixed assets		**(321)**		48	
(Reversal of provision)/provision for litigation		**(22,933)**		60,000	
Valuation losses/(gains) on investment properties		**30,027**		(14,589)	
Net realised and unrealised losses/(gains) on derivative financial instruments		**609,906**		(309,594)	
Interest income		**(28,975)**		(41,247)	
Dividend income		**(5,727)**		(37,405)	
Share of profits of associates		**(242)**		(820)	
Realisation of inter-company profits	25(a)	**(24)**		(24)	
			585,006		(296,919)
Operating profit before changes in working capital			**41,082**		105,643
Increase in employee benefits surplus		**(1,892)**		(1,980)	
Increase in inventories		**(383,885)**		(68,840)	
Decrease/(increase) in trade and other receivables		**60,248**		(16,716)	
Increase in trade and other payables		**84,968**		35,247	
			(240,561)		(52,289)
Cash (used in)/generated from operations			**(199,479)**		53,354
Profits tax paid		**(7,771)**		(773)	
Profits tax refunded		**–**		148	
			(7,771)		(625)
Net cash (used in)/generated from operating activities			**(207,250)**		52,729

CONSOLIDATED CASH FLOW STATEMENT (Continued)

for the year ended 31 December 2008

	Note	2008		2007	
		HK$'000	HK$'000	HK$'000	HK$'000
Investing activities					
Interest received		**28,172**		42,125	
Mortgage loan advanced to buyers		**–**		(3,443)	
Purchase of fixed assets		**(22,852)**		(14,580)	
Payment for purchase of available-for-sale equity securities		**(34,486)**		–	
Payment for purchase of derivative financial instruments		**(344,287)**		(589,912)	
Payment for properties under development – held for investment		**(22,717)**		(7,697)	
Repayment from associates		**42,090**		22,157	
Proceeds from disposal of derivative financial instruments		**181,953**		282,218	
Proceeds from disposal of fixed assets		**3,550**		3	
Dividends received from investments		**10,763**		30,633	
Net cash used in investing activities			**(157,814)**		(238,496)
Financing activities					
Proceeds from new bank loan		**100,000**		–	
Dividends paid		**(128,258)**		(121,133)	
Net cash used in financing activities			**(28,258)**		(121,133)
Net decrease in cash and cash equivalents			**(393,322)**		(306,900)
Cash and cash equivalents at 1 January			**871,819**		1,178,719
Cash and cash equivalents at 31 December	20		**478,497**		871,819

The notes on pages 39 to 104 form part of these accounts.

NOTES TO THE 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. The application of the new HKFRSs do not have any material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented.

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

(b) Basis of preparation of the accounts

The consolidated accounts for the year ended 31 December 2008 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.

NOTES TO THE ACCOUNTS (Continued)

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.

Judgements made by management in the application of HKFRSs that have significant effect on the accounts and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

(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.

NOTES TO THE ACCOUNTS (Continued)

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.

NOTES TO THE ACCOUNTS (Continued)

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 profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss 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(p)(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 less any impairment loss (see note 1(i)) 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.

NOTES TO THE ACCOUNTS (Continued)

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 equity 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.

NOTES TO THE ACCOUNTS (Continued)

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 profit or loss in accordance with the policy set out in note 1(p)(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 equity 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 is 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.

NOTES TO THE ACCOUNTS (Continued)

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.

NOTES TO THE ACCOUNTS (Continued)

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 debtors 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 debtors 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).

NOTES TO THE ACCOUNTS (Continued)

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 an impairment loss 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.

NOTES TO THE ACCOUNTS (Continued)

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:

– Properties 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 properties 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.

NOTES TO THE ACCOUNTS (Continued)

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 recognised immediately in 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) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(n) 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(u)(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.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in 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.

NOTES TO THE ACCOUNTS (Continued)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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.

(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 at the 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 investment goes ex-dividend.

NOTES TO THE ACCOUNTS (Continued)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised are being directly attributable to the construction of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

(r) 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.

(s) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement fund

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) Defined benefit retirement plan obligations

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.

NOTES TO THE ACCOUNTS (Continued)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Employee benefits (Continued)

(ii) *Defined benefit retirement plan obligations* (Continued)

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the 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.

(t) 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.

NOTES TO THE ACCOUNTS (Continued)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Income tax (Continued)

(iii) 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.

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.

NOTES TO THE ACCOUNTS (Continued)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) 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(u)(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.

(v) 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.

NOTES TO THE ACCOUNTS (Continued)

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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 entities 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.

(x) 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.

NOTES TO THE ACCOUNTS (Continued)

2 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.

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".

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	
	2008 **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000	**2008** **HK$'000**	2007 HK$'000
Property development and investment	**138,129**	277,642	**–**	–	**138,129**	277,642
Ferry, shipyard and related operations	**228,442**	190,196	**3,755**	2,363	**224,687**	187,833
Travel and hotel operations	**168,569**	177,939	**84**	195	**168,485**	177,744
Securities investment	**15,567**	42,367	**–**	–	**15,567**	42,367
Others	**53,120**	70,418	**40,554**	40,630	**12,566**	29,788
	603,827	758,562	**44,393**	43,188	**559,434**	715,374
Analysed by:						
Turnover					**522,361**	673,318
Other revenue					**37,073**	42,056
					559,434	715,374

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.

NOTES TO THE ACCOUNTS (Continued)

2 SEGMENTAL INFORMATION (Continued)

(b) Segmental result

	Segmental result		Elimination of inter-segment transactions		Consolidated	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment *(note c)*	**54,291**	142,152	**–**	–	**54,291**	142,152
Ferry, shipyard and related operations *(note d)*	**26,317**	(103,351)	**–**	–	**26,317**	(103,351)
Travel and hotel operations	**(6,065)**	(676)	**–**	–	**(6,065)**	(676)
Securities investment	**(611,249)**	336,384	**–**	–	**(611,249)**	336,384
Others *(note e)*	**(6,491)**	27,233	**–**	–	**(6,491)**	27,233
	(543,197)	401,742	**–**	–	**(543,197)**	401,742
Finance costs					**(969)**	–
Share of profits of associates					**242**	820
(Loss)/profit before taxation					**(543,924)**	402,562
Taxation					**17,879**	(18,040)
(Loss)/profit attributable to equity shareholders					**(526,045)**	384,522

(c) The segmental result of the property development and investment operations included valuation losses on investment properties and fair value gain on transfer of properties held for sale to investment properties of HK$30,027,000 (2007: gains of HK$14,589,000) and HK$23,045,000 (2007: HK$Nil) respectively.

(d) Due to the operating environment of the shipyard operations, the segmental result of the ferry, shipyard and related operations for the year ended 31 December 2007 included impairment losses in respect of the shipyard assets of HK$34,704,000 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.

