HONG KONG FERRY (HOLDINGS) CO. LTD.
香 港 小 輪 （ 集 團 ） 有 限 公 司
(Stock code 股份代號：00050)

Interim Report 2010 中期報告

5 years +
商界展關懷
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INTERIM RESULTS AND DIVIDEND

The unaudited consolidated net profit after taxation of the Group for the six months ended 30 June 2010 amounted to HK$235.2 million and the earnings per share were HK66 cents. A profit of HK$595.4 million was recorded in the corresponding period in 2009 and the earnings per share last year were HK167.1 cents.

The Board has resolved to pay an interim dividend of HK10 cents (2009: HK10 cents) per share in respect of the financial year ending 31 December 2010. The interim dividend will be paid on or about Thursday, 30 September 2010 to shareholders whose names appear on the register of members at the close of business on Friday, 17 September 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, the major source of profits for the Group was mainly derived from the sale of residential units of Shining Heights and The Spectacle, gains from the investments in listed securities and surplus from revaluation of properties. The sale of residential units of Shining Heights and The Spectacle during the period recorded a total profit of HK$160 million. After deducting the net unrealized losses of the equity-linked-note investments ("ELNs"), a net realized gain of HK$22.5 million was made from the sale of the securities and ELNs.

Property Development and Investment Operations

As at 30 June 2010, the Group had sold more than 90% of the units of Shining Heights and over 60% of the units of The Spectacle. The occupancy rate of the commercial arcade of Shining Heights at the end of June was 66%.

At the end of June 2010, the occupancy rate of the mall of Metro Harbour Plaza was 95%. The commercial arcade of MetroRegalia has been fully let. Rental and related income from the mall of Metro Harbour Plaza and MetroRegalia amounted to HK$16.1 million during the period.

The Group acquired the site known as Fanling Sheung Shui Town Lot No. 177, located at the junction of Ma Sik Road and Sha Tau Kok Road (Lung Yeuk Tau Section) Area 19, Fanling, New Territories for a land premium of HK$1,330 million at a public land auction held by the Government of Hong Kong Special Administrative Region on 24 May 2010. The preliminary development plan for this site, of area of approximately 95,800 sq. ft., is for residential-cum-commercial purposes, consisting of over 700 condominiums with average size of around 700 square feet. The units are mainly 2-bedroom units. The development will comprise 3 residential towers and a 2-storey commercial podium, with a total gross floor area of approximately 550,000 square feet and is anticipated to be completed by phases in four years.

The Group acquired 52-56 Kwun Chung Street last year which was currently used for leasing purpose. The Group also acquired the great majority of the ownership of 204-214 Tung Chau Street at the end of last year. If the Group succeeds to acquire the entire ownership, the Tung Chau Street properties will be developed into a commercial/residential complex.

Ferry, Shipyard and Related Operations

The Ferry, Shipyard and Related Operations achieved a profit of HK$6.6 million, compared with HK$1.5 million profit in the same period last year, of which both Harbour Cruise and the Shipyard Operations recorded a turnaround from deficit to profit with the implementation of the marketing plans and achieved a total profit of HK$2.02 million during the period.

Travel and Hotel Operations

After adopting new strategic plans, the turnover of both the Travel and Hotel Operations recorded an increase of approximately 18% and 20% respectively. Operational deficit of the two operations was reduced from HK$1.9 million to approximately HK$100,000 in the same period this year.

PROSPECTS

In the first half of 2010, the local economy continued to improve. With the influx of wealthy Chinese and foreign investors, the local property market price has shown and will show sustained appreciation in price, especially at the luxurious end. Following the expansion of the Renminbi trade settlement scheme, Mainland China has reinforced Hong Kong to develop Renminbi offshore business which will promote the Renminbi business platform into new horizon and strengthen the importance of Hong Kong as an international finance centre.

The Group will actively develop the newly acquired development site and will continue to explore investment opportunities in the real estate and stock market in the future.

FINANCIAL REVIEW

Review of Results

During the six-month period ended 30 June 2010, the Group's turnover amounted to HK$576 million, representing a decrease of 46.2% as compared with that recorded in the same period last year. This was mainly attributed to the decrease in the sales of the residential units of the Group's development properties.

The consolidated net profit after taxation of the Group for the six-month period ended 30 June 2010 was HK$235.2 million, representing a decrease of 60.5% as compared with a profit of HK$595.4 million for the same period last year. The reason for the decrease is already mentioned in the Management Discussion and Analysis section of this report.

