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
中期報告 2011

5 years+
商界展關懷
caringcompany
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香港社會服務聯會頒發

Interim Results and Dividend

The unaudited consolidated net profit after taxation of the Group for the six months ended 30 June 2011 amounted to HK$213.1 million and the earnings per share were HK60 cents. A profit of HK$243.2 million (restated) was recorded in the corresponding period in 2010 and the earnings per share last year were HK68 cents (restated).

The Board has resolved to pay an interim dividend of HK10 cents (2010: HK10 cents) per share in respect of the financial year ending 31 December 2011. The interim dividend will be paid on or about Thursday, 29 September 2011 to shareholders whose names appear on the register of members at the close of business on Friday, 16 September 2011.

Management Discussion and Analysis

Business Review

During the period under review, profits for the Group were mainly derived from the sale of residential units of Shining Heights and The Spectacle 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$101.5 million. The revaluation gain from the investment properties of the Group amounted to HK$77.9 million.

Property Development and Investment Operations

As at 30 June 2011, the Group had sold a total of 27 units of Shining Heights and The Spectacle. The occupancy rate of the commercial arcade of Shining Heights at the end of June was about 86%.

At the end of June 2011, the occupancy rate of the commercial arcade of Metro Harbour Plaza was 99%. Rental and related income from the mall of Metro Harbour Plaza amounted to HK$18.2 million during the period.

During the period under review, the foundation work of the site at Fanling Sheung Shui Town Lot No. 177 was carried out and completed this month. Superstructure work would soon commence for the development of three residential towers consisting of over 700 units with average floor area of 700 sq. ft. Together with the two-storey shopping mall, there is a total gross floor area of approximately 540,000 sq. ft.

The demolition work of the property at 208 Tung Chau Street (formally 204–214 Tung Chau Street) would also commence soon and the foundation work was expected to commence by the end of 2011. The property will be re-developed into a commercial/residential building with a total gross floor area of approximately 54,000 sq. ft.

In late June 2011, the Group also successfully acquired from the government a tender site of area of approximately 6,300 sq. ft. at the junction of Gillies Avenue South and Bulkeley Street for a consideration of HK$406,300,000. It was planned to be developed into a residential-cum-commercial building comprising approximately 95 residential units with the total gross floor area of approximately 56,000 sq. ft. The general building plan was submitted to the Buildings Department in July 2011.

The Group received a rental income amounting to HK$0.87 million from the investment property at 52–56 Kwun Chung Street during the period.

Ferry, Shipyard and Related Operations

The Ferry, Shipyard and Related Operations recorded a profit of HK$3.7 million, compared with a profit of HK$6.6 million in the same period last year. Both shipyard operations and fuel oil trading achieved improvement in operating results. The operating results of vehicular ferry operation declined due to the increase in the price of fuel oil.

Travel and Hotel Operations

Pursuant to the tender agreement, the sale of Silvermine Beach Hotel was to be completed on 8 September 2011. A surplus of approximately HK$240 million would be recorded after the sale of the Hotel was completed.

A deficit of HK$1.4 million was incurred from the Hotel operations after taking into account the provision for severance payment. The operating profit of the Travel operations decreased from HK$1.3 million in the same period last year to HK$0.9 million this year.

Prospects

Global stock markets declined and gold bullion soared in early August amidst the downgrading of the US sovereignty credit rating from AAA to AA+ and concerns over the possibility of default in sovereignty debts by a few EU countries. Economic outlook turns rather uncertain. Fearing a double dip in recession, investors will look for safe haven and are less willing to take investment risks.

Despite the uncertainties, the Hong Kong economy is still relatively sound. Vice-Premier Li Keqiang of State Council visited Hong Kong in mid-August and announced various measures beneficial to Hong Kong, including introducing Mainland and Hong Kong stock market ETF, allowing mainland enterprises to issue RMB bonds in Hong Kong and enhancing more CEPA arrangements such as medical services. With the introduction of a series of broadening cross-border trade and finance cooperative policies by the central government, it will accelerate the strengthening of Hong Kong as an offshore Renminbi centre and further consolidate its position as an international financial and asset management centre.

The U.S. Federal Reserve announced in August that it will keep interest rates low for two years until 2013. Though the loan-to-deposit ratio of banks in Hong Kong is getting tighter, the rise of interest rate of Hong Kong dollar will be limited due to the exchange rate peg thus assisting Hong Kong in sailing through the economic gloom.

