



HONG KONG FERRY (HOLDINGS) COMPANY LIMITED
香港小輪(集團)有限公司
(Stock Code 股份代號: 50)

INTERIM REPORT 中期報告 **2014**



INTERIM RESULTS AND DIVIDENDS

The unaudited consolidated net profit after taxation of the Group for the six months ended 30 June 2014 amounted to HK\$1,048 million, representing an increase of 703% as compared with the figure for the first half year of 2013. Earnings per share amounted to HK\$2.94 as compared with HK\$0.37 over the corresponding period of 2013.

The Board has resolved to pay an interim dividend of HK10 cents (2013: HK10 cents) and a special dividend of HK90 cents per share in celebration of the 90th Anniversary of the Group in respect of the year ending 31 December 2014. The interim dividend and the special dividend will be paid on or about Friday, 26 September 2014 to shareholders whose names appear on the register of members at the close of business on Tuesday, 16 September 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

During the period under review, the major source of profits of the Group was mainly derived from the sale of residential units of Green Code. The occupation permit of Green Code has been issued in June 2014 and the sale turnover of Green Code of HK\$3,152 million had been included in the unaudited condensed interim financial statements of the Group.

Property Development and Investment Operations

During the period, the profit from the sale of Green Code together with the rental and other income from all commercial arcades of the Group amounted to HK\$1,094 million.

As at 30 June 2014, the Group had sold a total of 696 residential units of Green Code and the rental take up rate of its commercial arcade was 41%. Green Code project consists of three residential towers resting on a two-storey shopping podium mall. The total gross floor area is approximately 540,000 sq. ft.

The commercial arcade of Shining Heights was fully let. The occupancy rate of commercial arcades of Metro Harbour Plaza and The Spectacle were 98% and 60% respectively as at 30 June 2014.

The pre-sale of METRO6 (Hung Hom Inland Lot No. 555) was launched in July 2014. The residential-cum-commercial building comprising 95 residential units, of which 60 units were marketed, offering various choices to purchasers. The response from purchasers was satisfactory and a total of 36 residential units had been sold.

As regards Tung Chau Street Project, the Company is still seeking clarification with the Lands Department on the meaning of the word "house" under the Government lease. Up to today, the Government has not yet notified the Company of a decision.

Management Discussion and Analysis (Continued)

Business Review *(continued)*

Ferry, Shipyard and Related Operations

During the period, the Ferry, Shipyard and Related Operations recorded a profit of HK\$4.2 million, a decrease of 85% as compared with the same period last year. One of the reasons of the decrease is the lack of one-off item such as profit from the sale of carriers in last year.

Travel Operation

The operating results of Travel Operation showed a deficit of HK\$4.3 million this period as a result of severe market competition and political uncertainty of adjacent countries.

Securities Investment

As there was market adjustment at the end of the first half of the year, an impairment loss of HK\$6.8 million was made against the Group's available-for-sale securities investment.

Prospects

Local retail businesses have been adversely affected by the slowdown in the Mainland economy and the reduction in the tourist spending on luxurious items in Hong Kong. Negative growth has been recorded in recent months on retail sale. The sluggishness is expected to continue in the second half of the year before the gradual relaxation in Government policies in the Mainland triggers a recovery and has the effects felt.

The US economy has been improving steadily. The Federal Reserve Board, in its tapering exercise, stressed however that a rapid rise in interest rates is not imminent. The bond market responded with medium to long term interest rates easing rather than rising. Under the current low interest rate scenario, the property market in Hong Kong is expected to remain stable in the near term, with purchasers mainly buying for their dwelling use.

The sales proceeds from the residential units of Green Code will continue to be the major source of income of the Group this year. With the abundant cash reserves in hand, the Group will continue to explore investment opportunities for the benefit of the shareholders.

Financial Review

Review of Results

During the six months ended 30 June 2014, the Group's turnover amounted to HK\$3,308.6 million, representing an increase of 1,249% as compared with that recorded in the same period last year. This was mainly attributable to the sales of the residential units of Green Code.

The consolidated net profit after taxation of the Group for the six months ended 30 June 2014 was HK\$1,048 million, representing an increase of 703% as compared with a profit of HK\$130.5 million for the same period last year. The reason for the increase is already mentioned in the section of Management Discussion and Analysis of this report.

Management Discussion and Analysis (Continued)

Financial Review *(continued)*

Liquidity, Financial Resources and Capital Structure

As at 30 June 2014, shareholders' funds of the Group amounted to HK\$6,140 million, representing an increase of 18% as compared with the corresponding figure as at 31 December 2013. The increase was mainly due to the net effect of the proceeds realised from the sale of residential units of Green Code, the gains on revaluation of the Group's investment properties and the payment of dividends.

There was no change to the capital structure of the Group during the period. As at 30 June 2014, 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\$1.5 million was received from an associate, which provided mortgage loans to buyers of Metro Harbour View residential units.

As at 30 June 2014, current assets of the Group stood at HK\$4,667 million and current liabilities was HK\$886 million. Current ratio of the Group increased from 2.1 as at 31 December 2013 to 5.3 as at 30 June 2014, mainly due to the decrease in trade and other payables.