NOTES TO THE ACCOUNTS (Continued)

2 SEGMENTAL INFORMATION (Continued)

(f) Segmental balance sheet

	Segmental assets		Inter-segment elimination		Total assets	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**2,403,060**	2,115,904	**–**	–	**2,403,060**	2,115,904
Ferry, shipyard and related operations	**184,941**	172,397	**–**	–	**184,941**	172,397
Travel and hotel operations	**52,262**	49,378	**–**	–	**52,262**	49,378
Securities investment	**341,946**	1,122,180	**–**	–	**341,946**	1,122,180
Others	**538,783**	643,986	**–**	–	**538,783**	643,986
Total assets	**3,520,992**	4,103,845	**–**	–	**3,520,992**	4,103,845

	Segmental liabilities		Inter-segment elimination		Total liabilities	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**344,380**	115,358	**–**	–	**344,380**	115,358
Ferry, shipyard and related operations	**31,476**	197,294	**–**	–	**31,476**	197,294
Travel and hotel operations	**30,775**	31,575	**–**	–	**30,775**	31,575
Securities investment	**100,193**	139	**–**	–	**100,193**	139
Others	**69,650**	76,241	**–**	–	**69,650**	76,241
Total liabilities	**576,474**	420,607	**–**	–	**576,474**	420,607

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

NOTES TO THE ACCOUNTS (Continued)

2 SEGMENTAL INFORMATION (Continued)

(g) Other segmental information

	Depreciation and amortisation		Impairment loss		Capital expenditure incurred	
	2008	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development and investment	**58**	73	**18**	347	**56,518**	19,886
Ferry, shipyard and related operations	**7,639**	8,836	**–**	34,704	**2,398**	815
Travel and hotel operations	**2,476**	2,574	**–**	–	**248**	1,457
Securities investment	**–**	–	**15,932**	–	**–**	–
Others	**217**	178	**–**	–	**460**	120
	10,390	11,661	**15,950**	35,051	**59,624**	22,278

Certain of these securities were determined to be impaired on the basis of significant or prolonged decline in their fair values below costs. During the year, impairment losses of HK$15.9 million (2007: HK$Nil) has been made and recognised in the consolidated profit and loss account.

3 OTHER REVENUE AND NET (LOSS)/INCOME

	2008	2007
	HK$'000	*HK$'000*
Other revenue		
Other interest income	**20,524**	19,126
Management fee income	**8,827**	11,912
Air-conditioning charges income	**5,947**	5,813
Other income	**1,775**	5,205
	37,073	42,056
Other net (loss)/income		
Net realised and unrealised (losses)/gains on derivative financial instruments *(note 17)*	**(609,906)**	309,594
Net exchange losses	**(14,742)**	(12,058)
Sundry income	**2,577**	1,448
Income from sale of spare parts	**737**	1,970
Net profit/(loss) on disposal of fixed assets	**321**	(48)
	(621,013)	300,906

NOTES TO THE ACCOUNTS (Continued)

4 (LOSS)/PROFIT BEFORE TAXATION

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

(a) Finance costs:

	2008 **HK$'000**	2007 HK$'000
Interest on bank loan wholly repayable within five years	**969**	–

(b) Staff costs:

	2008 **HK$'000**	2007 HK$'000
Decrease in liability for defined benefit retirement plan *(note 16(a)(v))*	**(1,892)**	(1,980)
Contributions to Mandatory Provident Funds	**2,409**	2,300
Retirement costs	**517**	320
Salaries, wages and other benefits	**78,676**	75,396
	79,193	75,716

(c) Other items:

	2008 **HK$'000**	2007 HK$'000
Amortisation of leasehold land premium	**1,380**	1,760
Depreciation	**9,010**	9,901
Cost of inventories *(note 18(b))*	**163,296**	206,988
Auditor's remuneration		
– audit services	**1,281**	1,140
– other services	**240**	249
Operating lease charges in respect of		
– premises	**4,058**	4,422
– vessels	**220**	729
Impairment losses on trade and other receivables	**18**	347
Rentals receivable from investment properties net of outgoings of HK$16,343,000 (2007: HK$14,686,000)	**(14,443)**	(10,353)
Rentals receivable from operating leases, other than those relating to investment properties, net of outgoings HK$612,000 (2007: HK$840,000)	**(2,512)**	(4,754)
Interest income	**(28,975)**	(46,139)
Dividend income from listed investments	**(5,727)**	(37,405)

NOTES TO THE ACCOUNTS (Continued)

5 DIRECTORS' REMUNERATION

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

	Directors' fee	
	2008	2007
	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**	250
Mr. Kan Yuet Loong, Michael (retired on 7 May 2008)	**87**	250
Ms. Wong Yu Pok, Marina (appointed on 8 May 2008)	**163**	–
Mr. Wu King Cheong	**250**	250
	1,250	1,250

6 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:

	2008	2007
	HK$'000	*HK$'000*
Salaries and other emoluments	**5,889**	7,306
Retirement scheme contributions	**83**	130
	5,972	7,436

NOTES TO THE ACCOUNTS (Continued)

6 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS (Continued)

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

HK$	**2008 Number of individuals**	2007 Number of individuals
1,000,000 or below	**3**	1
1,000,001–1,500,000	**1**	2
1,500,001–2,000,000	**–**	1
2,000,001–2,500,000	**1**	1

7 INCOME TAX IN THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

	2008 *HK$'000*	2007 *HK$'000*
Current tax – Hong Kong profits tax		
Provision for the year	**168**	26,633
One-off rebate of profits tax	**(75)**	–
Under-provision in respect of prior years	**–**	4
	93	26,637
Deferred tax		
Origination and reversal of temporary differences	**(19,478)**	(8,597)
Effect on opening deferred tax balances resulting from a decrease in tax rate during the year	**1,506**	–
	(17,972)	(8,597)
	(17,879)	18,040

In February 2008, the Hong Kong Government announced a decrease in the profits tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008. This decrease is taken into account in the preparation of the Group's and the Company's 2008 accounts. Accordingly, the provision for Hong Kong profits tax for 2008 is calculated at 16.5% (2007: 17.5%) of the estimated assessable profits for the year and the opening balances of deferred tax have been re-estimated accordingly.

NOTES TO THE ACCOUNTS (Continued)

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

(b) Reconciliation between tax (credit)/expense and accounting (loss)/profit at applicable tax rate:

	2008	2007
	HK$'000	*HK$'000*
(Loss)/profit before taxation	**(543,924)**	402,562
Notional tax on (loss)/profit before taxation, calculated at 16.5% (2007: 17.5%)	**(89,747)**	70,448
Tax effect of non-deductible expenses	**5,160**	18,524
Tax effect of non-taxable income	**(11,139)**	(38,539)
Tax effect of current year's tax losses not recognised	**106,026**	909
Tax effect of prior years' unrecognised tax losses utilised this year	**–**	(1,997)
Tax effect of prior years' tax losses recognised this year	**(25,008)**	(31,104)
Under-provision in respect of prior years	**–**	4
One-off rebate of profits tax	**(75)**	–
Tax effect of temporary differences on fixed assets	**(4,602)**	(205)
Effect on opening deferred tax balances resulting from a decrease in tax rate during the year	**1,506**	–
Actual tax (credit)/expense	**(17,879)**	18,040

8 (LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated (loss)/profit attributable to equity shareholders of the Company includes a loss of HK$461,813,000 (2007: profit of HK$153,621,000) which has been dealt with in the accounts of the Company.