For the second half of the year, the Group's major operating income will arise from rental income. As stated above, the profit of the Silvermine Beach Hotel will be recognized after the completion of the sale and purchase.

Financial Review

Review of Results

During the six-month period ended 30 June 2011, the Group's turnover amounted to HK$367 million, representing a decrease of 36% as compared with that recorded in the same period last year. This was mainly attributable to the decrease in the sale of the residential units of Shining Heights and The Spectacle.

The consolidated net profit after taxation of the Group for the six-month period ended 30 June 2011 was HK$213.1 million, representing a decrease of 12% as compared with a profit of HK$243.2 million (restated) 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 2011, shareholders' funds amounted to HK$4,528 million, representing a slight increase of 2% as compared with the corresponding figure as at 31 December 2010. The increase arose from the profits for the period under review net of dividends paid.

There was no change to the capital structure of the Group during the period. As at 30 June 2011, 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$10.6 million was received from an associate, which provided mortgage loans to buyers of Metro Harbour View residential units.

As at 30 June 2011, current assets of the Group stood at HK$2,862 million and current liabilities was HK$242 million. Current ratio of the Group decreased from 12.4 as at 31 December 2010 to 11.8 as at 30 June 2011, mainly due to the increase in trade and other payables.

Gearing Ratio and Financial Management

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

The Group's financing and treasury activities were managed centrally at the corporate level. Financing facilities extended to the Group were denominated in Hong Kong dollar and United States dollar. Certain deposits are denominated in United States dollar, Renminbi 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 2011, the Group employed about 340 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, 14 September 2011 to Friday, 16 September 2011, 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 Monday, 12 September 2011.

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 2011.

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 2011.

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 2011 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 2011 with the management.

In addition, the Group's external auditor, KPMG, have also performed a review of the condensed interim financial statements for the six months ended 30 June 2011. Based on their review, nothing has come to their attention that causes them to believe that the condensed interim financial statements as at 30 June 2011 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 2011. 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, 22 August 2011

Disclosure of Interests

Directors' Interests in Securities

As at 30 June 2011, 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 9)*	—	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 9)*	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%

	20K 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 2011.

Substantial Shareholders and Others

As at 30 June 2011, 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.

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 2011.

Save as disclosed, as at 30 June 2011, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company.

Changes in the Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, changes in the information of Directors of the Company required to be disclosed are shown as follows:

Mr. Li Ning was appointed as an independent non-executive director of Glencore International plc, a listed company, on 14 April 2011.

Condensed Interim Financial Statements

Consolidated Profit and Loss Account

For the six months ended 30 June 2011 — unaudited

	Note	Six months ended 30 June 2011 HK$'000	2010 (Restated) HK$'000
Turnover	3(a)	**366,889**	576,436
Cost of sales		**(187,773)**	(329,831)
		179,116	246,605
Other revenue	3(a)	**12,184**	11,813
Other net income	4	**18,788**	45,580
Valuation gains on investment properties and investment property held for development	3(d)	**77,888**	44,374
Selling and marketing expenses		**(12,677)**	(29,402)
Administrative expenses		**(21,983)**	(21,801)
Other operating expenses		**(21,587)**	(22,809)
Profit from operations	3(b)	**231,729**	274,360
Share of profits less losses of associates		**378**	231
Profit before taxation	5	**232,107**	274,591
Taxation	6	**(18,989)**	(31,441)
Profit attributable to equity shareholders of the Company		**213,118**	243,150
Earnings per share (cents)			
— Basic and diluted	9	**59.8**	68.2

The notes on pages 16 to 35 form part of these condensed interim financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the period are set out in note 7.

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011 — unaudited

		Six months ended 30 June	
		2011	2010 (Restated)
	Note	***HK$'000***	*HK$'000*
Profit attributable to equity shareholders of the Company		**213,118**	243,150
Other comprehensive income for the period (after tax and reclassification adjustments):			
Available-for-sale securities:			
net movement in the securities revaluation reserve	8	**(17,960)**	(124,392)
Realisation of inter-company profits		**(12)**	(12)
		(17,972)	(124,404)
Total comprehensive income attributable to equity shareholders of the Company		**195,146**	118,746

The notes on pages 16 to 35 form part of these condensed interim financial statements.