Liquidity, Financial Resources and Capital Structure

As at 30 June 2010, shareholders' funds amounted to HK$4,094 million, an increase of 0.4% as compared with the corresponding figure as at 31 December 2009. The slight increase was mainly due to the net effects of income from the sale of the residential units of the Group's development properties, changes in fair value of available-for-sale equity securities, the realized gain and unrealized loss in ELNs and the payment of dividends.

There was no change to the capital structure of the Group during the period. As at 30 June 2010, the Group had no borrowing.

There was no material acquisition or disposal of any subsidiary or associate during the period. A net repayment of approximately HK$24.4 million was received from an associate, which provided mortgage loans to buyers of Metro Harbour View residential units.

As at 30 June 2010, current assets of the Group stood at HK$2,792 million and current liabilities was HK$327 million. Current ratio of the Group increased from 7.5 as at 31 December 2009 to 8.5 as at 30 June 2010, mainly due to the sale proceeds from the sale of properties.

Gearing Ratio and Financial Management

As there was no borrowing, gearing ratio is not shown. Assets of the Group were not charged to any third party during the period under review.

The Group's financing and treasury activities were managed centrally at the corporate level. Financing facilities extended to the Group were denominated in Hong Kong dollar and United States dollar. Certain ELNs and deposits are denominated in United States dollar and Australian dollar, and the incidental foreign exchange exposures are kept under periodic review. The management will consider appropriate hedging measures, if necessary.

Employees

As at 30 June 2010, the Group employed about 360 staff. 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 included medical insurance, retirement scheme, training programmes and education subsidies.

OTHER INFORMATION

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 15 September 2010 to Friday, 17 September 2010, both days inclusive, during which period no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrars, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Tuesday, 14 September 2010.

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

During the period under review, 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 period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares, options, debentures or warrants of the Company or any other body corporate.

CORPORATE GOVERNANCE

The Company is committed to maintain high standards of corporate governance. In the opinion of the Board of Directors (the "Board"), the Company has complied with the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the six months ended 30 June 2010.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the directors. Having made specific enquiry, the Company confirmed that all directors of the Company have complied with the required standard as set out in the Model Code during the six months ended 30 June 2010.

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

AUDIT COMMITTEE

The Audit Committee has met in August 2010 and reviewed the accounting principles and practices adopted by the Group and has also discussed auditing, internal control and financial reporting matters including the review of the unaudited interim report for the six months ended 30 June 2010 with the management.

In addition, the Group's external auditor, KPMG, have also performed a review of the interim financial statements for the six months ended 30 June 2010. Based on their review, nothing has come to their attention that causes them to believe that the interim financial statements as at 30 June 2010 are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

REMUNERATION COMMITTEE

The Remuneration Committee held its meeting in June 2010. The Remuneration Committee currently comprises three independent non-executive directors and two executive directors.

On behalf of the Board
Colin Lam Ko Yin
Chairman

Hong Kong, 25 August 2010

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS IN SECURITIES

As at 30 June 2010, 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 8)*	–	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 8)*	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

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 30 June 2010.

SUBSTANTIAL SHAREHOLDERS AND OTHERS

As at 30 June 2010, 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%

	No. of shares in which interested	Approximate percentage of total issued shares
Substantial Shareholders *(Continued)*		
Rimmer (Cayman) Limited *(Note 4)*	111,732,090	31.36%
Riddick (Cayman) Limited *(Note 4)*	111,732,090	31.36%
Mr. Li Ning *(Note 5)*	111,732,090	31.36%
Dr. Lee Shau Kee *(Note 6)*	119,531,310	33.55%
Persons other than Substantial Shareholders		
Graf Investment Limited *(Note 1)*	23,400,000	6.57%
Mount Sherpa Limited *(Note 1)*	23,400,000	6.57%
Paillard Investment Limited *(Note 1)*	23,400,000	6.57%

Notes:

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

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

2. These 41,532,090 shares, which constitute part of the said 111,732,090 shares, were beneficially owned by Wiselin Investment Limited which was a subsidiary of Max-mercan Investment Limited. Max-mercan Investment Limited was a subsidiary of Camay Investment Limited ("Camay") which in turn was a subsidiary of HLD.