Reconciliation of the above amount to the Company's (loss)/profit for the year:

	2008	2007
	HK$'000	*HK$'000*
Amount of consolidated (loss)/profit attributable to equity shareholders dealt with in the Company's accounts	**(461,813)**	153,621
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**–**	8,500
Company's (loss)/profit for the year *(note 25(b))*	**(461,813)**	162,121

NOTES TO THE ACCOUNTS (Continued)

9 DIVIDENDS

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

	2008	2007
	HK$'000	*HK$'000*
Interim dividend declared and paid of 10 cents (2007: 10 cents) per ordinary share	**35,627**	35,627
Final dividend proposed after the balance sheet date of 26 cents (2007: 26 cents) per ordinary share	**92,631**	92,631
	128,258	128,258

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

	2008	2007
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of 26 cents (2007: 24 cents) per share	**92,631**	85,506

10 BASIC (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of HK$526,045,000 (2007: profit of HK$384,522,000) and 356,273,883 (2007: 356,273,883) ordinary shares in issue during the year.

There were no dilutive potential ordinary shares in existence during the years 2007 and 2008.

NOTES TO THE ACCOUNTS (Continued)

11 FIXED ASSETS

Group

	Other property, plant and equipment							
	Hotel properties *HK$'000*	Buildings *HK$'000*	Ferry vessels and other crafts *HK$'000*	Machinery, furniture and others *HK$'000*	Sub-total *HK$'000*	Investment properties *HK$'000*	Interest in leasehold land *HK$'000*	Total *HK$'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)
Valuation gains	–	–	–	–	–	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 2(d))*	–	3,668	–	16,021	19,689	–	15,015	34,704
Written back on disposals	–	(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

NOTES TO THE ACCOUNTS (Continued)

11 FIXED ASSETS (Continued)

Group (Continued)

	Other property, plant and equipment							
	Hotel properties HK$'000	Buildings HK$'000	Ferry vessels and other crafts HK$'000	Machinery, furniture and others HK$'000	Sub-total HK$'000	Investment properties HK$'000	Interest in leasehold land HK$'000	Total HK$'000
Cost or valuation:								
At 1 January 2008	63,883	69,975	124,231	265,740	523,829	780,200	160,084	1,464,113
Additions	–	32	1,940	1,169	3,141	19,711	–	22,852
Transfer from properties under development	–	–	–	–	–	67,215	–	67,215
Transfer from completed properties held for sale	–	–	–	–	–	37,100	–	37,100
Cost adjustment *(Note)*	–	–	–	–	–	908	–	908
Disposals	–	–	(1,241)	(716)	(1,957)	(3,107)	–	(5,064)
Valuation losses	–	–	–	–	–	(30,027)	–	(30,027)
At 31 December 2008	63,883	70,007	124,930	266,193	525,013	872,000	160,084	1,557,097
Representing:								
Cost	63,883	70,007	124,930	266,193	525,013	–	160,084	685,097
Valuation	–	–	–	–	–	872,000	–	872,000
	63,883	70,007	124,930	266,193	525,013	872,000	160,084	1,557,097
Accumulated amortisation and depreciation:								
At 1 January 2008	30,814	55,864	116,887	205,134	408,699	–	105,583	514,282
Charge for the year	1,639	843	2,958	3,570	9,010	–	1,380	10,390
Written back on disposals	–	–	(1,127)	(708)	(1,835)	–	–	(1,835)
At 31 December 2008	32,453	56,707	118,718	207,996	415,874	–	106,963	522,837
Net book value:								
At 31 December 2008	31,430	13,300	6,212	58,197	109,139	872,000	53,121	1,034,260

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.

NOTES TO THE ACCOUNTS (Continued)

11 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$872,000,000 as at 31 December 2008 (2007: HK$780,200,000) 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	
	2008	2007
	HK$'000	*HK$'000*
Medium term lease	**934,851**	836,881
Long term lease	**35,000**	45,000

(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 properties are classified as investment properties.

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

	2008	2007
	HK$'000	*HK$'000*
Within 1 year	**19,009**	23,330
After 1 year but within 5 years	**5,207**	16,974
	24,216	40,304

NOTES TO THE ACCOUNTS (Continued)

12 PROPERTIES UNDER DEVELOPMENT

	Group	
	2008	2007
	HK$'000	*HK$'000*
At 1 January	**1,006,632**	823,891
Additions	**446,116**	182,741
Transfer to investment properties	**(67,215)**	–
Transfer to completed properties held for sale	**(909,203)**	–
At 31 December	**476,330**	1,006,632
Analysis of properties under development:		
For sale *(note 18(a))*	**476,330**	962,134
For investment	**–**	44,498
	476,330	1,006,632

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

At 31 December 2007, except for HK$592,247,000, all of the properties under development for sale are not expected to be recovered within one year.

13 INTEREST IN SUBSIDIARIES

	Company	
	2008	2007
	HK$'000	*HK$'000*
Unlisted shares, at cost	**166,888**	166,888
Amounts due from subsidiaries	**4,782,225**	5,175,567
Less: Impairment loss	**(1,566,418)**	(1,118,298)
	3,382,695	4,224,157

NOTES TO THE ACCOUNTS (Continued)

13 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 and investment
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.

The amounts due to subsidiaries are interest-free, unsecured and repayable on demand.

NOTES TO THE ACCOUNTS (Continued)

14 INTEREST IN ASSOCIATES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares, at cost	**–**	–	**–**	–
Share of net assets	**3,972**	3,730	**–**	–
Amounts due from associates	**110,893**	154,608	**9,372**	9,372
	114,865	158,338	**9,372**	9,372
Less: Impairment loss	**(6,470)**	(6,470)	**(6,470)**	(6,470)
	108,395	151,868	**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
Winwide Limited	100 ordinary shares of HK$1 each	30	Trading

NOTES TO THE ACCOUNTS (Continued)

14 INTEREST IN ASSOCIATES (Continued)

Summary financial information on associates

	Assets	Liabilities	Equity	Revenues	Profit
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2008					
100 per cent	**208,073**	**(213,070)**	**(4,997)**	**9,183**	**484**
Group's effective interest	**104,037**	**(106,534)**	**(2,497)**	**4,592**	**243**
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

15 AVAILABLE-FOR-SALE EQUITY SECURITIES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Unlisted shares	**45**	45	**45**	45
Listed shares				
– in Hong Kong	**102,829**	191,788	**–**	–
– outside Hong Kong	**24,953**	1,835	**–**	–
	127,782	193,623	**–**	–
	127,827	193,668	**45**	45
Market value of listed shares at 31 December	**127,782**	193,623	**–**	–

NOTES TO THE ACCOUNTS (Continued)

16 EMPLOYEE BENEFITS ASSETS

(a) Defined benefit retirement plan

The Group makes contributions to a defined benefit retirement plan which covers about 18.5% (2007: 21.2%) 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 2008 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	
	2008	2007
	HK$'000	*HK$'000*
Present value of wholly or partly funded obligations	**(40,002)**	(39,371)
Fair value of plan assets	**51,549**	70,031
Net unrecognised actuarial gains	**(1,065)**	(22,070)
	10,482	8,590

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 2009.