Consolidated Balance Sheet

At 30 June 2011

	Note	At 30 June 2011 (unaudited) *HK$'000*	*HK$'000*	At 31 December 2010 (audited) *HK$'000*	*HK$'000*
Non-current assets					
Fixed assets					
— Investment properties	10		984,650		914,650
— Investment property held for development	10		105,000		99,000
— Other property, plant and equipment			82,750		120,003
— Interests in leasehold land			49,300		50,361
			1,221,700		1,184,014
Interest in associates	11		29,850		40,092
Available-for-sale securities	12		647,290		593,762
Employee benefits assets			11,138		11,087
Deferred tax assets			5,768		8,134
			1,915,746		1,837,089
Current assets					
Derivative financial instruments	13	—		55,732	
Inventories	14	1,762,326		1,784,682	
Trade and other receivables	15	206,969		215,047	
Cash and cash equivalents	16	851,434		753,670	
Tax recoverable		7,267		7,087	
		2,827,996		2,816,218	
Non-current assets classified as held for sale	18	33,637		—	
		2,861,633		2,816,218	
Current liabilities					
Bank overdraft	16	—		326	
Trade and other payables	17	202,664		186,807	
Tax payable		39,805		39,343	
		242,469		226,476	
Net current assets			2,619,164		2,589,742
Total assets less current liabilities			4,534,910		4,426,831
Non-current liabilities					
Deferred tax liabilities			7,007		1,443
NET ASSETS			4,527,903		4,425,388

Consolidated Balance Sheet *(continued)*

At 30 June 2011

	Note	At 30 June 2011 (unaudited) HK$'000	HK$'000	At 31 December 2010 (audited) HK$'000	HK$'000
CAPITAL AND RESERVES					
Share capital			**356,274**		356,274
Reserves			**4,171,629**		4,069,114
TOTAL EQUITY			**4,527,903**		4,425,388

The notes on pages 16 to 35 form part of these condensed interim financial statements.

Consolidated Statement of Changes In Equity

For the six months ended 30 June 2011 — unaudited

	Note	Share capital HK$'000	Share premium HK$'000	Securities revaluation reserve HK$'000	Other capital reserves HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2010		356,274	1,398,527	177,137	893	2,168,409	4,101,240
Changes in equity for the six months ended 30 June 2010:							
Profit for the period (restated)	2(b)	—	—	—	—	243,150	243,150
Other comprehensive income		—	—	(124,392)	(12)	—	(124,404)
Total comprehensive income for the period		—	—	(124,392)	(12)	243,150	118,746
Dividends approved in respect of the previous financial year	7(b)	—	—	—	—	(92,631)	(92,631)
Restated balance at 30 June 2010 and 1 July 2010		356,274	1,398,527	52,745	881	2,318,928	4,127,355
Changes in equity for the six months ended 31 December 2010:							
Profit for the period		—	—	—	—	240,017	240,017
Other comprehensive income		—	—	93,655	(12)	—	93,643
Total comprehensive income		—	—	93,655	(12)	240,017	333,660
Dividends declared in respect of the current year	7(a)	—	—	—	—	(35,627)	(35,627)
Balance at 31 December 2010 and 1 January 2011		**356,274**	**1,398,527**	**146,400**	**869**	**2,523,318**	**4,425,388**
Changes in equity for the six months ended 30 June 2011:							
Profit for the period		**—**	**—**	**—**	**—**	**213,118**	**213,118**
Other comprehensive income		**—**	**—**	**(17,960)**	**(12)**	**—**	**(17,972)**
Total comprehensive income for the period		**—**	**—**	**(17,960)**	**(12)**	**213,118**	**195,146**
Dividends approved in respect of the previous financial year	7(b)	**—**	**—**	**—**	**—**	**(92,631)**	**(92,631)**
Balance at 30 June 2011		**356,274**	**1,398,527**	**128,440**	**857**	**2,643,805**	**4,527,903**

The notes on pages 16 to 35 form part of these condensed interim financial statements.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2011 — unaudited

		Six months ended 30 June	
		2011	2010
	Note	***HK$'000***	*HK$'000*
Net cash generated from/(used in) operating activities		**179,310**	(933,359)
Net cash generated from investing activities		**11,411**	235,832
Net cash used in financing activities		**(92,631)**	(92,631)
Net increase/(decrease) in cash and cash equivalents		**98,090**	(790,158)
Cash and cash equivalents at 1 January	16	**753,344**	1,321,438
Cash and cash equivalents at 30 June	16	**851,434**	531,280

The notes on pages 16 to 35 form part of these condensed interim financial statements.