Gearing Ratio and Financial Management

As there was no borrowing, gearing ratio was 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. Certain deposits are denominated in Renminbi, 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 2014, the Group employed about 300 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 educational subsidies.

OTHER INFORMATION

Closure of Register of Members

The Register of Members of the Company will be closed on Monday, 15 September 2014 and Tuesday, 16 September 2014, during which period no requests for the transfer of shares will be accepted.

In order to qualify for the interim dividend and the special dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration no later than 4:30 p.m. on Friday, 12 September 2014.

Purchase, Sale or Redemption of the Company's Listed Securities

During the period under review, neither the Company nor any of its subsidiaries had 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 maintaining high standards of corporate governance. In the opinion of the Board of Directors (the "Board"), the Company has complied with the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the six months ended 30 June 2014.

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 to 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 standards as set out in the Model Code during the six months ended 30 June 2014.

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 possess inside 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.6.4 of the Code.

Other Information (Continued)

Audit Committee

The Audit Committee has met in August 2014 and reviewed the accounting principles and practices adopted by the Group and have also discussed auditing, internal control and financial reporting matters including the review of the unaudited condensed interim financial statements for the six months ended 30 June 2014 with the management.

The condensed interim financial statements for the six months ended 30 June 2014 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 Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in this interim report to be sent to shareholders.

Remuneration Committee

The Remuneration Committee held its meeting in June 2014. The Remuneration Committee currently comprises four independent non-executive directors and two executive directors.

On behalf of the Board
Lam Ko Yin, Colin
Chairman

Hong Kong, 22 August 2014

DISCLOSURE OF INTERESTS

Directors' Interests in Securities

As at 30 June 2014, the interests and short positions of the directors in securities of the Company and its associated corporations (within the meaning of Part XV 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				Approximate percentage of total issued shares
	Personal Interests <i>Number of Shares</i>	Corporate Interests <i>Number of Shares</i>	Family Interests <i>Number of Shares</i>	Total Interests <i>Number of Shares</i>	
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	799,220	118,732,090 <i>(Note 6 on page 9)</i>	–	119,531,310	33.55%
Mr. Leung Hay Man	2,250	–	–	2,250	0.00%
Mr. Li Ning	–	–	118,732,090 <i>(Note 5 on page 9)</i>	118,732,090	33.33%
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 <i>Number of Shares</i>	Family Interests <i>Number of Shares</i>
	Dr. Lee Shau Kee <i>(Note 1)</i>	5
Mr. Li Ning <i>(Note 2)</i>	–	5

WINWIDE LIMITED

	Corporate Interests <i>Number of Shares</i>	Family Interests <i>Number of Shares</i>
	Dr. Lee Shau Kee <i>(Note 3)</i>	70
Mr. Li Ning <i>(Note 4)</i>	–	70

Disclosure of Interests (Continued)

Directors' Interests in Securities *(continued)*

Notes:

1. These 5 shares representing 50% equity interest in 2OK Company Limited (an associated company in which the Company through a subsidiary owned the remaining 50% interest) were beneficially owned by wholly-owned subsidiaries of Henderson Land Development Company Limited ("HLD"). Henderson Development Limited ("HD") beneficially owned more than one-third of the issued share capital in HLD. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of respective discretionary trusts held units in a unit trust (the "Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owned all the issued ordinary shares which carried the voting rights in the share capital of HD. Dr. Lee Chau 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 Chau 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 Chau 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 Chau 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 2014.

Disclosure of Interests (Continued)

Substantial Shareholders and Others

As at 30 June 2014, 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 (<i>Note 1</i>)	118,732,090	33.33%
Pataca Enterprises Limited (<i>Note 1</i>)	70,200,000	19.70%
Wiselin Investment Limited (<i>Note 2</i>)	48,532,090	13.62%
Max-mercan Investment Limited (<i>Note 2</i>)	48,532,090	13.62%
Camay Investment Limited (<i>Note 2</i>)	48,532,090	13.62%
Henderson Development Limited (<i>Note 3</i>)	118,732,090	33.33%
Hopkins (Cayman) Limited (<i>Note 4</i>)	118,732,090	33.33%
Rimmer (Cayman) Limited (<i>Note 4</i>)	118,732,090	33.33%
Riddick (Cayman) Limited (<i>Note 4</i>)	118,732,090	33.33%
Mr. Li Ning (<i>Note 5</i>)	118,732,090	33.33%
Dr. Lee Shau Kee (<i>Note 6</i>)	119,531,310	33.55%
Persons other than Substantial Shareholders		
Graf Investment Limited (<i>Note 1</i>)	23,400,000	6.57%
Mount Sherpa Limited (<i>Note 1</i>)	23,400,000	6.57%
Paillard Investment Limited (<i>Note 1</i>)	23,400,000	6.57%

Disclosure of Interests (Continued)

Substantial Shareholders and Others *(continued)*

Notes:

All shares referred to below, unless otherwise stated, form part of the same parcel of 118,732,090 shares.