NOTES TO THE ACCOUNTS (Continued)

16 EMPLOYEE BENEFITS ASSETS (Continued)

(a) Defined benefit retirement plan (Continued)

(ii) Plan assets consist of the following:

	The Group and the Company	
	2008	2007
Equity securities	**15.9%**	30.5%
Bonds	**0.3%**	0.7%
Fixed deposits	**83.8%**	68.8%
Total	**100%**	100%

The plan target asset allocation is 30% in equity securities and 70% in fixed deposits. The expected long-term annual return of equity securities 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	
	2008	2007
	HK$'000	*HK$'000*
At 1 January	**39,371**	37,730
Current service cost	**1,715**	1,718
Interest cost	**1,359**	1,400
Actual benefits paid by the plan	**(7,811)**	(1,963)
Actuarial losses	**5,368**	486
At 31 December	**40,002**	39,371

NOTES TO THE ACCOUNTS (Continued)

16 EMPLOYEE BENEFITS ASSETS (Continued)

(a) Defined benefit retirement plan (Continued)

(iv) Movements in plan assets:

	The Group and the Company	
	2008	2007
	HK$'000	*HK$'000*
At 1 January	**70,031**	68,834
Actuarial expected return on plan assets	**3,474**	3,421
Actual benefits paid by the plan	**(7,811)**	(1,963)
Actuarial losses	**(14,145)**	(261)
At 31 December	**51,549**	70,031

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

	2008	2007
	HK$'000	*HK$'000*
Current service cost	**1,715**	1,718
Interest cost	**1,359**	1,400
Actuarial expected return on plan assets	**(3,474)**	(3,421)
Net actuarial gains recognised	**(1,492)**	(1,677)
	(1,892)	(1,980)

NOTES TO THE ACCOUNTS (Continued)

16 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:

	2008	2007
	HK$'000	*HK$'000*
Administrative expenses	**(1,892)**	(1,980)

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 loss of HK$10,671,000 (2007: income of HK$3,160,000).

(vi) The principal actuarial assumptions used as at 31 December 2008 (expressed as weighted averages) are as follows:

	The Group and the Company	
	2008	2007
Discount rate at 31 December	**1.3%**	3.5%
Expected rate of return on plan assets	**5%**	5%
Future salary increases		
– 2008	**–**	3%
– 2009	**1%**	3%
– 2010	**2%**	3%
– 2011 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.

NOTES TO THE ACCOUNTS (Continued)

16 EMPLOYEE BENEFITS ASSETS (Continued)

(a) Defined benefit retirement plan (Continued)

(vi) **Historical information**

	The Group and the Company	
	2008	2007
	HK$'000	*HK$'000*
Present value of defined benefit obligations	**(40,002)**	(39,371)
Less: Fair value of plan assets	**51,549**	70,031
Surplus	**11,547**	30,660
Experience gains on plan liabilities	**(3)**	(237)
Experience losses on plan assets	**14,145**	261

(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.

NOTES TO THE ACCOUNTS (Continued)

17 DERIVATIVE FINANCIAL INSTRUMENTS

The Group's derivative financial instruments are primarily equity-linked notes (the "Notes") with different notional amounts, fair values and maturities as follows:

	The Group			
	Notional amount	Maturing in	Fair value	
	(original currency)		(original currency)	(Hong Kong dollars equivalent)
	'000		*'000*	*HK$'000*
2008:				
Denominated in:				
Australian dollars	**46,000**	**2009**	**18,142**	**98,890**
	47,000	**2010**	**17,013**	**92,734**
Total				**191,624**
2007:				
Denominated in:				
United States dollars	4,000	2008	2,122	16,548
Australian dollars	63,000	2009	90,748	621,922
Total				638,470

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. 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 AUD40 million (2007: AUD27 million) are subject to redemption at maturity.

During the year 31 December 2007, a net realised and unrealised gain of HK$310 million was recognised in the profit and loss account. Due to the worsening of the recent global financial turmoil, which has led to the fall in fair value of the Notes, a net realised and unrealised loss of HK$610 million has been recognised in the profit and loss account.

At 31 December 2008, certain of the Notes were pledged to a financial institution as securities against facilities granted to the Group (note 21).

Further details of the Group's management of credit risk, currency risk and equity price risk arising from the Notes are set out in note 31.

NOTES TO THE ACCOUNTS (Continued)

18 INVENTORIES

(a) Inventories in the consolidated balance sheet comprise:

	2008	2007
	HK$'000	*HK$'000*
Property development		
Properties under development – held for sale *(note 12)*	**476,330**	962,134
Completed properties held for sale	**909,203**	51,605
	1,385,533	1,013,739
Other operations		
Trading stocks	**1,488**	3,205
Spare parts and consumables	**3,146**	2,391
Work in progress	**3,574**	2,705
	8,208	8,301
	1,393,741	1,022,040

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

The amount of spare parts and consumables carried at net realisable value is HK$2,411,000 (2007: HK$1,522,000).

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

	2008	2007
	HK$'000	*HK$'000*
Carrying amount of inventories sold	**163,296**	206,988

NOTES TO THE ACCOUNTS (Continued)

19 TRADE AND OTHER RECEIVABLES

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**52,964**	127,109	**–**	–
Less: allowance for doubtful debts	**(1,359)**	(1,347)	**–**	–
	51,605	125,762	**–**	–
Other receivables and prepayments	**48,556**	38,836	**1,959**	1,882
	100,161	164,598	**1,959**	1,882

All of the trade and other receivables except instalment receivables of HK$4,973,000 (2007: HK$3,443,000) 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$2,822,000 (2007: HK$798,000) and net of allowance for doubtful debts) with the following ageing analysis as of the balance sheet date:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Current	**37,664**	117,070
1 to 3 months overdue	**9,081**	5,895
More than 3 months overdue but less than 12 months overdue	**1,265**	1,043
More than 12 months overdue	**773**	956
	48,783	124,964

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).