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

4. These 111,732,090 shares are duplicated in the interests described in Notes 1, 2 and 3. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of respective discretionary trusts held units in a unit trust (the "Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owned all the issued ordinary shares, which carry the voting rights in the share capital of HD.

5. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 111,732,090 shares as Mr. Li's spouse was one of the discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust. These 111,732,090 shares are duplicated in the interests described in Notes 1, 2, 3 and 4.

6. Dr. Lee Shau Kee beneficially owned all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee was taken to be interested in 111,732,090 shares which are duplicated in the interests described in Notes 1, 2, 3 and 4. Together with his personal shareholding of 7,799,220 shares, Dr. Lee Shau Kee was taken to be interested in 119,531,310 shares (approximately 33.55% of the total issued share capital of the Company) as at 30 June 2010.

Save as disclosed, as at 30 June 2010, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company.

CONDENSED INTERIM FINANCIAL STATEMENTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2010 – unaudited

		Six months ended 30 June	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Turnover	3(a)	**576,436**	1,072,294
Cost of sales		**(329,831)**	(594,653)
		246,605	477,641
Other revenue	3(a)	**11,813**	12,855
Other net income	4	**45,580**	261,726
Valuation gains/(losses) on investment properties and investment property held for development	3(d)	**44,374**	(47,324)
Selling and marketing expenses		**(29,402)**	(47,650)
Administrative expenses		**(21,801)**	(20,218)
Other operating expenses		**(22,809)**	(18,782)
Profit from operations	3(b)	**274,360**	618,248
Finance cost	5(a)	**–**	(1,505)
Share of profits of associates		**231**	293
Profit before taxation	5	**274,591**	617,036
Taxation	6	**(39,394)**	(21,651)
Profit attributable to equity shareholders of the Company		**235,197**	595,385
Earnings per share (cents) – Basic and diluted	9	**66.0**	167.1

The notes on pages 14 to 35 form part of these condensed interim financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 7.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010 – unaudited

		Six months ended 30 June	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Profit attributable to equity shareholders of the Company		**235,197**	595,385
Other comprehensive income for the period (after tax and reclassification adjustments):			
Available-for-sale equity securities: net movement in the securities revaluation reserve	8	**(124,392)**	50,081
Realisation of inter-company profits		**(12)**	(12)
Other comprehensive income		**(124,404)**	50,069
Total comprehensive income attributable to equity shareholders of the Company		**110,793**	645,454

The notes on pages 14 to 35 form part of these condensed interim financial statements.

CONSOLIDATED BALANCE SHEET

As at 30 June 2010

	Note	At 30 June 2010 (unaudited) HK$'000	At 30 June 2010 (unaudited) HK$'000	At 31 December 2009 (audited) HK$'000	At 31 December 2009 (audited) HK$'000
Non-current assets					
Fixed assets					
– Investment properties	10		**858,050**		837,900
– Investment property held for development	10		**94,000**		89,000
– Other property, plant and equipment			**123,516**		127,660
– Interest in leasehold land			**51,052**		51,741
			1,126,618		1,106,301
Interest in associates	11		**55,919**		80,127
Available-for-sale equity securities	12		**456,530**		542,470
Employee benefits assets			**10,964**		10,841
Deferred tax assets			**15,664**		28,241
			1,665,695		1,767,980
Current assets					
Tax recoverable		**2,154**		2,154	
Derivative financial instruments	13	**73,034**		300,433	
Inventories	14	**1,866,079**		570,475	
Trade and other receivables	15	**319,115**		501,725	
Cash and cash equivalents	16	**531,280**		1,321,676	
		2,791,662		2,696,463	
Current liabilities					
Bank loan and overdrafts	16	**–**		238	
Trade and other payables	17	**261,706**		313,533	
Tax payable		**65,695**		46,990	
		327,401		360,761	
Net current assets			**2,464,261**		2,335,702
Total assets less current liabilities			**4,129,956**		4,103,682
Non-current liabilities					
Deferred tax liabilities			**(35,640)**		(27,528)
NET ASSETS			**4,094,316**		4,076,154
CAPITAL AND RESERVES					
Share capital			**356,274**		356,274
Reserves			**3,738,042**		3,719,880
TOTAL EQUITY			**4,094,316**		4,076,154

The notes on pages 14 to 35 form part of these condensed interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010 – unaudited