1. These 118,732,090 shares were beneficially owned by some of the subsidiaries of Henderson Land Development Company Limited ("HLD"). Of these 118,732,090 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 48,532,090 shares, which constitute part of the said 118,732,090 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 118,732,090 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 118,732,090 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 118,732,090 shares as Mr. Li's spouse was one of the discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust. These 118,732,090 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 118,732,090 shares which are duplicated in the interests described in Notes 1, 2, 3 and 4. Together with his personal shareholding of 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 2014.

Save as disclosed, as at 30 June 2014, 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 2014 – unaudited

	Note	Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Turnover	3(a)	3,308,641	245,285
Cost of sales		(2,089,453)	(115,401)
		1,219,188	129,884
Other revenue	3(a)	23,712	20,341
Other net income	4	1,069	38,175
Valuation gains on investment properties	3(d)	135,736	47,400
Impairment loss on available-for-sale securities		(6,791)	(25,134)
Selling and marketing expenses		(98,510)	(21,935)
Administrative expenses		(20,363)	(20,958)
Other operating expenses		(24,541)	(20,757)
Profit from operations	3(b)	1,229,500	147,016
Share of profits less losses of associates		246	448
Profit before taxation	5	1,229,746	147,464
Taxation	6	(181,756)	(16,922)
Profit attributable to equity shareholders of the Company		1,047,990	130,542
Earnings per share (HK\$)			
– Basic and diluted	9	2.94	0.37

The notes on pages 16 to 37 form part of these condensed interim financial statements. Details of dividends payable to equity shareholders of the Company are set out in note 7.

Condensed Interim Financial Statements (Continued)

Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014 – unaudited

	Note	Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Profit attributable to equity shareholders of the Company		1,047,990	130,542
Other comprehensive income for the period (after tax and reclassification adjustments):			
Item that may be reclassified subsequently to profit or loss:			
Available-for-sale securities:			
net movement in securities revaluation reserve	8	(2,484)	(115,486)
Total comprehensive income attributable to equity shareholders of the Company		1,045,506	15,056

The notes on pages 16 to 37 form part of these condensed interim financial statements.

Condensed Interim Financial Statements (Continued)

Consolidated Balance Sheet

At 30 June 2014

	Note	At 30 June 2014 (unaudited)		At 31 December 2013 (audited)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Fixed assets					
– Investment properties	10		1,864,200		1,251,900
– Other property, plant and equipment			67,367		69,692
– Interest in leasehold land			45,191		45,876
			<u>1,976,758</u>		<u>1,367,468</u>
Interest in associates	11		13,813		16,643
Available-for-sale securities	12		391,468		400,788
Employee benefits assets			3,309		4,107
Deferred tax assets			4,057		14,527
			<u>2,389,405</u>		<u>1,803,533</u>
Current assets					
Inventories	13	1,011,074		2,882,440	
Trade and other receivables	14	1,433,897		1,931,169	
Cash and bank balances	15	2,186,334		1,759,565	
Tax recoverable		35,972		36,557	
		<u>4,667,277</u>		<u>6,609,731</u>	

Condensed Interim Financial Statements (Continued)

Consolidated Balance Sheet *(continued)*

At 30 June 2014

	Note	At 30 June 2014 (unaudited)		At 31 December 2013 (audited)	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current liabilities					
Trade and other payables	16	693,679		3,157,737	
Tax payable		192,132		40,281	
		<u>885,811</u>		<u>3,198,018</u>	
Net current assets			<u>3,781,466</u>		<u>3,411,713</u>
Total assets less current liabilities			<u>6,170,871</u>		<u>5,215,246</u>
Non-current liability					
Deferred tax liabilities			<u>30,843</u>		<u>28,093</u>
NET ASSETS			<u>6,140,028</u>		<u>5,187,153</u>
CAPITAL AND RESERVES					
Share capital: nominal value			–		356,274
Other statutory capital reserves			–		<u>1,398,527</u>
Share capital and other statutory capital reserves	17(a)		<u>1,754,801</u>		1,754,801
Other reserves			<u>4,385,227</u>		<u>3,432,352</u>
TOTAL EQUITY			<u>6,140,028</u>		<u>5,187,153</u>

The notes on pages 16 to 37 form part of these condensed interim financial statements.

Condensed Interim Financial Statements (Continued)

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014 – 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 2013		356,274	1,398,527	163,756	605	3,224,288	5,143,450
Changes in equity for the six months ended 30 June 2013:							
Profit for the period		–	–	–	–	130,542	130,542
Other comprehensive income		–	–	(115,486)	–	–	(115,486)
Total comprehensive income		–	–	(115,486)	–	130,542	15,056
Dividends approved in respect of the previous year	7(b)	–	–	–	–	(92,631)	(92,631)
Balance at 30 June 2013 and 1 July 2013		356,274	1,398,527	48,270	605	3,262,199	5,065,875
Changes in equity for the six months ended 31 December 2013:							
Profit for the period		–	–	–	–	162,895	162,895
Other comprehensive income		–	–	(6,966)	–	976	(5,990)
Total comprehensive income		–	–	(6,966)	–	163,871	156,905
Dividends declared in respect of the current year	7(a)	–	–	–	–	(35,627)	(35,627)
Balance at 31 December 2013 and 1 January 2014		356,274	1,398,527	41,304	605	3,390,443	5,187,153
Changes in equity for the six months ended 30 June 2014:							
Profit for the period		–	–	–	–	1,047,990	1,047,990
Other comprehensive income		–	–	(2,484)	–	–	(2,484)
Total comprehensive income		–	–	(2,484)	–	1,047,990	1,045,506
Dividends approved in respect of the previous year	7(b)	–	–	–	–	(92,631)	(92,631)
Transition to no-par value regime on 3 March 2014	17(a)	1,398,527	(1,398,527)	–	–	–	–
Balance at 30 June 2014		1,754,801	–	38,820	605	4,345,802	6,140,028