NOTES TO THE ACCOUNTS (Continued)

19 TRADE AND OTHER RECEIVABLES (Continued)

(b) Impairment of trade receivables

At 31 December 2008, the Group's trade receivables of HK$1,833,000 (2007: HK$1,947,000) 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$1,359,000 (2007: HK$1,347,000) 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	
	2008	2007
	HK$'000	*HK$'000*
At 1 January	**1,347**	1,341
Impairment loss recognised	**18**	347
Uncollectible amounts written off	**(6)**	(341)
At 31 December	**1,359**	1,347

(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	
	2008	2007
	HK$'000	*HK$'000*
Neither overdue nor impaired	**37,664**	117,070
1 to 3 months overdue	**9,038**	5,895
More than 3 months overdue but less than 12 months overdue	**1,265**	1,043
More than 12 months overdue	**342**	356
	10,645	7,294
	48,309	124,364

NOTES TO THE ACCOUNTS (Continued)

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 hold certain collateral over major customers' balances.

20 CASH AND CASH EQUIVALENTS

	Group		Company	
	2008	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits with banks and other financial institutions	**453,099**	862,460	**309,462**	54,673
Cash at bank and in hand	**25,614**	9,646	**539**	439
Cash and cash equivalents in the balance sheet	**478,713**	872,106	**310,001**	55,112
Bank overdraft *(note 21)*	**(216)**	(287)		
Cash and cash equivalents in the consolidated cash flow statement	**478,497**	871,819		

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

	Group		Company	
	2008	2007	**2008**	2007
	'000	*'000*	***'000***	*'000*
United States dollars	**8,853**	7,020	**8,853**	7,020
Australian dollars	**18,868**	41,303	**18,868**	–

NOTES TO THE ACCOUNTS (Continued)

21 BANK LOAN AND OVERDRAFT

	Group	
	2008	2007
	HK$'000	*HK$'000*
Bank loan and overdraft		
– secured	**100,000**	–
– unsecured	**216**	287
	100,216	287

At 31 December 2008, bank loan and overdraft are repayable as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Within 1 year or on demand	**100,216**	287

At 31 December 2008, the banking facilities of certain subsidiaries were secured by the Notes (see note 17) with an aggregate carrying value of HK$115,691,000. Such banking facilities amounted to USD16,000,000 (equivalent to HK$124,008,000). The facilities were utilised to the extent of HK$100,000,000.

The Group's banking facilities are not subject to any fulfilment of covenants. Further details of the Group's management of liquidity risk are set out in note 31(b).

NOTES TO THE ACCOUNTS (Continued)

22 TRADE AND OTHER PAYABLES

All of the trade and other payables, apart from the retention payables of HK$10,055,000 (2007: HK$3,792,000) 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	
	2008	2007
	HK$'000	*HK$'000*
Due within 1 month or on demand	**315,980**	75,897
Due after 1 month but within 3 months	**303**	248
Due after 3 months but within 6 months	**–**	16,717
Due after 12 months	**10,218**	3,792
	326,501	96,654

23 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET

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

	2008	2007
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax for the year	**168**	231
Provisional profits tax paid	**(294)**	(586)
	(126)	(355)
Balance of profits tax recoverable relating to prior years	**(2,288)**	(1,545)
	(2,414)	(1,900)

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

	2008	2007
	HK$'000	*HK$'000*
Provision for Hong Kong profits tax for the year	**–**	26,401
Provisional profits tax paid	**–**	(31)
	–	26,370
Balance of profits tax provision relating to prior years	**31,314**	12,108
	31,314	38,478

NOTES TO THE ACCOUNTS (Continued)

23 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (Continued)

(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 2007	34,553	(44,366)	(7,944)	(17,757)
Charged/(credited) to the consolidated profit and loss account *(note 7(a))*	4,558	(7,173)	(5,982)	(8,597)
At 31 December 2007	39,111	(51,539)	(13,926)	(26,354)
At 1 January 2008	**39,111**	**(51,539)**	**(13,926)**	**(26,354)**
Credited to the consolidated profit and loss account *(note 7(a))*	**(2,170)**	**(12,797)**	**(4,511)**	**(19,478)**
Effect on opening deferred tax balances resulting from a decrease in tax rate during the year *(note 7(a))*	**(2,235)**	**2,945**	**796**	**1,506**
At 31 December 2008	**34,706**	**(61,391)**	**(17,641)**	**(44,326)**

	2008 HK$'000	2007 HK$'000
Represented by:		
Net deferred tax assets recognised on the consolidated balance sheet	**(73,375)**	(56,276)
Net deferred tax liabilities recognised on the consolidated balance sheet	**29,049**	29,922
	(44,326)	(26,354)

NOTES TO THE ACCOUNTS (Continued)

23 INCOME TAX IN THE CONSOLIDATED BALANCE SHEET (Continued)

(d) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(t), 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.

		2008		2007	
		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	**248,727**	**41,040**	218,100	38,168
(ii)	Tax losses	**737,810**	**121,739**	235,623	41,234
		986,537	**162,779**	453,723	79,402

24 SHARE CAPITAL

	Number of shares		Nominal value	
	2008	2007	**2008**	2007
			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 2007 and 2008.

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.

NOTES TO THE ACCOUNTS (Continued)

25 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 2007		1,398,527	66,148	965	1,563,909	3,029,549
Dividends approved in respect of the previous financial year	9	–	–	–	(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	9	–	–	–	(35,627)	(35,627)
At 31 December 2007		1,398,527	100,198	941	1,827,298	3,326,964
At 1 January 2008		**1,398,527**	**100,198**	**941**	**1,827,298**	**3,326,964**
Dividends approved in respect of the previous financial year	9	**–**	**–**	**–**	**(92,631)**	**(92,631)**
Available-for-sale equity securities						
– changes in fair value		**–**	**(100,325)**	**–**	**–**	**(100,325)**
– transfer to profit or loss on impairment	2(g)	**–**	**15,932**	**–**	**–**	**15,932**
Realisation of inter-company profits		**–**	**–**	**(24)**	**–**	**(24)**
Loss for the year		**–**	**–**	**–**	**(526,045)**	**(526,045)**
Dividends declared in respect of the current year	9	**–**	**–**	**–**	**(35,627)**	**(35,627)**
At 31 December 2008		**1,398,527**	**15,805**	**917**	**1,172,995**	**2,588,244**

NOTES TO THE ACCOUNTS (Continued)

25 RESERVES (Continued)

(b) Company

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
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
At 1 January 2008	**1,398,527**	**2,174,382**	**3,572,909**
Dividends approved in respect of the previous financial year	**–**	**(92,631)**	**(92,631)**
Loss for the year	**–**	**(461,813)**	**(461,813)**
Dividends declared in respect of the current year	**–**	**(35,627)**	**(35,627)**
At 31 December 2008	**1,398,527**	**1,584,311**	**2,982,838**

(c) Distributability of reserves

The distributable reserves of the Company at 31 December 2008 amounted to HK$729,928,000 (2007: HK$1,317,396,000), 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 (2007: 26 cents) per share, amounting to HK$92,631,000 (2007: HK$92,631,000). 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.