	Share capital	Share premium	Securities revaluation reserve	Other capital reserves	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2009	356,274	1,398,527	15,805	917	1,172,995	2,944,518
Changes in equity for 2009:						
Dividend approved in respect of the previous financial year	–	–	–	–	(92,631)	(92,631)
Total comprehensive income for the period	–	–	50,081	(12)	595,385	645,454
Balance at 30 June 2009 and 1 July 2009	356,274	1,398,527	65,886	905	1,675,749	3,497,341
Dividend declared in respect of the current year	–	–	–	–	(35,627)	(35,627)
Total comprehensive income for the period	–	–	111,251	(12)	503,201	614,440
Balance at 31 December 2009 and 1 January 2010	**356,274**	**1,398,527**	**177,137**	**893**	**2,143,323**	**4,076,154**
Changes in equity for 2010:						
Dividend approved in respect of the previous financial year	**–**	**–**	**–**	**–**	**(92,631)**	**(92,631)**
Total comprehensive income for the period	**–**	**–**	**(124,392)**	**(12)**	**235,197**	**110,793**
Balance at 30 June 2010	**356,274**	**1,398,527**	**52,745**	**881**	**2,285,889**	**4,094,316**

The notes on pages 14 to 35 form part of these condensed interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2010 – unaudited

		Six months ended 30 June	
		2010	2009
	Note	***HK$'000***	*HK$'000*
Net cash (used in)/generated from operating activities		**(933,359)**	207,847
Net cash generated from/(used in) investing activities		**235,832**	(105,925)
Net cash used in financing activities		**(92,631)**	(94,725)
Net (decrease)/increase in cash and cash equivalents		**(790,158)**	7,197
Cash and cash equivalents at 1 January	16	**1,321,438**	478,497
Cash and cash equivalents at 30 June	16	**531,280**	485,694

The notes on pages 14 to 35 form part of these condensed interim financial statements.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting,* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 25 August 2010.

The interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2009 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA.

The interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity,* issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 36.

The financial information relating to the financial year ended 31 December 2009 that is included in the interim financial statements as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2009 are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 22 March 2010.

2. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued two revised HKFRSs, a number of amendments to HKFRSs and one new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, *Improvements to HKFRSs (2009)* are relevant to the Group's financial statements:

The amendment introduced by the *Improvements to HKFRSs (2009)* omnibus standard in respect of HKAS 17, *Leases*, resulted in a change of classification of certain Group's leasehold land interests located in the Hong Kong Special Administrative Region, the Group has re-evaluated the classification of its interests in leasehold land as to whether, in the Group's judgement, the lease transfers significantly all the risks and rewards of ownership of the land such that the Group is in a position economically similar to that of a purchaser. The Group has concluded that these leasehold interests will no longer be classified by the Group as operating leases as the Group considers that it is in a position economically similar to that of a purchaser. This change in accounting policy has no material impact on the current or previous periods as the lease premiums in respect of all such leases are fully paid and are being amortised over the remaining length of the lease term.

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

3. SEGMENT REPORTING

The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

To consistent the information reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group is currently organised into five main reportable segments:

– Property development: development and sale of properties.

– Property investment: leasing of properties.

– Ferry, shipyard and related operations: operation of dangerous goods vehicular ferry service, cruise vessels and ship repairs and maintenance services.

– Travel and hotel operations: hotel operation and management and operation of travel agency services.

– Securities investment: equity investments.

Segment 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.

3. SEGMENT REPORTING *(Continued)*

Segment results

In accordance with HKFRS 8, segment information disclosed in the interim financial statements has been prepared in a manner consistent with the information used by the Group's most senior executive management for the purposes of assessing segment performance and allocating resources between segments. In this regard, the Group's senior executive management monitors the results attributable to each reportable segment on the following basis:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The segment information for the six months ended 30 June 2010 and 2009 about these reportable segments is presented below:

(a) Segment Revenue

	Total revenue Six months ended 30 June		Elimination of inter-segment revenue Six months ended 30 June		Revenue from external customers Six months ended 30 June	
	2010	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development	**388,792**	901,062	**–**	–	**388,792**	901,062
Property investment	**24,485**	20,479	**29**	15	**24,456**	20,464
Ferry, shipyard and related operations	**76,458**	82,874	**1,242**	909	**75,216**	81,965
Travel and hotel operations	**86,960**	73,874	**45**	67	**86,915**	73,807
Securities investment	**5,739**	5,233	**–**	–	**5,739**	5,233
Others	**27,911**	22,572	**20,780**	19,954	**7,131**	2,618
	610,345	1,106,094	**22,096**	20,945	**588,249**	1,085,149
Analysed by:						
Turnover					**576,436**	1,072,294
Other revenue					**11,813**	12,855
					588,249	1,085,149