The notes on pages 16 to 37 form part of these condensed interim financial statements.

Condensed Interim Financial Statements (Continued)

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2014 – unaudited

	Note	Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000
Net cash generated from operating activities		486,617	77,440
Investing activities			
Payment for purchase of available-for-sale securities		–	(188,648)
Proceeds from disposal of available-for-sale securities		–	68,748
Increase in deposits with banks and other financial institutions over three months of maturity at acquisition		–	(176,219)
Other cash flows arising from investing activities		32,783	37,244
Net cash generated from/(used in) investing activities		32,783	(258,875)
Financing activity			
Dividends paid		(92,631)	(92,631)
Net cash used in financing activity		(92,631)	(92,631)
Net increase/(decrease) in cash and cash equivalents		426,769	(274,066)
Cash and cash equivalents at 1 January	15	1,759,565	837,030
Cash and cash equivalents at 30 June	15	2,186,334	562,964

The notes on pages 16 to 37 form part of these condensed interim financial statements.

NOTES TO THE UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of Preparation

These 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”). They were authorised for issue on 22 August 2014.

These condensed interim financial statements have been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of 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 2013 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 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 38.

The financial information relating to the financial year ended 31 December 2013 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 2013 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 18 March 2014.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

2. Changes in Accounting Policies

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC) 21, *Levies*

These developments have had no material impact on the Group's consolidated financial statements.

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.

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following five 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 operation: 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.

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.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

3. Segment Reporting (continued)

Segment results (continued)

The segment information for the six months ended 30 June 2014 and 2013 about these reportable segments is presented below:

(a) Segment revenue

	Total revenue		Elimination of		Revenue from	
	Six months ended		inter-segment revenue		external customers	
	30 June		Six months ended		Six months ended	
	2014	2013	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property development	3,163,785	92,344	–	–	3,163,785	92,344
Property investment	35,798	33,659	38	35	35,760	33,624
Ferry, shipyard and related operations	62,764	62,503	1,461	978	61,303	61,525
Travel operation	56,011	61,128	190	138	55,821	60,990
Securities investment	1,608	11,127	–	–	1,608	11,127
Others	44,058	31,253	29,982	25,237	14,076	6,016
	3,364,024	292,014	31,671	26,388	3,332,353	265,626
Analysed by:						
Turnover					3,308,641	245,285
Other revenue					23,712	20,341
					3,332,353	265,626

The principal activities of the Group are property development, property investment, ferry, shipyard and related businesses, travel operation, 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.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

3. Segment Reporting *(continued)*

Segment results *(continued)*

(b) Segment result

	Reportable segment profit Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Property development	1,067,239	49,222
Property investment <i>(note 3(d))</i>	154,310	65,969
Ferry, shipyard and related operations	4,227	28,836
Travel operation	(4,262)	(1,767)
Securities investment	(5,394)	3,104
Others <i>(note 3(e))</i>	13,380	1,652
	1,229,500	147,016

(c) Reconciliation of reportable segment profit

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Reportable segment profit derived from external customers	1,229,500	147,016
Share of profits less losses of associates	246	448
Consolidated profit before taxation	1,229,746	147,464

(d) The segment result of the "Property investment" included valuation gains on investment properties of HK\$135,736,000 (2013: HK\$47,400,000).

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

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

4. Other Net Income

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Net profit on disposal of other property, plant and equipment	–	18,190
Net profit on sale of available-for-sale securities	658	17,489
Net exchange losses	(942)	(1,633)
Income from sale of spare parts	235	189
Forfeited deposits	–	2,429
Sundry income	1,118	1,511
	1,069	38,175

5. Profit Before Taxation

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

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Amortisation of leasehold land premium	685	684
Cost of inventories	2,004,321	32,404
Depreciation	3,001	3,014
Dividend income from listed investments	(1,608)	(5,873)
Interest income	(26,035)	(13,429)

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

6. Taxation

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	168,546	14,641
Over-provision in respect of prior year	(10)	–
	168,536	14,641
Deferred tax		
Origination and reversal of temporary differences	13,220	2,281
	181,756	16,922

The provision for Hong Kong Profits Tax is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the period.