NOTES TO THE ACCOUNTS (Continued)

25 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)).

(e) Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and ensure that it maintains a healthy capital ratio in order to support its business and provide returns for shareholders.

The Group regularly reviews and manages its capital structure under the policy of prudent financial management. The Group maintains a financially sound capital position and, where appropriate, 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 2008.

The Group monitors its capital on the basis of gearing ratio. Gearing ratio is calculated based on the interest-bearing borrowings as a ratio of the Group's equity at the balance sheet date. The gearing ratio at 31 December 2008 was 3.4% (2007: Nil).

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

26 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:

	2008	2007
	HK$'000	*HK$'000*
Within 1 year	**4,428**	3,545
After 1 year but within 5 years	**1,858**	2,604
	6,286	6,149

NOTES TO THE ACCOUNTS (Continued)

27 CAPITAL AND OTHER COMMITMENTS

Capital and other commitments outstanding at 31 December 2008 not provided for in the Group's accounts are as follows:

	2008	2007
	HK$'000	*HK$'000*
Contracted for	**171,689**	564,096

28 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. 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 the Company and HYF were partly successful in the appeal. In this context, provision of HK$160 million was provided based on the solicitors' opinion. Prior to the conclusion of a second trial, both the Government and the Company and HYF signed a Consent Summons to the Court on 20 November 2008, with the Group agreeing to pay the Government a sum of HK$125 million (inclusive of interest and legal costs) for a complete settlement. Accordingly, taking into account of further legal costs of HK$12 million incurred in this regard during the year, HK$22,933,000 has been written back in the current year.

NOTES TO THE ACCOUNTS (Continued)

29 CONTINGENT LIABILITIES

Financial guarantees issued

As at 31 December 2008, 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$2,573,000 (2007: HK$2,321,000).

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 5 and note 6 respectively, is as follows:

	2008	2007
	HK$'000	*HK$'000*
Short-term employee benefits	**5,147**	7,556
Post-employment benefits	**37**	130
	5,184	7,686

Total remuneration is included in "staff costs" (see note 4(b)).

NOTES TO THE ACCOUNTS (Continued)

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$28,000 (2007: HK$331,000) had been charged to the Group. At 31 December 2008, an amount of HK$18,000,000 (2007: 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$2,025,000 (2007: credited of HK$8,936,000) was charged to HLD Sub in this regard based on the latest project cost estimation. At 31 December 2008, an amount of HK$11,094,000 (2007: HK$8,672,000) 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$4,706,000 and HK$235,000 (2007: credited of HK$20,157,000 and HK$1,008,000), representing a corresponding adjustment in fees, were charged to the Group in relation to the superstructure work of the development and the 5% fee on all works relating to the redevelopment of the MHV Property respectively. At 31 December 2008, an amount of HK$6,706,000 (2007: HK$1,765,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

NOTES TO THE ACCOUNTS (Continued)

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 2008. During the year, the Group received management and administrative fees in the total of HK$600,000 (2007: HK$548,000) 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$3,526,000 (2007: HK$5,223,000) from 2OK. At 31 December 2008, the amount advanced by the Group totalling HK$100,971,000 (2007: HK$144,686,000) 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$1,083,000 (2007: HK$1,004,000) was charged to the Group for the year. At 31 December 2008, an amount of HK$570,000 (2007: HK$1,007,000) 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 Group 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.

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

NOTES TO THE ACCOUNTS (Continued)

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$292,000 (2007: HK$558,000) was charged to the Group for the year. At 31 December 2008, an amount of HK$727,000 (2007: HK$993,000) 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$130,000 and HK$6,000 (2007: 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. At 31 December 2008, an amount of HK$7,282,000 (2007: HK$13,202,000), 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$2,993,000 (2007: HK$3,010,000), of which HK$1,833,000 (2007: HK$1,850,000) 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 (2007: HK$1,160,000) being the 1% fee, was charged by the project manager for the year ended 31 December 2008 for the development of the TKT Property. At 31 December 2008, an amount of HK$8,203,000 (2007: HK$5,210,000) remained unpaid and was included in trade and other payables.

NOTES TO THE ACCOUNTS (Continued)

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$134,814,000 (2007: HK$118,956,000), of which HK$11,423,000 (2007: HK$10,852,000) 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 2008, an amount of HK$50,007,000 (2007: HK$26,862,000), 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.

NOTES TO THE ACCOUNTS (Continued)

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 2008, an amount of HK$13,014,000 (2007: HK$13,215,000), 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

NOTES TO THE ACCOUNTS (Continued)

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 (2007: HK$2,667,000), of which HK$1,500,000 (2007: HK$1,500,000) 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 (2007: HK$1,167,000) being the 1% fee, was charged by the project and sales manager for the year ended 31 December 2008 for the development of the Yau Tong Property. As at 31 December 2008, an amount of HK$4,167,000 (2007: HK$2,667,000) 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$97,393,000 (2007: HK$51,084,000), of which HK$13,405,000 (2007: HK$10,909,000) 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 for the year ended 31 December 2008 for the superstructure work of the development of the Yau Tong Property. As at 31 December 2008, an amount of HK$28,627,000 (2007: HK$11,209,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

(xii) In November 2008, the Group appointed a wholly-owned subsidiary of HLD as the sales manager for the TKT Property for a term of three years commencing from 1 November 2008 in consideration for a sales fee of 0.5% of the gross proceeds of sale of certain portions of the TKT Property, subject to the respective ceilings of HK$Nil, HK$2,000,000, HK$400,000 and HK$200,000 for the two months ended 31 December 2008, the years ending 31 December 2009 and 31 December 2010, and the ten months ending 31 October 2011 respectively. No fee has been charged to the Group since then.

NOTES TO THE ACCOUNTS (Continued)

30 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

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

(xiii) In November 2008, the Group appointed a wholly-owned subsidiary of HLD as the agent of the Group for marketing of the TKT Property (the "Tenancy Arrangements"), for the period from 16 June 2008 to the earlier of 15 December 2009 and the date on which the last residential unit in the TKT Property to be sold is sold, subject to the respective ceilings of HK$5,000,000 for the period from 16 June 2008 to 31 December 2008 and HK$8,500,000 for the year ending 31 December 2009. A total fee of HK$4,939,000 was charged to the Group for the year. At 31 December 2008, the same amount remained unpaid and was included in trade and other payables.

(xiv) As at 31 December 2008, 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.

NOTES TO THE ACCOUNTS (Continued)

31 FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

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 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 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, 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.

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.

(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.

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loan to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash from major financial institutions to meet its liquidity requirements in the short and longer term.