3. SEGMENT REPORTING *(Continued)*

(b) Segment Result

	Reportable segment profit/(loss) Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Property development	**164,282**	394,738
Property investment *(Note d)*	**80,396**	(38,347)
Ferry, shipyard and related operations	**6,621**	1,520
Travel and hotel operations	**(70)**	(1,905)
Securities investment	**28,872**	240,706
Others *(Note e)*	**(5,741)**	21,536
	274,360	618,248

(c) Reconciliation of reportable segment profit

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Reportable segment profit derived from external customers	**274,360**	618,248
Finance cost	**–**	(1,505)
Share of profits of associates	**231**	293
Consolidated profit before taxation	**274,591**	617,036

(d) The segment result of the property investment included valuation gains on investment properties and investment property held for development of HK$44,374,000 (2009: losses of HK$47,324,000).

(e) The segment result of "Others" mainly comprises interest income, corporate expenses and exchange gains/losses.

4. OTHER NET INCOME

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Forfeited deposits	**–**	1,334
Income from sale of spare parts	**150**	221
Net exchange (losses)/gains	**(9,531)**	21,939
Net profit on disposal of investment properties	**29,061**	1,330
Net gains/(losses) on disposal of other property, plant and equipment	**85**	(10)
Net realized and unrealized (losses)/gains on derivative financial instruments	**(18,429)**	201,038
Net profit on sale of available-for-sale equity securities	**42,194**	34,369
Sundry income	**2,050**	1,505
	45,580	261,726

5. PROFIT BEFORE TAXATION

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

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
(a) Finance cost		
Interest on bank loan wholly repayable within five years	**–**	1,505
(b) Other items		
Amortisation of leasehold land premium	**689**	690
Cost of inventories	**224,693**	493,786
Depreciation	**5,435**	4,508
Dividend income	**(5,258)**	(4,544)
Interest income	**(9,167)**	(4,907)

6. TAXATION

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Current tax – Hong Kong profits tax	**18,705**	3,688
Deferred taxation	**20,689**	17,963
	39,394	21,651

The provision for Hong Kong profits tax is calculated by applying the estimated annual effective tax rate of 16.5% (2009: 16.5%) to the six months ended 30 June 2010 less relief for available tax losses where applicable.

7. DIVIDENDS

(a) Dividend payable to equity shareholders of the Company attributable to the interim period

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Interim dividend declared after the interim period end of HK10 cents (2009: HK10 cents) per share	**35,627**	35,627

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

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

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK26 cents (2009: HK26 cents) per share	**92,631**	92,631

8. OTHER COMPREHENSIVE INCOME

Available-for-sale equity securities

	Six months ended 30 June	
	2010	2009
	HK$'000	*HK$'000*
Changes in fair value recognised during the period	**(81,896)**	84,817
Reclassification adjustments for amounts transferred to profit or loss:		
– gains on disposal	**(42,496)**	(34,736)
Net movement in the securities revaluation reserve during the period recognised in other comprehensive income	**(124,392)**	50,081

9. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$235,197,000 (2009: HK$595,385,000) and 356,273,883 (2009: 356,273,883) ordinary shares in issue during the period.

There were no dilutive potential ordinary shares in existence during the period or the corresponding period last year, therefore diluted earnings per share are the same as basic earnings per share for both periods.

10. INVESTMENT PROPERTIES AND INVESTMENT PROPERTY HELD FOR DEVELOPMENT

Valuation

Investment properties and investment property held for development 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$858,050,000 (31 December 2009: HK$837,900,000) and HK$94,000,000 (31 December 2009: HK$89,000,000) respectively, as at 30 June 2010, on an open market value basis in their existing states calculated by means of capitalisation of the net income allowing for reversionary income potential and by reference to comparable market transactions.