7. Dividends

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

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Interim dividend of HK10 cents (2013: HK10 cents) per ordinary share declared and paid after the interim period	35,627	35,627
Special dividend of HK90 cents (2013: Nil) per ordinary share declared with interim dividend and paid after the interim period	320,647	–
	356,274	35,627

The interim and special dividends have not been recognised as liabilities at the balance sheet date.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

7. Dividends *(continued)*

- (b) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of HK26 cents (six months ended 30 June 2013: HK26 cents) per ordinary share	92,631	92,631

8. Other Comprehensive Income

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Available-for-sale securities:		
Changes in fair value recognised during the period	(9,275)	(120,811)
Reclassification adjustments for amounts transferred to profit or loss:		
– gains on disposal	–	(19,809)
– impairment losses	6,791	25,134
Net movement in the securities revaluation reserve during the period recognised in other comprehensive income	(2,484)	(115,486)

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\$1,047,990,000 (six months ended 30 June 2013: HK\$130,542,000) and 356,273,883 (2013: 356,273,883) ordinary shares in issue during the interim period.

There were no dilutive potential ordinary shares in existence during the six months ended 30 June 2014 and 2013, therefore diluted earnings per share are the same as basic earnings per share for both periods.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

10. Investment Properties

(a) Additions

During the six months ended 30 June 2014, properties under development with carrying amount of HK\$476,564,000 have been transferred from "Inventories" to "Investment properties" as the directors determined they are held for leasing purpose.

(b) Valuation process

All of the Group's investment properties were revalued as at 30 June 2014. The valuations were carried out by an independent firm of surveyors, DTZ Debenham Tie Leung Limited, who have among their staff Members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis. Management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

The fair values of investment properties were determined using income capitalisation approach which capitalised the net income of the properties and taking into account the reversionary potential of properties after expiry of the current lease except for an investment property which was determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis using market data which is publicly available.

Valuation

As a result of the update, a net gain of HK\$135,736,000 (2013: HK\$47,400,000) has been recognised in profit or loss for the period in respect of investment properties.

11. Interest in Associates

	At 30 June 2014 (unaudited) HK\$'000	At 31 December 2013 (audited) HK\$'000
Share of net assets	5,740	5,494
Amounts due from associates	14,867	17,943
	20,607	23,437
Less: Impairment loss	(6,794)	(6,794)
	13,813	16,643

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

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

12. Available-for-Sale Securities

	At 30 June 2014 (unaudited) HK\$'000	At 31 December 2013 (audited) HK\$'000
Unlisted securities	–	45
Listed equity securities		
– in Hong Kong	324,939	337,875
– outside Hong Kong	66,529	62,868
	391,468	400,743
	391,468	400,788
Market value of listed securities	391,468	400,743
Fair value of individually impaired available-for-sale securities	165,563	103,198

As at 30 June 2014, certain of the Group's listed available-for-sale securities were individually determined to be impaired on the basis of a material decline in their fair value below cost and adverse changes in the market in which these investees operated which indicated that the cost of the Group's investment in them may not be recovered. Impairment losses of HK\$6,791,000 (2013: HK\$25,134,000) on these investments were recognised in profit or loss for the period.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

13. Inventories

Inventories in the consolidated balance sheet comprise:

	At 30 June 2014 (unaudited) HK\$'000	At 31 December 2013 (audited) HK\$'000
Property development		
Properties under development for sale	765,018	2,821,770
Completed properties held for sale	230,818	48,632
	995,836	2,870,402
Other operations		
Trading stocks	891	899
Spare parts and consumables	1,849	2,221
Work in progress	12,498	8,918
	15,238	12,038
	1,011,074	2,882,440

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

14. Trade and Other Receivables

	At 30 June 2014 (unaudited) HK\$'000	At 31 December 2013 (audited) HK\$'000
Trade receivables	490,457	206,099
Less: allowance for doubtful debts	–	–
	490,457	206,099
Cash held by stakeholders	902,900	1,585,008
Other receivables and prepayments	40,540	140,062
	1,433,897	1,931,169

All of the trade and other receivables at 30 June 2014 except for instalment receivables of HK\$98,945,000 (31 December 2013: HK\$131,358,000) are expected to be recovered or recognised as expense within one year. Included in the trade and other receivables are amounts due from related companies at 30 June 2014 of HK\$49,880,000 (31 December 2013: HK\$60,902,000) which are unsecured, interest-free and have no fixed terms of repayment.

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

	At 30 June 2014 (unaudited) HK\$'000	At 31 December 2013 (audited) HK\$'000
Current	465,106	173,885
1 to 3 months overdue	22,043	20,825
More than 3 months but less than 12 months overdue	2,142	10,405
More than 12 months overdue	1,166	984
	490,457	206,099

Trade debtors 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.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

15. Cash and Bank Balances

	At 30 June 2014 (unaudited) HK\$'000	At 31 December 2013 (audited) HK\$'000
Deposits with banks and other financial institutions	2,150,072	1,667,803
Cash at bank and in hand	36,262	91,762
Cash and bank balances in the consolidated balance sheet	2,186,334	1,759,565

16. Trade and Other Payables

All of the trade and other payables except for an amount of HK\$7,486,000 (31 December 2013: HK\$7,093,000) are expected to be settled or recognised as income within one year. Included in the trade and other payables are amounts due to related companies at 30 June 2014 of HK\$591,228,000 (31 December 2013: HK\$425,929,000) which are unsecured, interest-free and have no fixed terms of repayment.