NOTES TO THE ACCOUNTS (Continued)

31 FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

The following table details the contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

Group

	2008					2007				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Bank loan and overdraft	102,296	–	–	102,296	100,216	287	–	–	287	287
Trade and other payables	413,396	2,168	331	415,895	415,895	187,609	2,891	1,420	191,920	191,920
Provision for litigation	–	–	–	–	–	160,000	–	–	160,000	160,000
	515,692	2,168	331	518,191	516,111	347,896	2,891	1,420	352,207	352,207

Company

	2008			2007		
	Within 1 year or on demand	Total contractual undiscounted cash flow	Carrying amount	Within 1 year or on demand	Total contractual undiscounted cash flow	Carrying amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Amounts due to subsidiaries	362,347	362,347	362,347	357,441	357,441	357,441
Trade and other payables	6,625	6,625	6,625	6,064	6,064	6,064
	368,972	368,972	368,972	363,505	363,505	363,505

As shown in the above analysis, bank loan and overdraft of the Group amounting to HK$102,296,000 were due to be repaid during 2009.

NOTES TO THE ACCOUNTS (Continued)

31 FINANCIAL INSTRUMENTS (Continued)

(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 cash and cash equivalents 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 (loss)/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

	2008		2007	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit or loss**	Increase/ (decrease) in foreign exchange rates	Effect on profit or loss
		HK$'000		*HK$'000*
Australian dollars	**10%**	**29,447**	10%	90,499
	(10%)	**(29,447)**	(10%)	(90,499)

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.

NOTES TO THE ACCOUNTS (Continued)

31 FINANCIAL INSTRUMENTS (Continued)

(c) Currency risk (Continued)

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.

(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 15) and derivative financial instruments (see note 17).

The Group's listed investments are listed on the Stock Exchange of Hong Kong (included in the Hang Seng Index) and New York Stock Exchange. 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 (see note 17).

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% (2007: 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 decrease/increase the net loss for the year ended 31 December 2008 by approximately HK$19,162,000 (2007: increase/decrease the net profit by HK$63,847,000).

It is estimated that a general increase of 10% (2007: increase/decrease of 10%) in the market prices of the underlying investments in available-for-sale equity securities would increase securities revaluation reserve by approximately HK$12,783,000 (2007: increase/decrease by HK$19,367,000).

On the other hand, it is estimated that a general decrease of 10% in the market prices of the underlying investments in available-for-sale equity securities may result in further impairment of approximately HK$4,680,000 which would increase the net loss for the year ended 31 December 2008 by the same amount, and decrease securities revaluation reserve by approximately HK$8,103,000.

NOTES TO THE ACCOUNTS (Continued)

31 FINANCIAL INSTRUMENTS (Continued)

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2008 except as follows:

		2008		2007	
	Note	**Carrying amount** ***HK$'000***	**Fair value** ***HK$'000***	Carrying amount *HK$'000*	Fair value *HK$'000*
Group					
Amounts due from associates	*(1)*	**3,452**	**–**	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$100,971,000 (2007: HK$144,686,000) due from 2OK Company Limited) are unsecured, interest-free and have no fixed terms of repayment. 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.

(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 rates at the balance sheet date.

NOTES TO THE ACCOUNTS (Continued)

32 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The key sources of estimation, uncertainty and critical accounting judgements in applying the Group's accounting policies are described below.

(a) Valuation of investment properties

In arriving at the fair value of the investment properties, the Group has considered information from different sources, including a valuation performed by an independent firm of professional valuers after taking into consideration the net rental income allowing for reversionary income potential, and other available market survey reports.

The assumptions adopted in the property valuations are based on the market conditions existing at the balance sheet date, with reference to current market sales prices and the appropriate capitalisation rate.

(b) Recognition of deferred tax assets

At 31 December 2008, the Group has recognised a deferred tax asset in relation to the unused tax losses amounting to approximately HK$372,067,000 (2007: HK$294,509,000). The realisability of the deferred tax asset mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which the asset can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax asset may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

(c) Fair value of derivative financial instruments

Equity-linked notes (the "Notes") are classified as derivative financial instruments and are stated at fair value at the balance sheet date. The Group adopted the valuation of the Notes as valued by professional valuers with appropriate experience in the valuation of similar transactions, and with reference to market value quotations from financial institutions.

The assumptions adopted in the fair value of the Notes are based on the pricing model using the market closing prices of the underlying stocks and/or index, the volatilities, correlations and interest rates at the balance sheet date.

NOTES TO THE ACCOUNTS (Continued)

32 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(d) Impairment of interest in subsidiaries

In considering the impairment losses that may be required for the Company's interest in subsidiaries, recoverable amount of the assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of turnover and amount of operating costs of the subsidiaries. The Company uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs of subsidiaries.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

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 2008 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

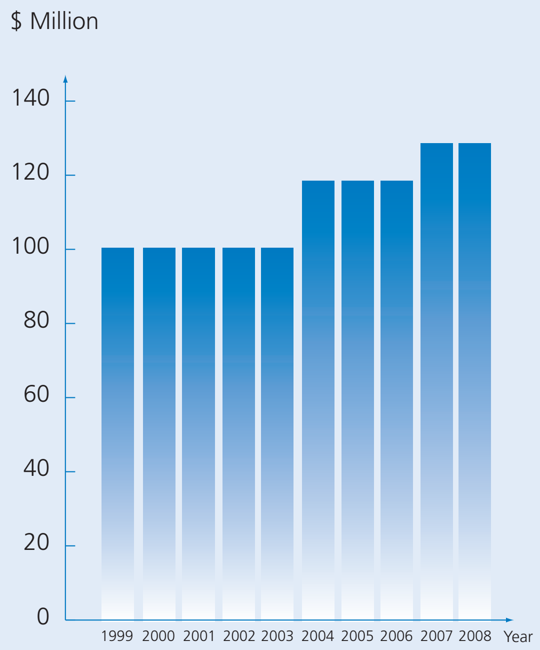
Year	2004 *HK$ Million*	2005 *HK$ Million*	2006 *HK$ Million*	2007 *HK$ Million*	**2008** ***HK$ Million***
Fixed assets and interest in leasehold land	1,605	914	971	950	**1,034**
Interest in associates	219	159	173	152	**109**
Properties under development	85	859	824	1,007	**476**
Investments	71	213	198	841	**330**
Deferred tax assets	6	28	43	56	**73**
Current assets	1,552	1,413	1,494	1,098	**1,499**
Total assets	3,538	3,586	3,703	4,104	**3,521**
Total liabilities	331	221	317	421	**576**
Net assets employed	3,207	3,365	3,386	3,683	**2,945**