11. INTEREST IN ASSOCIATES

	At 30 June 2010 *HK$'000*	At 31 December 2009 *HK$'000*
Share of net assets	**4,865**	4,634
Amounts due from associates	**57,524**	81,963
	62,389	86,597
Less: Impairment loss	**(6,470)**	(6,470)
	55,919	80,127

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

Other particulars of 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

12. AVAILABLE-FOR-SALE EQUITY SECURITIES

	At 30 June 2010	At 31 December 2009
	HK$'000	*HK$'000*
Unlisted shares	**45**	45
Listed shares		
– in Hong Kong	**363,939**	511,679
– outside Hong Kong	**92,546**	30,746
	456,485	542,425
	456,530	542,470
Market value of listed shares	**456,485**	542,425

13. 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**	
	Australian dollars		**Australian dollars**	**Hong Kong dollars equivalent**
	AUD'000		*AUD'000*	*HK$'000*
At 30 June 2010:				
Notes	**8,000**	**2010**	**5,322**	**35,450**
	9,000	**2011**	**5,643**	**37,584**
Total				**73,034**
At 31 December 2009:				
Notes	38,000	2010	34,620	241,780
	9,000	2011	8,398	58,653
Total				300,433

13. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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 AUD4 million (31 December 2009: AUD4 million) are subject to redemption at maturity.

Further details of the Group's management of credit risk, liquidity risk, currency risk and equity price risk arising from derivative financial instruments are set out in note 21.

14. INVENTORIES

Inventories in the consolidated balance sheet comprise:

	At 30 June 2010 *HK$'000*	At 31 December 2009 *HK$'000*
Property development		
Properties held for development	**1,502,736**	–
Completed properties held for sale	**352,805**	561,904
	1,855,541	561,904
Other operations		
Trading stocks	**327**	1,239
Spare parts and consumables	**2,691**	2,570
Work in progress	**7,520**	4,762
	10,538	8,571
	1,866,079	570,475

At 30 June 2010, the amount of spare parts and consumables carried at net realisable value is HK$1,947,000 (31 December 2009: HK$1,892,000).

15. TRADE AND OTHER RECEIVABLES

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Trade receivables	226,479	457,740
Less: Allowance for doubtful debts	(31)	(542)
	226,448	457,198
Other receivables and prepayments	92,667	44,527
	319,115	501,725

Included in trade and other receivables are trade receivables net of allowance for doubtful debts with the following ageing analysis as of the balance sheet date:

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Current	215,207	447,928
1 to 3 months overdue	6,308	5,969
More than 3 months overdue but less than 12 months overdue	2,150	2,993
More than 12 months overdue	2,783	308
	226,448	457,198

All of the trade and other receivables at 30 June 2010 except instalment receivables of HK$100,874,000 (31 December 2009: HK$98,232,000) are expected to be recovered within one year.

Debts are due ranging from 7 to 45 days from the date of billing. Debtors with balances that are more than 60 days overdue are generally required to settle all outstanding balances before any further credit is granted.

16. CASH AND CASH EQUIVALENTS

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Deposits with banks and other financial institutions	510,860	1,303,724
Cash at bank and in hand	20,420	17,952
Cash and cash equivalents in the consolidated balance sheet	531,280	1,321,676
Bank overdrafts	–	(238)
Cash and cash equivalents in the condensed consolidated cash flow statement	531,280	1,321,438

17. TRADE AND OTHER PAYABLES

All of the trade and other payables at 30 June 2010 are expected to be settled within one year.

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

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Due within 1 month or on demand	182,421	235,949
Due after 1 month but within 3 months	400	4
Due after 12 months	–	231
	182,821	236,184

18. CAPITAL COMMITMENTS

Capital commitments outstanding at 30 June 2010 not provided for in the Group's interim financial statements are as follows:

	At 30 June 2010 HK$'000	At 31 December 2009 HK$'000
Contracted for	9,082	–

19. CONTINGENT LIABILITIES

Financial guarantees issued

As at 30 June 2010, 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$2,312,000 (31 December 2009: HK$1,997,000).

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.

20. MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

(a) In 1998, the Group appointed a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD") as the development and sales manager (the "Project Manager") for the redevelopment of Metro Harbour View, Kowloon Inland Lot No. 11127 (the "MHV Property") in consideration for a fee equivalent to the aggregate of 1% of the construction cost and 0.5% of the gross proceeds of sale of the residential portion of the redevelopment. In 2009, an amount of HK$39,000 had been charged to the Group. At 30 June 2010, an amount of HK$18,000,000 (31 December 2009: 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. At 30 June 2010, an amount of HK$8,011,000 (31 December 2009: HK$7,991,000) remained unpaid and was included in trade and other receivables.