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

	At 30 June 2014 (unaudited) HK\$'000	At 31 December 2013 (audited) HK\$'000
Due within 1 month or on demand	628,528	441,231
Due after 1 month but within 3 months	51	997
Due after 3 months but within 12 months	-	-
More than 12 months	1	8
	628,580	442,236

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

17. Capital and Reserves

(a) Share capital

As at 31 December 2013, 550,000,000 ordinary shares, with par value of HK\$1 each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concepts of “authorised share capital” and “par value” no longer exist. As part of the transition to the no-par value regime, the amount standing to the credit of the share premium account on 3 March 2014 has become part of the Company’s share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members.

Movement of the Company’s ordinary shares is set out below:

	At 30 June 2014		At 31 December 2013	
	No. of shares ('000)	HK\$'000	No. of shares ('000)	HK\$'000
Ordinary shares, issued and fully paid:				
At 1 January	356,274	356,274	356,274	356,274
Transition to no-par value regime on 3 March 2014	–	1,398,527	–	–
At 30 June/31 December	356,274	1,754,801	356,274	356,274

(b) Share premium

Prior to 3 March 2014, the application of the share premium account was governed by sections 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Company’s share capital (see note 17(a)). The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

18. Fair Value Measurement of Financial Instruments

(a) Financial assets measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the balance sheet date on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

Management performs valuations for the financial instruments and reports directly to the audit committee. A valuation report with analysis of changes in fair value measurement is prepared at each interim and annual reporting date, and is reviewed and approved by senior management. Discussion of the valuation process and results with the audit committee is held twice a year, to coincide with the reporting dates.

	Fair value at 30 June 2014 HK\$'000	Fair value measurements as at 30 June 2014 categorised into		
		Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement				
Financial assets:				
Available-for-sale securities:				
– Listed	391,468	391,468	–	–

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

18. Fair Value Measurement of Financial Instruments (continued)

(a) Financial assets measured at fair value (continued)

Fair value hierarchy (continued)

	Fair value at 31 December 2013 HK\$'000	Fair value measurements as at 31 December 2013 categorised into		
		Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurement				
Financial assets:				
Available-for-sale securities:				
– Listed	400,743	400,743	–	–

During the six months ended 30 June 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2013: HK\$Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values at 31 December 2013 and 30 June 2014 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	Note	At 30 June 2014		At 31 December 2013	
		Carrying amounts HK\$'000	Fair value HK\$'000	Carrying amounts HK\$'000	Fair value HK\$'000
Amounts due from associates	(1)	3,937	–	5,497	–
Available-for-sale securities:					
– Unlisted	(2)	–	–	45	–

Notes:

- (1) The amounts due from associates (except for HK\$4,136,000 (31 December 2013: HK\$5,652,000), due from 2OK) are unsecured, interest-free and have no fixed terms of repayment. Given these terms it is not meaningful to disclose their fair values.
- (2) These investments did not have a quoted market price in an active market and whose fair value could not be reliably measured. They were recognised at cost less impairment losses at 31 December 2013.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

19. Capital and Other Commitments

Capital and other commitments outstanding at 30 June 2014 not provided for in these condensed interim financial statements are as follows:

	At 30 June 2014 (unaudited) HK\$'000	At 31 December 2013 (audited) HK\$'000
Contracted for	245,261	706,721
Authorised but not contracted for	36,023	59,580
	281,284	766,301

20. Contingent Liabilities

Financial guarantees issued

At 30 June 2014, the Company has issued the following guarantees:

- (a) guarantees to certain suppliers in respect of granting or giving credit facilities to its wholly-owned subsidiaries; and
- (b) guarantees to banks in respect of banking facilities granted 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.

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\$878,000 (31 December 2013: HK\$1,119,000).

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

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

21. Material Related Party and Connected Transactions

(a) Other material related party and connected transactions

- (i) In 1998, the Group appointed a wholly-owned subsidiary of Henderson Land Development Company Limited (“HLD”) as the development and sales manager 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 2014, an amount of HK\$18,000,000 (31 December 2013: HK\$18,000,000) remained unpaid and 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 2014, an amount of HK\$7,926,000 (31 December 2013: HK\$7,884,000) remained unpaid and was included in trade and other receivables.

- (ii) In December 2001, a wholly-owned subsidiary of the Company acquired 50% equity interest in 2OK Company Limited (“2OK”) which was set up to provide mortgage loans to the residential unit buyers of the MHV Property. HLD through its subsidiaries beneficially owned the remaining 50% equity interest in 2OK at 30 June 2014. During the period, the Group received management and administrative fees in the total of HK\$75,000 (2013: HK\$120,000) from 2OK. The Group and HLD Sub have made advances to 2OK to finance the latter’s mortgage operation and interest was charged on amounts advanced. During the period, the Group received interest amounting to HK\$47,000 (2013: HK\$82,000) from 2OK. At 30 June 2014, the amount advanced by the Group totalling HK\$4,136,000 (31 December 2013: HK\$5,652,000) is in proportion to the Group’s equity interest in 2OK and is unsecured and has no fixed repayment terms.