TEN YEARS' FINANCIAL SUMMARY

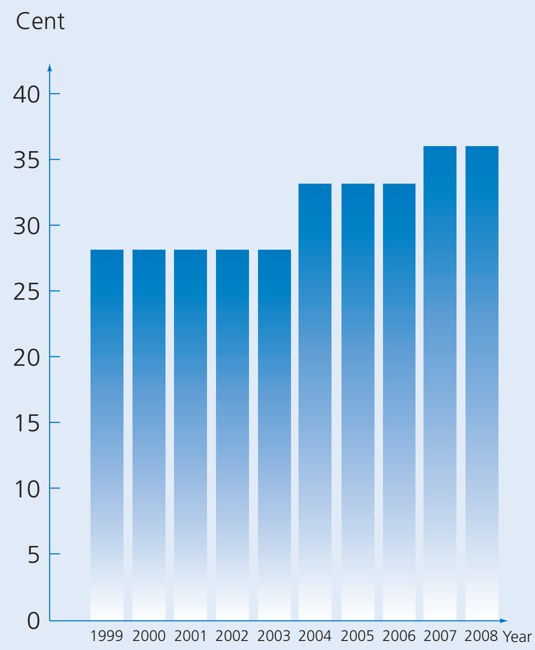
Year		1999	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
Turnover	*HK$M*	889	777	1,403	1,345	1,041	994	764	708	673	**522**
(Loss)/profit attributable to shareholders	*HK$M*	121	127	282	341	265	328	243	122	385	**(526)**
Dividends	*HK$M*	100	100	100	100	100	118	118	118	128	**128**
Shareholders' funds	*HK$M*	3,118	3,016	2,912	3,060	3,006	3,207	3,365	3,386	3,683	**2,945**
Basic (loss)/earnings	*Cent*	34.0	35.5	79.1	95.8	74.3	92.0	68.3	34.2	107.9	**(147.7)**
Dividend per share	*Cent*	28.0	28.0	28.0	28.0	28.0	33.0	33.0	33.0	36.0	**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	*%*	3.9	4.2	9.7	11.1	8.8	10.2	7.2	3.6	10.4	**(17.9)**
Net assets per share	*HK$*	8.8	8.5	8.2	8.6	8.4	9.0	9.4	9.5	10.3	**8.3**

TEN YEARS' FINANCIAL SUMMARY (Continued)

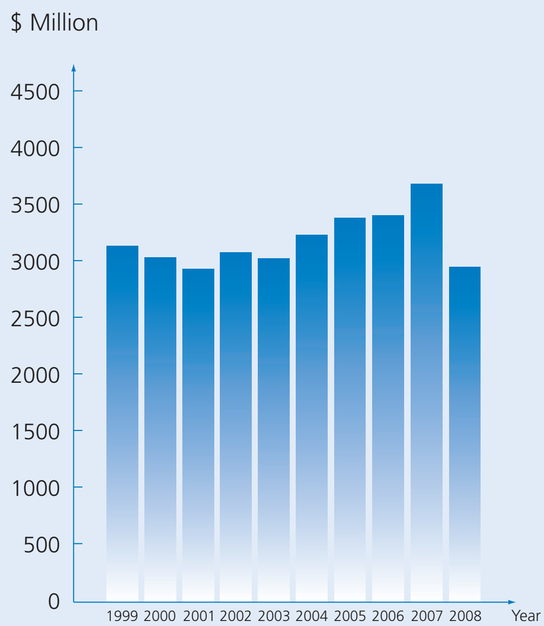
DIVIDENDS



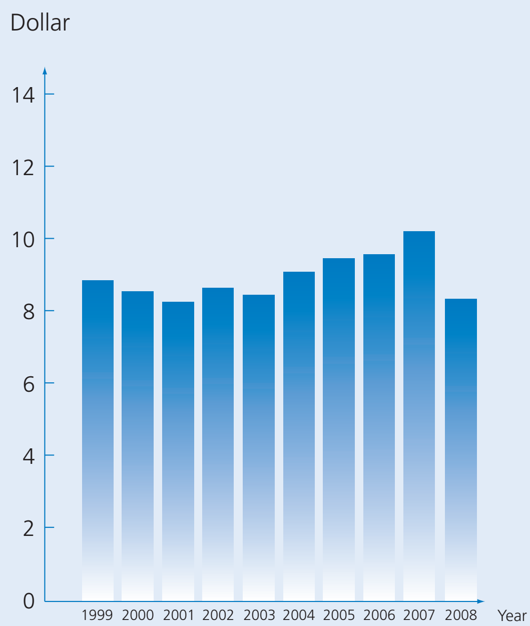
DIVIDEND PER SHARE



SHAREHOLDERS' FUNDS



NET ASSETS PER SHARE



GROUP PROPERTIES

as at 31 December 2008

1. PROPERTIES UNDER DEVELOPMENT

Location	Lot No.	Site area *(sq.m.)*	Gross floor area *(sq.m.)*	Group's interest *(%)*	Intended use
6 Cho Yuen Street Yau Tong	Yau Tong Inland Lot No. 38	2,329	14,556	100	Commercial and residential

2. PROPERTIES HELD FOR SALE

Location	Lot No.	Gross floor area *(sq.m.)*	Group's interest *(%)*	Existing use
Shining Heights 83 Sycamore Street	KIL 11159	31,422*	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
Shining Heights 83 Sycamore Street	KIL 11159	2,016	2054	Commercial arcade

GROUP PROPERTIES (Continued)

as at 31 December 2008

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 2008.*

SHINING HEIGHTS
亮賢居

83 SYCAMORE STREET 詩歌舞街83號

The residential units are currently on sale and 80 residential units have been sold as at 13 March 2009. The project is a 60-storey building, 700 feet high, with gross floor area of approximately 336,000 sq. ft. It is the highest building in the district with commanding views of the Central District and the Lion Rock. The spacious clubhouse of approximately 30,000 sq. ft. has comprehensive facilities, including Star Theatre with the latest Stewart 138" perforated curve screen, outdoor swimming pool, banquet room, gymnasium, spa area, karaoke room, children play area, and sauna rooms, etc.

於二零零九年三月十三日，出售住宅單位已售出八十個。該項目為樓高六十層，高七百呎，總樓面約三十三萬六千平方呎，乃該區最高之大廈，可遠眺中環及獅子山景緻，寬敞之住戶會所面積約三萬平方呎，設備先進完臻，備有最新Stewart 138吋弧形大銀幕之星光影院、室外游泳池、宴會廳、健身室、水療閣、卡拉OK室、兒童遊樂天地及桑拿浴室等設施。

Metro Harbour View
港灣豪庭

8 Fuk Lee Street
福利街8號

The design of Metro Harbour View has adopted certain noise mitigation measures to abate road traffic noise and has been selected to be included in the "Housing Design to Abate Traffic Noise in HK" Information Booklet of Environmental Protection Department.

港灣豪庭之設計採納若干噪音舒解措施以減低道路交通噪音，並已獲環境保護署挑選列入「香港舒緩交通噪音的屋宇設計」之資料小冊子內。

6 Cho Yuen Street, Yau Tong
油塘草園街6號

The project has just obtained its occupation permit and is currently undergoing interior decoration. The flats will be launched for sale soon.

項目剛已取得入伙紙，現在正進行裝修，並預期即將開售。

HKF

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