(b) In December 2001, a wholly-owned subsidiary of the Company, acquired 50% equity interest in 2OK Company Limited ("2OK") which was set up to provide mortgage loans to the residential unit buyers of MHV Property. HLD through its subsidiaries beneficially owned the remaining 50% equity interest in 2OK as at 30 June 2010. During the six months ended 30 June 2010, the Group received management and administrative fees in the total of HK$600,000 (2009: HK$300,000) from 2OK. The Group and HLD Sub have made advances to 2OK to finance the latter's mortgage operation and interest was charged on amount advanced. During the six months ended 30 June 2010, the Group received interest amounting to HK$607,000 (2009: HK$945,000) from 2OK. At 30 June 2010, the amount advanced by the Group totalling HK$46,913,000 (31 December 2009: HK$71,352,000) is in proportion to the Group's equity interest in 2OK and is unsecured and has no fixed repayment terms.

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

(c) 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$506,000 (2009: HK$490,000) was charged to the Group for the six months ended 30 June 2010. At 30 June 2010, an amount of HK$530,000 (31 December 2009: HK$498,000) remained unpaid and was included in trade and other payables.

As the aforementioned agreement was renewable on the yearly basis until terminated by the either party, the Group had monitored the receipt of the funds during the period and confirm that this Continued Connected Transaction was in 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 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 Continued Connected Transaction is exempted from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

(d) In September 2004, the Group appointed a wholly-owned subsidiary of HLD as the project and sales manager for the development of MetroRegalia, No. 51 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. At 30 June 2010, an amount of HK$435,000 (31 December 2009: HK$Nil) remained unpaid and was included in trade and other payables.

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

(e) In September 2004, the Group appointed another wholly-owned subsidiary of HLD as the main contractor for a fee of 5% on all works relating to the development of the TMR Property. The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee shall be subject to a total ceiling of HK$14,100,000. During the six months ended 30 June 2010, as a result of change in the latest cost estimates, an amount of HK$2,000 (2009: HK$5,208,000) and HK$Nil (2009: HK$260,000), 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 30 June 2010, an amount of HK$1,606,000 (31 December 2009: HK$1,608,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

(f) In May 2006, the Group appointed a wholly-owned subsidiary of HLD as the project manager for the development of Shining Heights, 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 up to the period end of 31 March 2009. In September 2009, the project management agreement extension letter was signed which all the terms and conditions remain unchanged except to extend the period of payment for the respective ceiling of HK$3,000,000 and HK$3,000,000 for the nine months ended 31 December 2009 and year ending 31 December 2010 respectively. In accordance with the contract entered into with the Group, an amount of HK$897,000, of which HK$517,000 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$380,000 being the 1% fee, was charged by the project manager for the six months ended 30 June 2009 for the development of the TKT Property. At 30 June 2010, an amount of HK$8,500,000 (31 December 2009: HK$8,500,000) remained unpaid and was included in trade and other payables.

(g) 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 up to the period end of 31 March 2009. In September 2009, the prime cost contract extension letter was signed which all the terms and conditions remain unchanged except to extend the period of payment for the respective ceiling of HK$5,500,000 and HK$6,500,000 for the nine months ended 31 December 2009 and year ending 31 December 2010 respectively. During the six months ended 30 June 2010, as a result of change in the latest cost estimates, an amount of HK$2,008,000 and HK$100,000, 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 TKT Property. During the six months ended 30 June 2009, the main contractor did not charge the Group as the construction work has completed in 2008. At 30 June 2010, an amount of HK$59,643,000 (31 December 2009: HK$90,246,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

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

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

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

In July 2009, the Group and the wholly-owned subsidiary of HLD agreed to renew their tenancy and licence agreement for a term of two years commencing from 1 July 2009. Pursuant to the Tenancy Renewal Agreement, the tenant agreed to take the lease for a term of two years commencing from 1 July 2009 at a monthly rental of HK$280,000 and other ancillary expenses and a turnover rent of 7% (if any) of annual gross turnover of the tenant's business over HK$142,241,000 which shall be payable monthly in arrears. The Group also entered into (i) a Wall Signage Licence Agreement for one external wall signages at MHP; and (ii) an Entrance Signage Licence Agreement for one signage at the entrances of MHP. Total annual licence fee payable under the Wall Signage Agreement and the Entrance Signage Licence Agreement is HK$12,000 and HK$6,000 respectively.