Notes to the Unaudited Condensed Interim Financial Statements

1. Basis of Preparation

The condensed 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 22 August 2011.

The condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2010 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2011 annual financial statements. Details of these changes in accounting policies are set out in note 2.

The preparation of the condensed 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 condensed 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 Hong Kong Ferry (Holdings) Company Limited ("the Company") and its subsidiaries (together referred to as "the Group") since the 2010 annual financial statements. The condensed 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 condensed interim financial statements are unaudited, but have been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG's independent review report to the Board of Directors is included on page 36.

The financial information relating to the financial year ended 31 December 2010 that is included in the condensed 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 2010 are available from the Company's registered office. The auditor has expressed an unqualified opinion on those financial statements in their report dated 16 March 2011.

2. Changes in Accounting Policies

(a) Changes in accounting policies as a result of the developments in HKFRSs

The HKICPA has issued a number of amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

— HKAS 24 (revised 2009), *Related party disclosures*
— Improvements to HKFRSs (2010)

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

The developments related primarily to clarification of certain disclosure requirements applicable to the Group's financial statements. These developments have had no material impact on the contents of these condensed interim financial statements.

(b) Early adoption of the amendments to HKAS 12, *Income taxes*

During the year ended 31 December 2010, the Group has early adopted the amendments to HKAS 12, *Income taxes*, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, *Investment property*. The amendments are effective for annual periods beginning on or after 1 January 2012, but as permitted by the amendments, the Group has decided to adopt the amendments early.

As a result of this change in policy, the Group now measures any deferred tax liability in respect of its investment properties in Hong Kong with reference to the tax liability that would arise if the properties were disposed of at their carrying amounts at the balance sheet date. Previously, where these properties were held under leasehold interests, deferred tax was generally measured using the tax rate that would apply as a result of recovery of the asset's value through use.

2. Changes in Accounting Policies *(continued)*

(b) Early adoption of the amendments to HKAS 12, *Income taxes* *(continued)*

This change in policy has resulted in a reduction in the amount of deferred tax provided on valuation gains in respect of certain investment properties of the Group. The effects in respect of the period ended 30 June 2010 are shown as follows:

	As previously reported *HK$'000*	Effect of adoption of amendments to HKAS 12 *HK$'000*	As restated *HK$'000*
Consolidated profit and loss account for the six months ended 30 June 2010: (unaudited)			
Taxation	(39,394)	7,953	(31,441)
Profit for the period	235,197	7,953	243,150
Basic and diluted earnings per share (cents)	66.0	2.2	68.2

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.

In a manner consistent with 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: debt and equity securities 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

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

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 2011 and 2010 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	
	2011	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development	**189,421**	388,792	**—**	—	**189,421**	388,792
Property investment	**27,665**	24,485	**30**	29	**27,635**	24,456
Ferry, shipyard and related operations	**58,749**	76,458	**1,304**	1,242	**57,445**	75,216
Travel and hotel operations	**82,352**	86,960	**44**	45	**82,308**	86,915
Securities investment	**10,850**	5,739	**—**	—	**10,850**	5,739
Others	**33,109**	27,911	**21,695**	20,780	**11,414**	7,131
	402,146	610,345	**23,073**	22,096	**379,073**	588,249
Analysed by:						
Turnover					**366,889**	576,436
Other revenue					**12,184**	11,813
					379,073	588,249

3. Segment Reporting *(continued)*

(a) Segment Revenue *(continued)*

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

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.

(b) Segment Results

	Reportable segment profit Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Property development	**101,058**	164,282
Property investment *(note d)*	**90,808**	80,396
Ferry, shipyard and related operations	**3,685**	6,621
Travel and hotel operations	**(495)**	(70)
Securities investment	**10,814**	28,872
Others *(note e)*	**25,859**	(5,741)
	231,729	274,360

(c) Reconciliation of Reportable Segment Profit

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Reportable segment profit derived from external customers	**231,729**	274,360
Share of profits less losses of associates	**378**	231
Consolidated profit before taxation	**232,107**	274,591

3. Segment Reporting *(continued)*

(d) The segment result of "Property investment" included valuation gains on investment properties and investment property held for development of HK$77,888,000 (2010: HK$44,374,000).