- (iii) In December 2002, the Group appointed a wholly-owned subsidiary of HLD 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. An amount of HK\$796,000 (2013: HK\$768,000) was charged to the Group for the period. At 30 June 2014, an amount of HK\$802,000 (31 December 2013: HK\$823,000) remained unpaid and was included in trade and other payables.

As the aforementioned agreement was renewable on the yearly basis until terminated by either party, the Group had monitored the receipt of the funds during the period.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

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

(a) Other material related party and connected transactions *(continued)*

- (iv) In May 2006, the Group appointed a wholly-owned subsidiary of HLD as the main contractor for a fee of 5% on all works relating to the development of Shining Heights, Nos. 220-222 Tai Kok Tsui Road, Kowloon, Hong Kong ("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 period ended 30 June 2014, there was no change in cost estimates. At 30 June 2014, an amount of HK\$2,294,000 (31 December 2013: HK\$2,294,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

- (v) 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. At 30 June 2014, an amount of HK\$1,104,000 (31 December 2013: HK\$1,104,000) remained unpaid and was included in trade and other payables.
- (vi) In March 2011, the Group appointed a wholly-owned subsidiary of HLD ("HLD Sub A") as the project manager of the development of Green Code at No. 1 Ma Sik Road, Fanling, New Territories, Hong Kong (formerly known as 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\$1,395,000 (2013: HK\$2,790,000) was charged to the Group for the period. At 30 June 2014, an amount of HK\$1,395,000 (31 December 2013: HK\$17,095,000) remained unpaid and was included in trade and other payables.

In January 2013, the Group revised the annual cap of the Fanling Project Management Fee as set out in the Fanling Project Management Agreement of the respective years. The Group entered into the Supplemental Fanling Project Management Agreement with HLD Sub A and another wholly-owned subsidiary of HLD ("HLD Sub B"), pursuant to which the parties thereto have agreed to revise the maximum annual aggregate amounts of the Fanling Project Management Fee, the rights and obligations of HLD Sub A regarding the project sales and marketing services were transferred and novated to HLD Sub B.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

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

(a) Other material related party and connected transactions *(continued)*

(vii) 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. In accordance with the contract entered into with the Group, an amount of HK\$115,431,000 (2013: HK\$109,433,000), of which HK\$5,839,000 (2013: HK\$10,753,000) 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 superstructure work of the development of the Fanling Property. At 30 June 2014, an amount of HK\$453,981,000 (31 December 2013: HK\$275,538,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

(viii) In March 2011, the Group appointed HLD Sub A as the project manager of the development of 208 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\$138,000 (2013: HK\$744,000) was charged to the Group for the period. At 30 June 2014, an amount of HK\$4,348,000 (31 December 2013: HK\$3,253,000) remained unpaid and was included in trade and other payables.

In January 2013, the Group revised the annual cap of the TCS Project Management Fee as set out in the TCS Project Management Agreement of the respective years. The Group entered into the Supplemental TCS Project Management Agreement with HLD Sub A and HLD Sub B, pursuant to which the parties thereto have agreed to revise the maximum annual aggregate amounts of the TCS Project Management Fee, the rights and obligations of HLD Sub A regarding the project sales and marketing services were transferred and novated to HLD Sub B.

(ix) 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 commenced. No cost has been charged for the six months ended 30 June 2014.

In January 2013, the Group revised the annual cap of the TCS Prime Cost Contract as set out in the TCS Prime Cost Contract of the respective years. The Group entered into the Supplemental TCS Prime Cost Contract with another wholly-owned subsidiary of HLD to revise the maximum annual aggregate amounts of the TCS Prime Costs and Fees.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

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

(a) Other material related party and connected transactions *(continued)*

- (x) In July 2011, the Group as landlord and a wholly-owned subsidiary of HLD as tenant agreed to renew their tenancy agreement in respect of certain shops and spaces of MHP. Pursuant to the Tenancy Renewal Agreement, the tenant agreed to take the lease for a term of three years commencing from 1 July 2011 at a monthly rental of HK\$350,000 and other ancillary expenses and a turnover rent of 7% (if any) of annual gross turnover of the tenant's business over HK\$120,000,000 which shall be payable monthly in arrears. The Group also entered into (i) a Wall Signage Licence Agreement for fourteen external wall signages at MHP; and (ii) an Entrance Signage Licence Agreement for one signage at the entrances of MHP for a term of three years commencing from 1 July 2011. Total annual licence fees payable under the Wall Signage Licence Agreement and the Entrance Signage Licence Agreement (the "Licence Agreements") are HK\$60,000 and HK\$6,600 respectively and expired on 30 June 2014.