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

During the six months ended 30 June 2010, an amount of HK$3,607,000 (2009: HK$5,021,000), being aggregate rental and fees receivable under the aforementioned lease and licence, was credited to the Group.

(i) 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 The Spectacle, No. 8 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.

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

(i) *(Continued)*

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.

During the six months ended 30 June 2010, a total fee of HK$628,000 was charged to the Group. In accordance with the contract entered into with the Group, an amount of HK$1,333,000, of which HK$750,000 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$583,000 being the 1% fee, was charged by the project and sales manager for the six months ended 30 June 2009 for the development of the Yau Tong Property. At 30 June 2010, an amount of HK$4,638,000 (31 December 2009: HK$6,309,000) 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.

During the six months ended 30 June 2010, as a result of change in the latest cost estimates, an amount of HK$10,000,000 and HK$500,000, 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 Yau Tong Property. In accordance with the contract entered into with the Group, an amount of HK$125,329,000, of which HK$5,744,000 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 six months ended 30 June 2009 for the superstructure work of the development of the Yau Tong Property. At 30 June 2010, an amount of HK$39,449,000 (31 December 2009: HK$70,513,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

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

(j) 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. A total fee of HK$400,000 (2009: HK$2,000,000) was charged to the Group for the six months ended 30 June 2010. At 30 June 2010, an amount of HK$400,000 (31 December 2009: HK$2,000,000) remained unpaid and was included in trade and other payables.

(k) 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 was 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$4,289,000 was charged to the Group for the six months ended 30 June 2009. At 30 June 2010, an amount of HK$1,104,000 (31 December 2009: HK$1,104,000) remained unpaid and was included in trade and other payables.

(l) In August 2009, the Group as tenant and a wholly-owned subsidiary of HLD as landlord entered into a Tenancy Agreement. Pursuant to the Tenancy Agreement, the tenant agreed to take the lease of a premise at Lai Chi Kok as sales office and show flats for the marketing of the Yau Tong Property for a term of three years commencing from 1 March 2009 at a monthly rental of HK$350,000 and other ancillary expenses. The annual ceiling for the ten months ended 31 December 2009, the years ending 31 December 2010 and 31 December 2011, and the two months ending 29 February 2012 were HK$2,500,000, HK$5,000,000, HK$5,000,000 and HK$1,000,000 respectively. A total fee of HK$2,152,000 (2009: HK$Nil) was charged to the Group for the six months ended 30 June 2010. At 30 June 2010, an amount of HK$1,520,000 (31 December 2009: HK$391,000) remained unpaid and included in trade and other payables.

(m) As at 30 June 2010, HLD 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.

21. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

(a) Credit risk

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

In respect of trade and other receivables, credit evaluations are performed on customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. These receivables are due ranging from 7 to 45 days from the date of billing. Debtors with balances that are more than 60 days overdue are generally required to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group'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 19, 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 19.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 15.

21. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(b) Liquidity risk

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

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.

(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.

(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 12) and derivative financial instruments (see note 13).

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 13).

21. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(e) Fair values

Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, *Financial instruments: Disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

Group

	At 30 June 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Available-for-sale equity securities:				
– Listed	**456,485**	**–**	**–**	**456,485**
Derivative financial instruments	**–**	**73,034**	**–**	**73,034**
	456,485	**73,034**	**–**	**529,519**

	At 31 December 2009			
	Level 1	Level 2	Level 3	Total
Assets	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Available-for-sale equity securities:				
– Listed	542,425	–	–	542,425
Derivative financial instruments	–	300,433	–	300,433
	542,425	300,433	–	842,858

During the period there were no significant transfers between instruments in Level 1 and Level 2 and there were no movements in the balance of Level 3 fair value measurements.

21. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(f) Estimation of fair values

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

(i) Listed equity securities

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

(ii) Derivative financial instruments

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

22. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2010

Up to the date of issue of these interim financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2010, and which have not been adopted in these interim statements.

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. The Group is therefore unable to disclose the impact that adopting these amendments, new standards and new interpretations will have on its financial position and the results of operations when such amendments, new standards and interpretations are adopted.

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

INTRODUCTION

We have reviewed the interim financial statements set out on pages 9 to 35 which comprises the consolidated balance sheet of Hong Kong Ferry (Holdings) Company Limited as of 30 June 2010 and the related consolidated profit and loss account, statement of comprehensive income, statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial statements in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial statements and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements as at 30 June 2010 are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

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

25 August 2010

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