(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	
	2011	2010
	HK$'000	*HK$'000*
Net exchange gains/(losses)	**16,516**	(9,531)
Income from sale of spare parts	**554**	150
Forfeited deposits	**450**	—
Net realised and unrealised gains/(losses) on derivative financial instruments	**216**	(18,429)
Net profit on sale of available-for-sale securities	**—**	42,194
Net profit on disposal of investment properties	**—**	29,061
Net profit on disposal of other property, plant and equipment	**—**	85
Sundry income	**1,052**	2,050
	18,788	45,580

5. Profit Before Taxation

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

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Amortisation of leasehold land premium	**689**	689
Cost of inventories	**85,583**	224,693
Depreciation	**4,829**	5,435
Dividend income	**(10,848)**	(5,258)
Interest income	**(12,302)**	(9,167)

6. Taxation

	Six months ended 30 June	
	2011	2010 (Restated)
	HK$'000	*HK$'000*
Current tax — Hong Kong Profits Tax		
Provision for the period	**11,059**	18,705
Deferred tax		
Origination and reversal of temporary differences	**7,930**	12,736
	18,989	31,441

The provision for Hong Kong Profits Tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the period.

7. Dividends

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

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Interim dividend declared after the interim period end of HK10 cents (2010: HK10 cents) per ordinary 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) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the interim period, of HK26 cents (2010: HK26 cents) per ordinary share	**92,631**	92,631

8. Other Comprehensive Income

Reclassification adjustments relating to components of other comprehensive income

	Six months ended 30 June	
	2011	2010
	HK$'000	*HK$'000*
Available-for-sale securities:		
Changes in fair value recognised during the period	**(17,960)**	(81,896)
Reclassification adjustments for amounts transferred to profit or loss:		
— gains on disposal	**–**	(42,496)
Net movement in the securities revaluation reserve during the period recognised in other comprehensive income	**(17,960)**	(124,392)

9. Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$213,118,000 (2010 (restated): HK$243,150,000) and 356,273,883 (2010: 356,273,883) ordinary shares in issue during the period.

There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2011 and 2010, 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 at 30 June 2011 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, 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 2011 (unaudited) *HK$'000*	At 31 December 2010 (audited) *HK$'000*
Share of net assets	**5,779**	5,401
Amounts due from associates	**30,541**	41,161
	36,320	46,562
Less: Impairment loss	**(6,470)**	(6,470)
	29,850	40,092

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 Securities

	At 30 June 2011 (unaudited) ***HK$'000***	At 31 December 2010 (audited) *HK$'000*
Unlisted securities	**45**	45
Listed securities		
— in Hong Kong	**442,158**	451,361
— outside Hong Kong	**205,087**	142,356
	647,245	593,717
	647,290	593,762
Market value of listed securities	**647,245**	593,717

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:

	Notional amount	**Maturing in**	**Fair value**	
	Australian dollars		**Australian dollars**	**Hong Kong dollars equivalent**
	AUD'000		*AUD'000*	*HK$'000*
At 31 December 2010 (audited):				
Notes	9,000	2011	7,035	55,732

All of the Notes were matured and settled either by cash or by delivery of the underlying shares at maturity date during the period.

14. Inventories

Inventories in the consolidated balance sheet comprise:

	At 30 June 2011 (unaudited) *HK$'000*	At 31 December 2010 (audited) *HK$'000*
Property development		
Properties held for/under development — for sale	**1,576,360**	1,510,959
Completed properties held for sale	**178,548**	266,625
	1,754,908	1,777,584
Other operations		
Trading stocks	**952**	418
Spare parts and consumables	**2,593**	3,012
Work in progress	**3,873**	3,668
	7,418	7,098
	1,762,326	1,784,682

At 30 June 2011, the amount of spare parts and consumables carried at net realisable value is HK$1,679,000 (31 December 2010: HK$2,028,000).

15. Trade and Other Receivables

	At 30 June 2011 (unaudited) *HK$'000*	At 31 December 2010 (audited) *HK$'000*
Trade receivables	**136,850**	164,186
Less: Allowance for doubtful debts	**(114)**	(31)
	136,736	164,155
Other receivables and prepayments	**70,233**	50,892
	206,969	215,047

15. Trade and Other Receivables *(continued)*

All of the trade and other receivables at 30 June 2011 except instalment receivables of HK$78,110,000 (31 December 2010: HK$96,420,000) are expected to be recovered within one year.