In March 2014, the Group and the wholly-owned subsidiary of HLD agreed to renew their Tenancy and Licence Agreements for a term of three years commencing from 1 July 2014. Pursuant to the Tenancy Renewal Agreement, the tenant agreed to take the lease for a term of three years commencing from 1 July 2014 at a monthly rental of HK\$470,000 and other ancillary expenses and a turnover rent of 7% (if any) of annual gross turnover of the tenant's business over HK\$120,000,000 which shall be payable monthly in arrears. The Group also entered into (i) an External Wall Signage Licence Agreement for three external wall signages at MHP; and (ii) an Entrance Signage Licence Agreement for one signage at the entrances of MHP for a term of three years commencing from 1 July 2014. Total annual licence fees payable under the External Wall Signage Licence Agreement and the Entrance Signage Licence Agreement are HK\$22,000 and HK\$8,000 respectively. The Tenancy Renewal Agreement and the Licence Agreements are subject to annual caps of respective years.

During the period, an amount of HK\$4,230,000 (2013: HK\$4,059,000), being aggregate rental and fees receivable under the aforementioned lease and licence, was credited to the Group.

- (xi) In February 2012, the Group appointed a wholly-owned subsidiary of HLD as the contractor for carrying out the substructure works of TCS Property. In January 2013, the Group revised the annual cap of the substructure works of the respective years. The annual ceiling for the year ended 31 December 2012 and 31 December 2013 were HK\$11,000,000 and HK\$19,000,000 respectively. No cost has been charged for the six months ended 30 June 2014. A total fee of HK\$15,553,000 was charged to the Group for the period ended 30 June 2013. At 31 December 2013, an amount of HK\$9,047,000 remained unpaid and was included in trade and other payables. The balance has been repaid during the period.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

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

(a) Other material related party and connected transactions *(continued)*

- (xii) In March 2012, the Group entered into a letter agreement with HLD Sub A and appointed HLD Sub A as the agent of the Group to lease certain shops and spaces of Miramar Shopping Centre (the "Premises") for the marketing services of the Fanling Property for the period from 20 March 2012 to the earlier of 15 June 2013 and the date on which the last residential unit of the Fanling Property is sold, subject to the respective ceilings of HK\$7,500,000 for the period from 20 March 2012 to 31 December 2012 and HK\$4,500,000 for the period from 1 January 2013 to 15 June 2013. The letter agreement expired on 15 June 2013.

In August 2013, the Group entered into a letter agreement with HLD Sub B and appointed HLD Sub B as the agent of the Group to lease the Premises for the continuation of the marketing services of the Fanling Property for the period from 16 June 2013 to the earlier of 15 October 2013 and the date on which the last residential unit of the Fanling Property is sold, subject to the ceiling of HK\$4,300,000. The letter agreement expired on 15 October 2013.

In December 2013, the Group entered into a letter agreement with HLD Sub B and HLD Sub B continued to act as the agent of the Group to lease the Premises for the continuation of the marketing services of the Fanling Property for the period from 16 October 2013 to the earlier of 31 December 2013 and the date on which the last residential unit of the Fanling Property is sold, subject to the ceiling of HK\$2,687,500. The letter agreement expired on 31 December 2013.

No cost has been charged for the six months ended 30 June 2014. A total fee of HK\$4,113,000 was charged to the Group for the six months ended 30 June 2013. At 31 December 2013, an amount of HK\$12,653,000 remained unpaid and was included in trade and other payables. The balance has been repaid during the period.

- (xiii) In September 2013, the Group appointed HLD Sub A as the project manager of the development of Hung Hom Inland Lot No. 555 (the "Hung Hom Property") for a term of three years commencing from 5 September 2013 in consideration for a fee equivalent to the aggregate of 1% of the construction costs of the Hung Hom Property and other lump sum fees for supplementary services subject to a ceiling of HK\$2,500,000. A total fee of HK\$1,090,000 (2013: HK\$Nil) was charged to the Group for the period. At 30 June 2014, an amount of HK\$2,370,000 (31 December 2013: HK\$1,280,000) remained unpaid and was included in trade and other payables.
- (xiv) In December 2013, the Group appointed HLD Sub B as the sales manager of the development of the Hung Hom Property for a term of three years commencing from 1 January 2014 in consideration for a fee of 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 annual ceilings for the year ending 31 December 2014, 31 December 2015 and 31 December 2016 of HK\$2,500,000, HK\$1,000,000 and HK\$1,500,000 respectively. No cost has been charged for the six months ended 30 June 2014.

Notes to the Unaudited Condensed Interim Financial Statements (Continued)

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

(a) Other material related party and connected transactions *(continued)*

- (xv) At 30 June 2014, HLD (as defined in the Listing Rules) beneficially owned approximately 33.33% of the 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.

(b) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of notes 21(a)(vi), (vii), (viii), (ix), (x), (xi), (xii), (xiii) and (xiv) above constitute connected transactions and/or continuing connected transactions (as defined in Chapter 14A of the Listing Rules).

22. Non-Adjusting Events after the Reporting Period

After the balance sheet date, the directors declared the interim and special dividends. 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 37 which comprises the consolidated balance sheet of Hong Kong Ferry (Holdings) Company Limited (the "Company") as of 30 June 2014 and the related consolidated profit and loss account, consolidated statement of comprehensive income and consolidated 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 condensed 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 condensed 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 condensed 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 as at 30 June 2014 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

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Central, Hong Kong

22 August 2014



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