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

	At 30 June 2011 (unaudited) ***HK$'000***	At 31 December 2010 (audited) *HK$'000*
Current	**126,350**	154,077
1 to 3 months overdue	**6,797**	6,731
More than 3 months overdue but less than 12 months overdue	**2,823**	3,022
More than 12 months overdue	**766**	325
	136,736	164,155

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 2011 (unaudited) ***HK$'000***	At 31 December 2010 (audited) *HK$'000*
Deposits with banks and other financial institutions	**830,470**	726,927
Cash at bank and in hand	**20,964**	26,743
Cash and cash equivalents in the consolidated balance sheet	**851,434**	753,670
Bank overdraft (unsecured and repayable within 1 year or on demand)	**–**	(326)
Cash and cash equivalents in the condensed consolidated cash flow statement	**851,434**	753,344

17. Trade and Other Payables

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

	At 30 June 2011 (unaudited) *HK$'000*	At 31 December 2010 (audited) *HK$'000*
Due within 1 month or on demand	**70,107**	109,496
Due after 1 month but within 3 months	**193**	83
	70,300	109,579

18. Non-Current Assets Classified as Held for Sale

On 12 May 2011, HYFCO Properties Limited, a wholly-owned subsidiary of the Company, accepted the tender by an independent third party to purchase the Group's entire interest in the hotel properties, leasehold land associated with the hotel properties and certain furniture and fixtures remaining on the hotel properties at a consideration of HK$280,800,000. The transaction is to be completed on or before 8 September 2011.

Accordingly, the carrying amounts of the hotel properties, interest in leasehold land associated with the hotel properties and certain furniture and fixtures remaining on the hotel properties totalling HK$33,637,000 have been reclassified from "Other property, plant and equipment" and "Interests in leasehold land" to "Non-current assets classified as held for sale" during the period.

19. Capital Commitments

Capital commitments outstanding at 30 June 2011 not provided for in these condensed interim financial statements are as follows:

	At 30 June 2011 (unaudited) ***HK$'000***	At 31 December 2010 (audited) *HK$'000*
Contracted for	**1,526,405**	92,659
Authorised but not contracted for	**–**	930,724
	1,526,405	1,023,383

20. Contingent Liabilities

Financial guarantees issued

At 30 June 2011, 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 amounts 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.

At the balance sheet date, the directors do not consider it is 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 amounts due to the relevant suppliers by its wholly-owned subsidiaries, being HK$2,844,000 (31 December 2010: HK$1,942,000).

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.

21. Material Related Party and Connected Transactions

During the period, the Group entered into the following transactions with certain connected and related parties:

(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. At 30 June 2011, an amount of HK$18,000,000 (31 December 2010: 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 2011, an amount of HK$7,971,000 (31 December 2010: HK$7,948,000) 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 at 30 June 2011. During the period, the Group received management and administrative fees in the total of HK$300,000 (2010: HK$600,000) 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 period, the Group received interest amounting to HK$263,000 (2010: HK$607,000) from 2OK. At 30 June 2011, the amount advanced by the Group totalling HK$19,930,000 (31 December 2010: HK$30,550,000) is in proportion to the Group's equity interest in 2OK and is unsecured and has no fixed repayment terms.

(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$605,000 (2010: HK$506,000) was charged to the Group for the period. At 30 June 2011, an amount of HK$626,000 (31 December 2010: HK$599,000) remained unpaid and was included in "Trade and other payables".

21. Material Related Party and Connected Transactions *(continued)*

(c) *(continued)*

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 period and confirmed that this Continued Connected Transaction was in normal commercial terms where:

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

2. less than 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.

(d) 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 ended 31 December 2010 respectively. At 30 June 2011, an amount of HK$8,500,000 (31 December 2010: HK$8,500,000) remained unpaid and was included in "Trade and other payables".

(e) 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 Group 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 ended 31 December 2010 respectively. During the six months ended 30 June 2010, as a result of change in the latest cost estimates, amounts of HK$2,008,000 and HK$100,000, represented a corresponding adjustment in fees, were credited to the Group in relation to the superstructure work of the development and the 5% fee on all works relating to the development of the TKT Property. During the six months ended 30 June 2011, there was no change in cost estimates. At 30 June 2011, an amount of HK$12,458,000 (31 December 2010: HK$23,040,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in "Trade and other payables".

21. Material Related Party and Connected Transactions *(continued)*

(f) 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 (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.

In July 2009, the Group and the wholly-owned subsidiary of HLD agreed to renew their tenancy and licence agreements 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 Licence Agreement and the Entrance Signage Licence Agreement is HK$12,000 and HK$6,000 respectively. An additional external wall signage was licensed to the tenant in October 2010 at an annual fee of HK$1,000 and expired on 30 June 2011.

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

During the period, an amount of HK$3,613,000 (2010: HK$3,607,000), being aggregate rental and fees receivable under the aforementioned lease and licence, was credited to the Group.

(g) 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 ended 31 December 2009 and 2010, and the ten months ending 31 October 2011 respectively. A total fee of HK$200,000 (2010: HK$400,000) was charged to the Group for the period.

(h) In November 2008, the Group appointed a wholly-owned subsidiary of HLD as the agent of the Group for marketing of the TKT Property 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 ended 31 December 2009. At 30 June 2011, an amount of HK$1,104,000 (31 December 2010: HK$1,104,000) remained unpaid and was included in "Trade and other payables".

21. Material Related Party and Connected Transactions *(continued)*

(i) 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 Spectacle, No. 8 Cho Yuen Street, Yau Tong, Kowloon, Hong Kong 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 year ended 31 December 2010, the year ending 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 was charged to the Group for the six months ended 30 June 2010. At 31 December 2010, an amount of HK$767,000 remained unpaid and included in "Trade and other payables". The balance has been repaid during the period.

(j) In March 2011, the Group appointed a wholly-owned subsidiary of HLD as the project manager for the development of Fanling Sheung Shui Town Lot No. 177 (the "Fanling Property") for a term of three years commencing from 1 April 2011 in consideration for a fee equivalent to the aggregate of 0.7% of the construction costs of the Fanling Property and other lump sum fees for supplementary services subject to a ceiling of HK$7,000,000; and 0.5% of the gross proceeds of sales (but excluding those sale and purchase agreements which were effected by a third party sales agent) subject to the total annual ceilings of the respective years. A total fee of HK$1,584,000 was charged to the Group for the six months ended 30 June 2011. At 30 June 2011, an amount of HK$1,584,000 remained unpaid and was included in "Trade and other payables".

(k) In March 2011, the Group appointed another wholly-owned subsidiary of HLD as the main contractor for a fee of 5% on all works relating to the Fanling 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 the total ceilings of the respective years. The contract commencement date is 5 August 2011 and no cost has been charged for the six months ended 30 June 2011.

(l) In March 2011, the Group appointed a wholly-owned subsidiary of HLD as the project manager for the development of Tung Chau Street Property located at No. 208 Tung Chau Street (formally No. 204-214, Tung Chau Street), Sham Shui Po, Kowloon, Hong Kong (the "TCS Property") for a term of three years commencing from 1 April 2011 in consideration for a fee equivalent to the aggregate of 1% of the construction costs of the TCS Property, subject to a ceiling of HK$1,490,000; and 0.5% of the gross proceeds of sale (but excluding those sale and purchase agreements which were effected by a third party sales agent) subject to the total annual ceilings of the respective years. A total fee of HK$352,000 was charged to the Group for the six months ended 30 June 2011. At 30 June 2011, an amount of HK$352,000 remained unpaid and was included in "Trade and other payables".

21. Material Related Party and Connected Transactions *(continued)*

(m) In March 2011, the Group appointed another wholly-owned subsidiary of HLD as the main contractor for a fee of 5% on all works relating to the TCS 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 the total ceilings of the respective years. The construction has not commence. No cost has been charged for the six months ended 30 June 2011.

(n) At 30 June 2011, 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.

22. Restatement of Comparatives

As a result of the adoption of the amendments to HKAS 12, *Income taxes*, certain comparative figures have been adjusted to reflect the decrease in accrual of deferred tax liabilities related to investment properties and investment property held for development carried at fair value. Further details of these changes are disclosed in note 2(b).

23. Non-adjusting Post Balance Sheet Events

After the balance sheet date, the Board proposed an interim dividend. Further details are disclosed in note 7(a).

Review Report

REVIEW REPORT TO THE BOARD OF DIRECTORS OF
HONG KONG FERRY (HOLDINGS) COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed interim financial statements set out on pages 10 to 35 which comprises the consolidated balance sheet of Hong Kong Ferry (Holdings) Company Limited as of 30 June 2011 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 month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of 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 condensed 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 condensed interim financial statements at 30 June 2011 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

22 August 2011

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